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FACE TO FACE: Peter Wilby

Beyond the storm

Stone Harbor chief and his team moved into independent waters then tacked through a financial maelstrom and came out stronger

Kit Defever

By Douglas Appell

Peter Wilby assembled a respected team of high-yield bond, emerging markets debt and asset allocation investors under Citigroup Inc.'s roof two decades ago, then led them out — when Citi sold its money management arm to Legg Mason Inc. in 2005 — to set up global credit boutique Stone Harbor Investment Partners. With the firm's April 2006 debut coming a mere two years before the global financial system came unglued, his timing was arguably inauspicious. But far from killing Stone Harbor, the crisis appears to have only made it stronger — with the firm averaging more than $2 billion in net institutional inflows a year between 2008 and 2010. Mr. Wilby said his team's experience investing through several developing market banking crises, and its solid, consultative relationships with institutional clients, helped Stone Harbor roll with the market's considerable punches in 2008 and 2009. With each of Stone Harbor's more than 100 employees now a shareholder in the company, the team is highly motivated to deliver market-topping returns for clients as segments such as emerging markets debt quickly transition from niche to mainstream investment, he says.

SNAPSHOT:
Peter J. Wilby

- **Current position:** chief investment officer, portfolio manager, Stone Harbor Investment Partners
- **Assets under management:** $33 billion as of March 31
- **Employees:** 101 as of March 31
- **Age:** 52
- **Education:** BBA and MBA in accounting from Pace University, CPA, CFA
- **Personal:** five children, one dog
- **Interests:** travel, fishing, hockey, skiing

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In the spirit of the Passover season, tell us your own Exodus story, in the wake of Legg Mason's 2005 purchase of Citigroup Asset Management. I kind of knew Citigroup was in a process of revisiting what's core and what's not. I thought Legg was a very good outcome for Citigroup Asset Management, (but) we had always had some entrepreneurial juices. We decided to — if we could in an orderly fashion with the Legg folks — head out on our own.

Did you have a blueprint for going independent? We'd thought about what we wanted to be, and that was a broad global credit boutique, as opposed to a pure niche player. We thought that's where the market would go — toward valuing those credit skills — that was before we knew we had a credit crisis coming — and that's what we set up for.

Equity ownership sounds like a key part of your culture. We have 105 people right now; every single one is a partner, an owner in the culture. In large companies — Citigroup had at its peak 340,000 people — it's pretty hard to actually affect the outcome. So it was important that everyone at Stone Harbor participate. The company works very, very hard, but everyone benefits from it. Our clients benefit because you focus on performance. There's no politics. Who controls the thermostat in the trading room — that's as deep as politics get at Stone Harbor.

You started in April 2006 with $8.5 billion in assets, almost doubled that by the end of 2007, and then you ran into 2008. The financial crisis was a hair-raising event. We handled it very well, in hindsight. You kind of knew we were taking apart a way too globally levered financial system; there was an asset value deflation margin call going on worldwide. Then it became an issue of, all right, are we going to batten down the hatches, or are we going to take advantage of that, and that's hard to do, in the midst of blaring in the press about a second great depression. But we kind of came to this conviction on credit assets — I remember the exact date: Oct. 9, 2008, three-plus weeks after the Lehman bankruptcy. At that point it was like, well, we don't know what's going to happen over the next year, it's too difficult to see, but we do know that if you can stretch your time horizon two, two and a half years, you can't lose money with some of the things you're buying — no matter how you stress things, your break-evens were just so spectacularly cheap.

Were you in a position to buy? We had built cash positions. We were cautious going into the mess. We had a lot of credibility with our clients, and we wound up coming out spectacularly.

What were you telling clients in the eye of the hurricane? There was a whole bunch of dialogues going on. We told clients that we thought things like high yield and emerging markets were extremely cheap. We wound up with a lot of new mandates coming in, in the face of all this. Now other people, there were the margin calls just hurting them, so we provided liquidity. We didn't gate anything. (But) we were advising people to put more money in, and a bunch of them did. It's been unbelievably fortuitous for them.

In retrospect, sure, but at the time? There was no pure clarity. The clarity was, OK, the leveraged loan market is at 62 cents on the dollar, the high-yield market is trading at 54, 55 cents on the dollar. One of the things we pride ourselves on at Stone Harbor, we're not sitting here managing money saying, here, you're the client service person, deal with this client. We are engaged in that discussion all the time. It makes you a better investor if you have large pension funds to actually talk investments with. They change their minds sometimes, you understand how other people think. So that dialogue was ongoing. I'm not oversimplifying. It always sounds easier in hindsight. It was hard, it was tense, but (that decision to add risk) worked spectacularly. It wasn't a role of the dice; it was valuation driven. We came out of it extremely strong.

April 2009 couldn't have been the best point in time to post Stone Harbor's first three-year results. The three-year numbers looked very good in high yield and emerging markets. Our core-plus multistrategy portfolios did not look good — that risk we added, we lost a lot in the fourth quarter — but if you look at those three-year numbers right now, they're going to look spectacular. We started with 32 clients — average tenure, a decade. They knew our style through thick and thin. We lost nobody because of performance through this entire cycle. We started with 32 clients; we have 200 now.

After a few strong years, some people say this round of salad days for high yield and emerging markets are over. I disagree. I think high yield, at 500 basis points over treasuries, adjusted for what I think credit losses are going to be, is still a very cheap asset. The problem is, maybe the underlying Treasuries that you're referencing in that spread offer, are overpriced assets. That's a very legitimate discussion. I would not be surprised to see high yield do 10% this year, in a perhaps zero percent return on the Lehman (Aggregate Bond index). That's nothing to be ashamed of. (Emerging market) valuations are still cheap. We were dominated by sovereign wealth and European activity 18 months ago, now it's coming back to the U.S. again, with first-time allocations.

Well, happy fifth birthday. How does Stone Harbor ensure many more? What we see is a world where all credit is kind of blending together. We've got emerging markets credit, I'm moving a team into London to do European high-yield credit, which we've always done from New York, but to be closer to it — but that's all blending together. It's credit opportunistic, it's the Polish telecom company, emerging markets, high yield, investment grade developed market … where does it all fit? The ability to look across all of those assets, and look at valuations between all those things, is a strength of ours. We can do it because we have the experience and the record to do it, but we don't have the bureaucracy of a massive financial institution that has footprints everywhere, but can't actually function together, because, just, that's the way companies like that work. That's what we see as our competitive advantage. ■

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