2025

TOMORROW'S TITANS

Grant *Nachman*

Founder, CEO and CIO
Shorecliff Asset Management
Newport Beach, California

Grant Nachman's credit manager Shorecliff draws on his and the team's more than 20 years in private equity, distressed debt and credit hedge funds to build a strategy that is intended to generate returns across the full credit cycle. The investment team includes several of Nachman's colleagues from Oaktree. Nachman is based near Los Angeles in Newport Beach, while co-Founder Anthony La Lota leads the New York office.

Nachman surpassed his own expectations by growing firm assets to over USD 1 billion within two years of launching in March 2023. Shorecliff's distinctive philosophy of "full cycle credit" appealed to Shorecliff's initial investor: an institution with whom Nachman had a 14-year professional relationship. "I had always thought I might one day launch my own firm, and markets in late 2022 really pushed my hand," says Nachman. "We saw the market chasing risk in technology, crypto and venture lending and were not interested in that level of risk. But in 2022, post-Covid, the tide went out and investors wanted a steadier, lower volatility, income-oriented strategy."

Full cycle credit

The strategy seeks mostly healthy, cash-generative issuers that the team believes should be resilient throughout the cycle. The portfolio includes a significant leveraged loan component, where most indices have posted positive returns every calendar year bar 2008, which saw forced deleveraging of dealer desks and higher cross-asset correlations. Nachman is not, however, complacent: "The fact that recovery rates in 2023 dropped to the lowest levels since 2009 underscores the importance of selecting the right sectors, sub-sectors and credits, as well

We saw the market chasing risk in technology, crypto and venture lending and were not interested in that level of risk. But in 2022, post-Covid, the tide went out and investors wanted a steadier, lower volatility, income-oriented strategy."

— GRANT NACHMAN

Anthony La Lota, Co-Founder

as the right level of seniority and the appropriate instruments and issues. Senior secured first lien lenders should still aspire to recovery rates in the 80s on a default and can aspire to this result by avoiding bad issuance".

Credit is at a crossroads: the total yield is attractive, including risk-free rates, but spreads are still historically relatively tight. "We have no crystal ball to predict the end, and the turn of the cycle, so would rather aim to construct books that we believe should be resilient even in a negative cycle and have strong repayment prospects," says Nachman. At the simplest level, the guidelines are to own mainly floating rate or relatively shorter duration fixed rate first lien, senior secured debt around a single B credit rating, and Nachman could even entertain a purely floating rate loans mandate: "We try not to surprise our investors with excess credit impairment or interest rate duration risk".

Though some credits owned could be classified as "stressed", Shorecliff tries to pick their spots very carefully. "Since we are not running a CCC-centric mandate, and do not have a distressed hedge fund return target, we feel as if we have less pressure to diversify or 'diworsify' a portfolio with too much stressed credit risk to grab for yield," says Nachman.

Focused book

Shorecliff also designed their mandate to resist pressure to invest in the largest index names or stay close to the benchmark. They aim to own approximately 100 "core" unique issuers, which they think provides sufficient diversification, and makes it easier to maintain oversight of risk. "We are more concentrated than a typical long only investor but less concentrated than a distressed debt investor," explains Nachman.

The universe is mainly US companies with US-listed debt, though there can be a few Euro issuances. Shorecliff are however wary of taking on illiquidity risk for yield pickup in smaller markets or smaller issues.

Given the focus on credit selection, Nachman underscores the capacity for the strategy is constrained. The firm stresses they do not want to be asset gatherers. They prefer to grow steadily and thoughtfully with the goals of being big enough in every strategy they manage to be relevant, yet never so big that they lose the ability to achieve alpha.

Sector and sub-sector choices

Broadly, inflation can be good for companies with strong pricing power and fixed debt. Shorecliff are generally exposed to mature companies with positive EBITDA for at least five years, relatively predictable earnings streams, and asset coverage that is analysable.

Shorecliff prefers to underweight sectors sensitive to commodity prices due to their asset level volatility. Nachman views the risk/reward as often asymmetrically stacked against creditors: "A lender gets the same return at USD 150 oil as at lower prices but might not make recoveries if prices fall precipitously, as we saw in 2015. There are also risks of expropriation in some countries. We are also often wary of retailer risk, since revolving lenders may have the first lien over the most valuable current assets, leaving other creditors with limited security from fixed assets". Shorecliff does, however, invest in commodity-adjacent sectors, such as infrastructure or logistics that can offer steadier and more recurring cashflows.

Within a sector such as autos, some segments may prove much more resilient than others: "Manufacturers could be vulnerable to consumers getting squeezed by inflation, but makers of after parts such as brake pads or windscreen wipers could actually benefit from people keeping the same car for longer and maintaining it," Nachman explains.

Covenants, creditor on creditor violence and cooperatives

Careful covenant selection is important for both tangible and intangible assets, but Nachman finds it is often situation specific: "We would often want to avoid certain situations where IP could be dropped down. And for hard assets we prefer to see hard liens that cannot be meaningfully diluted or stripped. Every situation is different, and with our hand-picked book we try to know what we own".

Nachman tries to avoid being on any side of "creditor on creditor" violence that can involve robbing Peter to pay Paul. He warns that a creditor cannot always be confident of being on the winning side, and over time such violence generally leads to situations where equity wins and creditors lose, to the detriment of the credit asset class. "We would prefer to lock arms with other creditors as part of a coop. We have already joined two, including a media firm that underwent a successful consensual out-of-court refinancing." Analysis of indentures and the players involved can both be relevant to gauging creditor on creditor risk.

Credit ratings breakdown

The strategy invests mostly in rated credits. While Shorecliff generally views ratings as a proxy for overall portfolio risk, they may not always agree with the ratings agencies on each individual credit. In November 2025, the average credit rating across the book was single B, and triple C exposure was well below the level for indices of either high yield bonds or leveraged loans. The minimal CCC exposure is likely to be a constant feature of the strategy. "Our investors can select specialists for CCC risk. We might migrate to higher than an average single B in some environments," says Nachman. If Shorecliff became more cautious on the outlook for credit, they could notch the book to higher credit ratings and shorter duration.

Most of the investment grade debt owned is issued by business development companies (BDCs) and while rated investment grade, offers yields comparable to high yield debt. "In this case we think the credit ratings agencies have accurately rated the debt investment grade," says Nachman.

Less interest rate sensitivity

Interest rate duration tends to stay inside two years, mainly because the strategy typically has a 60-70% weighting in leveraged loans. There is some freedom to switch between bonds and loans to control rate duration. "Anthony La Lota and I trade the book ourselves. If we think one part of the market is mispriced, we can rotate based on both our top-down views of the market and bottom-up views across the capital structure of a firm. We think owning both loans and bonds also makes us a better partner for dealers," explains Nachman. He is also mindful of rate duration risk when analysing "fallen angels": formerly investment grade bonds that have become high yield bonds.

Building a DIY business

"We did not want to work with a seeding platform because we wanted to build our own structure and choose our own service providers and counterparties," says Nachman. The firm works with leading prime brokers including some of the largest ones in fixed income and credit. It can also trade with smaller brokers and agency brokers. Shorecliff also use specialists for covenant research, which is not provided by the prime brokers.

Close broker relationships

Shorecliff is an active participant in the new issue leveraged loan and high yield bond markets. "But we try not to "flip" new issues. We would rather own calendar," says Nachman.

Nachman and La Lota like to keep control of trade execution rather than delegating it to a dedicated execution trader. There are many reasons behind this decision. "We do not need to play a game of telephone where sell side traders call buy side traders first and then get our final decision later. We as decision makers sit in the Bloomberg trading chats. We can filter and process the information easily and dealers know they generally get not only a quick answer but also often candid feedback and idea flow. We sometimes try to get done inside the bid/offer spread but sometimes pay the on the run price. If we want to buy or sell quickly it is not worth worrying about 1/8 or ¼ of a point. There is also market etiquette to consider; if a market is tight, then working the order will not help anyway," says Nachman.

Insights from private equity and distressed GFC restructurings

Nachman thinks his early experience of four years in private equity useful: "Underwriting a company at the bottom of the capital stack was a critical learning experience, especially since a private leveraged business could not easily be sold if anything went wrong".

At Shorecliff some issuers are associated with private equity sponsors but there is a healthy mix. "One advantage of publicly listed issuers is that equity investors may sometimes notice something before credit investors. Share price declines can provide an early alert to us based on our cross-capital mindset," points out Nachman.

Distressed restructurings
During and after the GFC Nachman was deeply involved in some major restructurings, sitting on steering committees as well as ad hoc committees: "I have seen what can go wrong. One old mentor told me every distressed credit started its life as a par credit where somebody expected a full payback. In a distressed role you benefit from 20/20 hindsight, while in a par credit role you do not have that benefit. I have dealt with incredibly complex and nasty distressed paper".

Nachman was involved with, among others, Icelandic banks Kaupthing and Glitnir; a US newspaper group Chicago Tribune; medical transcription firm M*Modal; floating production, storage and offloading energy services group OSX3; independent power producer Edison Mission Energy; Texas retail electricity utility TXU; and telephone service company Windstream.

Key mentors during this spell included Brigade Capital Partners' Ivan Krsticevic, who hired Nachman, as well as founder Don Morgan.

A spell at multi-strategy giant Millennium Management provided an intense learning experience that Nachman found very fortunate. "I felt like I got a master's degree in risk management, insights into running a much tighter book with stricter stop losses and higher velocity of trading and facing the dealer community. I should have paid Millennium to work there!"

We have no crystal ball to predict the end, and the turn of the cycle, so would rather aim to construct books that we believe should be resilient even in a negative cycle and have strong repayment prospects.

— GRANT NACHMAN

Team rotation
Some credit firms encourage sector specialists, but Nachman likes the team to rotate around industries. "If you spend your entire career on one sector you can become myopic and biased, and you can talk yourself and your portfolio manager into bad risk. It is better to cover at least two or three chunky sectors and rotate around different sectors to build a better view of relative value, a broader network of buy side and sell side contacts and develop a dialogue with management."

AI can be used to expedite some tasks such as data entry, but Nachman is cautious about how far it can go. "We try to use thoughtful solutions so that we can spend more time thinking about risk."

ESG
Shorecliff are UNPRI signatories, and the team pays attention to ESG issues on a credit-specific basis. "We think that lending money to companies involved in bad activities is a risk factor and we want to take that factor into account," says Nachman. ✦