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Ex-Highland Capital Partner revives alternative credit strategy following decade-long legal battle close

Apr 13, 2022, 11:19pm CDT

Former Highland Capital Partner **Patrick Daugherty** is resurrecting an investment strategy he began two decades ago, as a 10-year legal battle recently resolved.

Daugherty is partnering with **Kevin Rourke** and **Niles Chura**, two other former Highland teammates, to build a platform focused on stressed/distressed and special situations, targeting opportunities across the corporate credit cycle. The new platform is regrouping right out the gate from its recently-settled dispute that began when Daugherty left Highland Capital in 2011.

After a decade of lawsuits, litigation and bankruptcy, last month Daugherty was awarded an ownership interest of Dallas-based alternative investment platform Highland Capital Management, 100% ownership of two Highland Capital subsidiaries and a lump sum payment, effective April 1. Daugherty and the newly formed team will use one of the subsidiaries, Highland ERA Management, to renew the alternative credit strategy developed 20 years ago.

Highland Capital started the Crusader Fund in 2000 after the dot-com bubble burst to buy distressed corporate loans, which trade at discounts due to the company’s likelihood of defaulting on its debt obligations. Daugherty said the fund started with \$20 million — half from Highland and half from an external investor — and entered the 2008 financial crisis with \$10 billion. He said he thinks the new platform will track similar growth or better.

The team will target credits in middle market and broadly syndicated corporate loans and equity and mezzanine tranches of third-party-managed collateralized loan obligations (CLOs) traded on the secondary market. Still, Daugherty said the platform won’t go after control positions.

“We’re going to have a bottoms-up analysis of credits themselves, which will allow us to make investment decisions on the equity that those loan assets are housed in via the CLOs,” Daugherty said. “We’ll go all the way up through the mezzanine.”

The strategy leans away from aggressively pursuing CLOs under current market conditions. Daugherty told *Dallas Business Journal* the team might launch one CLO initially to serve as a platform to roll in deals down the line. He said that CLOs are volatile, and he thinks inflation, which hit a new high this week as the consumer price index rose 8.5% year-over-year, per Labor Department data, will be bad for highly-leveraged assets within CLOs.

He added that although CLOs withstand time well, institutional investors like mutual funds, hedge funds, pension funds and insurance companies have mark-to-market losses annually on their books, which he thinks would be exacerbated by the current environment.

“There’s a lot of pain that can be incurred...it can be pretty scary in downtimes. I saw that in 1999 to 2002,” Daugherty said on CLO’s effect on institutional investors. “We’ve got massive inflation, and we’ve got the Fed increasing rates. This is starting to look a lot like 1999 to 2002 when the air is coming out of the balloon, albeit for different reasons.”

Glacier Lake Capital Advisors, an alternative investment firm founded by Daugherty and Rourke in 2015, will act as sub-advisor to the platform, with Daugherty serving as CEO and chief investment officer, Rourke serving as head of research and senior portfolio manager and Chura serving as head of special situations and senior portfolio manager. Daugherty said he hasn’t decided whether the firm will keep the Highland brand, merge with Glacier Lake or go forward as a newly-named entity. He added he’s evaluating potential partnerships with private equity firms, which would potentially provide faster growth with a well-capitalized partner, but at the cost of material ownership.

Daugherty previously worked with Rourke and Chura at Highland on CLOs, distressed investments, and restructuring, including investments in Metro-Goldwyn-Mayer and SunCom Wireless. The team is currently eight to 10 folks, but Daugherty said he plans to hire more experienced portfolio managers. He said it’s important that the firm has a different culture from Highland. Though operations will be headquartered in Dallas, he’s open to hybrid work environments.

Catherine Leffert

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Dallas Business Journal



COURTESY OF PATRICK DAUGHERTY

Patrick Daugherty was awarded an ownership stake in Highland Capital Management and two of its subsidiaries as part of the legal resolution in April.



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