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FACE TO FACE

Davidson Kempner CIO Tony Yoseloff sees opportunity in markets others avoid

By LYDIA TOMKIW

Anthony “Tony” Yoseloff is the managing partner and CIO at Davidson Kempner Capital Management, but back in 1998 he was a summer intern at the firm.

Davidson Kempner started out as Marvin Davidson’s family office before it began managing outside capital in 1987. The firm’s grown to \$37.3 billion alternative asset manager specializing in opportunistic credit and event-driven investing.

Davidson Kempner counts the \$13.9 billion Sacramento County (Calif.) Employees’ Retirement System and the \$12.3 billion Alameda County Employees’ Retirement Association, Oakland, Calif., among its pension fund investors, according to Pensions & Investments data.

Davidson Kempner’s approximately \$21 billion flagship hedge fund, DK Partners, gained almost 7.36% through Aug. 31 net of fees, and returned almost 10% in 2024 and over 6% in 2023, according to documents viewed by P&I.

In part one of this Face to Face interview at the firm’s New York office, Yoseloff discussed the firm’s forthcoming Abu Dhabi office, opportunities in real estate, the rise of private credit and why corporate direct lending will likely gravitate toward bond market level returns. Questions and answers have been edited for clarity, conciseness and style.

Q: How has the firm changed since 1998 when you were an intern?

A: I started here as a summer associate in the last year of my JD-MBA program at Columbia in 1998 and then full



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time in 1999. During the 2000s we had the benefit of growing with the hedge fund industry, which would have been a significant part of the alternative asset management industry over that period of time. I became a partner in the business in 2004, and the deputy managing partner in 2012.

A really key inflection point for the business would have been 2011. It was post-global financial crisis. We believed there were going to be a lot of opportunities in less-liquid, longer-duration opportunities, things that required you to put in elbow grease whether structuring or extracting assets from somewhere or cleaning them up or improving them.

Post-GFC in particular, you really couldn’t do those sorts of investments in

hedge fund type structures.

And so we raised our first drawdown fund in 2011. It was \$460 million and if you look at the growth story of Davidson Kempner, for the last 15 years, we’ve obviously had growth in our hedge fund business as well, but we’ve had significant amounts of growth in our drawdown fund businesses, having now closed-end funds for asset-backed lending, real estate and insurance businesses as well. But it really all started from that one belief that there was going to be more to do with more locked up capital.

That happens to coincide with the growth of locked up capital in the industry overall. If you look at numbers

around the GFC, hedge funds and drawdown funds were roughly the same size.

Today, drawdown funds are two and a half times the size of hedge funds, just in terms of what the growth trajectory has been for the last 15 years.

For me, a lot of the journey has been finding interesting places to invest. Davidson Kempner has also globalized over that period of time. We've had a London office since 2000 and have invested in Europe since the early 1990s. Our Asia story probably started about a decade later. We started investing in Asia, probably in the very early 2000s, late 1990s and opened up our first Asia office, Hong Kong, in 2010. We now have three offices in the region, and I just felt as though there were going to be a lot of interesting things to do across the spectrum – public opportunities, private opportunities throughout the globe, and I wanted to make sure that we had the capital in place to do things that we thought were interesting on the investing side.

Q: Any other regions you're opening in or growing into at the moment?

A: We do invest in the Middle East, and we're opening a very small office in Abu Dhabi. We've invested in the Middle East for about 15 years. We cover it out of London. It was just time to have someone on the ground, and the great majority of the investments that we're making there are in the Emirates or in Saudi Arabia.

Q: Earlier this year you spoke at the Milken conference and highlighted investment opportunities overseas, including in India. Where are you seeing opportunities now?

A: I don't think it's fair to say there's one geography that's hot and one geography that's not hot. I'll start with Asia since you mentioned that. We've been very busy in our liquid securities books in Asia. We think there's a lot of interesting opportunities in secured lending in India. But we're also very active in special situations equities in Japan, and we've got a big convertible arbitrage business in Asia, and that really spreads across a number of different areas. And so if you look at how we're invested, we probably have close to our peak asset size in Asia liquid opportunities.

We've not done so many longer dura-

tion, opportunistic credit type opportunities in Asia. Sometimes it's opportunity set, and sometimes it's structural, but we have found a number of different places to do asset-backed lending in in Asia.

Europe is an economy where there's always something to do.

Historically, Europe has probably been our second-biggest opportunity set after North America, although at this point we have some strategies where we actually have higher allocations to Asia than we have in the U.S.

And so Europe has the benefit or the detriment of its country by country set-up where you don't tend to have so many European champions, you have more national champions, or maybe companies that are spread in a couple of different countries, but not really throughout the continent. I would say the regulatory framework of Europe also leads to different opportunities. It's very different to do a restructuring in Spain, for example, than do a restructuring in Portugal, even though the countries are right next to each other.

So for us in Europe, asset-backed lending has been pretty interesting. Opportunistic credit has been very interesting for us in Europe. We've been very active in that market for several years. Long-term equities has been very interesting for us. Special sits equities has been very interesting for us as well. We tend to go deep in what we're involved in in that market. So it's probably more of a rifle shot approach vs. the scatter-shot approach, in terms of how we're investing there.

Q: What's your outlook on the U.S.?

A: The U.S. is the biggest market by far that we invest in. So in most periods of time, we would have at least as much in the U.S. as we have in rest of the world. Certainly a very interesting market for M&A.

Today, you're going to see a lot more M&A activity, and therefore a lot more risk arbitrage activity going forward. It's been an interesting opportunity to provide creative capital. There are a lot of companies that are overlevered in the U.S. that need additional capital to right-size their balance sheet, or for growth sometimes, or sometimes a combination of both, where you can get credit-type

downside and equity-type upside. We think there's a lot of things to do in that. In that area, convertible arbitrage, this is like a golden age of converts, in the U.S. in particular, because we've got a market with higher interest rates and substantial equity volatility that sets up very well for convertible arbitrage. You've just had a lot more issuance in the last few years and a lot more interesting issuance.

And the asset class that no one wants to talk about is real estate, but at some point you're going to see a bounce back in that asset class as well. And it's not just going to be things like data centers or logistics. Real estate's obviously going through a tough cycle the last five years, a combination of rate rises and just use case changes, but that's an asset class people should keep their eye out over the next five or six years.

Q: Your first real estate fund was in 2024. Where are the opportunities and what are you staying away from?

A: Even though our first fund launch for real estate was in 2024, real estate has been an active part of our opportunistic credit strategy. We've had real estate investments in all of our drawdown funds since 2011 and we really started doing public market investments in real estate, in our multistrategy fund in 2004, 2005.

One of my observations of the real estate world is that managers, more and more have been stratified by geography and or product type – only invest in retail properties in the United States, or only going to invest in hotels in Europe. And our belief is that within the real estate world, asset classes are cyclical, so it's really hard to have a mandate where you're only doing hotels because if hotels aren't doing well, you're probably not going to do a good job investing that capital, no matter how you're doing.

There's a lot of pain out there in real estate, and we think a lot of that pain has not been really fully realized, yet. There's this term people like to use called 'pretend and extend'. And there's much more pretend and extend in the real estate world than there is in the corporate world. At some point that's going to come home to roost.

If you look at some of the early investments that we've been doing in real

estate, it's been a combination of preferred equities in sectors and geographies. So again, it would be credit downside, equity upside. And then we're also active in the development space. We've had a number of interesting assets, both in the U.S. and Europe. We've done a lot of development of logistics facilities in Europe as an example. If you look at the last 15 years of investing in real estate, through our drawdown funds, we've done practically every major asset class in the U.S. and Europe; those happen to be the places we're spending a lot of time today.

We bought a very large portfolio of beachfront property in the Algarve in Portugal at the end of 2022, five bad banks selling their assets that they had owned since the GFC. Together, it was an \$800 or \$900 million portfolio. So it was very chunky, contained hotels, unbuilt condos, built condos, golf course, beachfront retail, so a hodgepodge of assets. I like the concept of buying wholesale and selling retail, and we also generally like to buy assets when we can that we think are going to appreciate in value and not depreciate in value. We're very bullish on Portugal. It's a very good price point to get that sort of real estate in Portugal compared to Spain or France or other competitive markets for vacation dollars. I view that as the type of opportunity that's prototypical.

Q: The growth in private credit has been tremendous. From your seat, how has that changed the credit investing landscape?

A: The reality is, it's been a big change in the market, and particularly a big change in the U.S. market ... If you look at the Cambridge Associates definition, you're including direct corporate lending, including asset-backed lending or specialty lending, and including opportunistic credit. That's how I think about it.

We are not active participants in direct corporate lending, and it's not our model to make regular SOFR plus 400-to-600 (basis point) loans to private equity-backed firms. We do sometimes do corporate lending, typically higher spread, more assets at the company that we can have liens on, vs. cash flow lending, and that particular category has grown at a

40% CAGR over the last 10, 11 years.

The other two categories, specialty lending/asset-backed lending and opportunistic credit have grown at low double digits over the last 10, 11 years. So that's still a healthy rate of growth. But the 40% rate of growth in direct corporate lending, it's like a very good software company, in terms of what its growth rate is. And, we believe that's a scale business where the winners are ultimately going to be the biggest institutions with the most bodies out there, effectively selling money.

From our perspective, we want to do things that are more differentiated. And so we think there are a lot more opportunities in opportunistic credit and in asset-backed lending.

For whatever reason, there's just not been the same degree of investor interest in asset-backed lending as there's been in corporate lending, and we think there's fantastic opportunities there. So we now have two funds in that area, and our insurance business does investment-grade structured products, which effectively is asset-backed lending as well.

So those would be two examples of things that we've done to take advantage of opportunities in that marketplace. And we think you will see growth in asset-backed lending catch up at some point to growth in direct corporate lending. It's an enormous market. For our size institution, you sometimes find sweet spots. It's a lot less competitive to do a \$50 million to \$100 million loan than it is to do \$1 billion loan, right? At our scale, we're big enough that our balance sheet matters, but we're not so big that you have to really do these high nine figure and 10 figure loan opportunities to move the needle relative to our AUM, in these areas.

My belief, in general, on private credit/corporate lending, is what starts out as a great idea will ultimately gravitate toward market-type returns over time if too many people chase it.

Today, the direct corporate lending market's the same size as the leverage loan market and around the same size as the high-yield market, and they're all substitutes for each other. The borrowers, these private equity firms, are typically among the most sophisticated borrowers in the world, and they play

people off each other, and get the best combination of interest rates and terms and conditions for themselves. And there's just too much money chasing this area.

So historically, this has been a mid-single digit asset class. It's not been a double-digit asset class. Historic default rates have been closer to 5%, they haven't been closer to zero. And historically, funds in this area, whether BDCs or closed-end funds, have traded at 10% discounts to NAV.

They haven't traded at NAV or even modest premiums to NAV. So I do think there will be mean reversion in this area. I mean, these products have been around for 30 years. These are new products, they're new in popularity, but they're not new in terms of existing. So that's my viewpoint on it. I don't perceive there being a like a train crash coming. I just think people are going to gravitate it toward earning market-related returns in the strategies.

Q: Can you give me some examples of things the firm has done in asset-backed finance and areas you are looking at there?

A: We've done lending backed by aircraft. We've done lending backed by shipping. We've done lending backed by loan pools. We've done lending backed by real estate. A lot of stuff we're doing is maybe transitional. So for example, if someone is buying a nursing home and then wants to get HUD financing on it, it takes a couple years to do that, so we might provide transitional lending. Or if someone's opening up a hotel, they eventually can get long-term CMBS financing on it, but the first couple of years, as occupancy goes up, they may not be able to do so. So we'll provide a bridge for that. We've done a lot of structured lending in India, in this category as well. We've done a lot of asset-backed lending in Europe, where you've got corporates that own stuff they may have receivables they can lend against. They might be a company that's got a bunch of raw material they can lend against. They may have distribution centers that they can lend against. And so we can provide a better loan package, maybe than a traditional corporate lender would be able to do backed by that.

FACE TO FACE

Davidson Kempner CIO warns about Yale model for endowments, private credit in 401(k) plans

By LYDIA TOMKIW

Anthony “Tony” Yoseloff has worked at the \$37.3 billion Davidson Kempner Capital Management for 27 years. He’s watched allocators change how they view hedge funds — which is once again shifting. He’s also had the opportunity to sit in the allocator seat for endowments and explains why the David Swensen model is “very challenged” now.

In part two of this Face to Face interview, Yoseloff also talks about credit cycles, private markets in 401(k) plans, succession and more. The firm now numbers 500 employees across 8 offices.

Q: How are you thinking future credit cycles might look amid liability management exercises and the increased use of payment-in-kind?

A: My experience with credit markets is that people make mistakes, but they don’t figure them out until there’s a shakeout, and then they correct for those mistakes. And then sometimes people forget the mistakes that were made in the first place. So an example I’ll give with that is if people say, like, what’s a CDO? If you hadn’t watched “The Big Short” or weren’t investing more than 15 years ago, you wouldn’t know because it kind of went extinct.

And eventually people will forget and recreate that sort of model in some form, and then that will happen again. Like in the shorter term, in lending cycles, right? So we saw this in Europe in the 2000s, we saw this in Asia in the 2010s, we may see this in the Middle East on a going-forward basis.

Markets grow, people make loans, markets have contractions, people lose money on those loans, and then the government changes the rules to improve success for creditors, recoveries. And so Europe was a



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much better market to invest in in the 2000s and the 1990s because of that, Asia was a much better market to invest in the second half of the 2010s, than it was in the 2000s because of that. In the Middle East, there have been some pretty good changes made in bankruptcy laws there as well. So you’ll continue to see that.

As recoveries get worse in public markets because of liability management exercises, it’s going to be interesting to see if that market ultimately adapts and people just stopped accepting some of the terms that are in there. Everyone knows these terms are in there in the docs today. It’s not a secret. They’re in there because the people who buy the new issue think it’s someone else’s problem, and so they’re competing to get capital because there’s more competing to get product, because there’s just more capital available to lend than

there is product available. So what happens when that flips?

When that flips you’ll likely have less of that, which is what happened post-GFC. You had five or six years where covenant light deals were out of favor before they kind of came back in full force, maybe about 10, 11, years ago. These cycles happen over several years, and it typically takes people losing money to figure out they need to make changes.

Q: There is the potential we will see private credit enter the 401(k) space. What’s your view on that?

A: As a starting point, our business is largely institutional, although about 20% of our client base is high net worth, and that ranges from very wealthy families to people who have relatively small amounts of money here and have found us through an

RIA or some other mechanism. We have a product base that we think does resonate pretty well with individuals.

People just need to be very careful about knowing what they invest in. And my one concern with 401(k)s, which is just an extension of some of the innovations you've seen with interval funds and other retail products, is that people need to actually know what they're owning.

And it's a lot harder to understand...private assets than mutual funds, where you could at least get a prospectus and know exactly what publicly traded stocks are owned by the by the manager. So I just throw out caution to individual investors. We all in this country have 401(k)s and people have the ability to do their do their homework.

Q: Allocators are more bullish on hedge funds. What have your conversations been like recently?

A: I've been at Davidson Kempner for 27 years. For the first 12 or 13 years, through the GFC, allocators expected hedge funds to both be a diversifier in their portfolios and ballast, but they also expected hedge funds to deliver rates of return that were at least as good as their overall portfolios. And so if your goal was, let's call it 8% in your portfolio, you expected hedge funds to do 8% or better.

At some point in the 2010s, there was a change in approach as to how people thought about hedge funds, and the longer interest rates were zero, the more returns got whittled away. And by the end of the 2010s, the allocator mindset was we still need hedge funds as a ballast and diversifier, but we expect them to earn lower returns than our overall portfolio, and we're going to earn our "real returns" off of growth equity, venture capital, private equity, and so there's been a real change in the hedge fund asset class overall over the last four years.

This is why I wrote this white paper. We wanted to figure out if this was just a rate story, or if there was more to it.

And so we figured out that in higher interest rate environments, you have a lot more dispersion and performance between companies in both the equity markets and the credit markets. You know,

hedge funds are fundamentally a business of picking winners and losers, right? Either doing relative value and you're picking winners and losers, or in the event-driven world, you're picking winners and losers.

And while you've had strong S&P performance, that's really been driven by seven stocks.

So hedge funds have reverted back to what people expected from them in the 2000s and we think this is structural, and we think this is a story that's going to last throughout the 2020s. We don't think it's a short-term story.

Obviously, the next Fed chair may try to lower interest rates in this country. Just because you lower short-term rates doesn't mean you're going to lower long-term rates. And we think this story is going to have very long legs to it.

In terms of allocator approach, there's a lot more interest than there was two or three years ago because hedge funds are able to play just a much greater role in people's portfolios. And I don't think you can replicate that with other asset classes. The correlations are just too high with other asset classes to the equity strategies that allocators are still, of course, going to have in their portfolio.

Q: DK has done succession multiple times. You're now the third person at the helm, and I've heard you say that it was because people wanted to retire, which made it a lot easier. How are you thinking about the next generation?

A: I hope we have far less turnover than those multimanager shops have. We have a different model here, but we start at the most junior levels and build up. So for example, we hire students straight out of undergrad. We've gone through our process to make our offers for 2026 and you know, the resumes are off the charts. I mean, one of my jokes is that I'd never get hired today. But I think that's true.

Once people are here, we do a lot to train them, and we do a lot to try to keep people here. So on the training side, one of my former partners used the term, be a teaching hospital in what you're doing. We call them perspectives series. Come learn

about a risk arbitrage business, or come learn what we're doing in AI in this part of the firm. Or come learn the evolution of this successful investment. We provide a lot of leadership opportunities in terms of pretty hands on managerial training, like, how do you approach difficult situations with people who are working for you? How do you cultivate talent of people that are working for you, and we're pretty systematic about how we've done this, and we've done this for a long time. You know, one of the differences with our culture compared to, say, a multimanager shop, is we actually openly encourage our people across departments to talk to each other and spend time with each other and share ideas.

They all control their own portfolios. They don't need to listen to each other in terms of what they're investing in, but sometimes there are real synergies in what a long/short credit team or relative value credit team is looking at.

Q: You have a partnership structure as well. You're all invested heavily?

A: Yeah, some of that is employee retention, and some of that is just philosophically with the clients, right? So we are an old school, Wall Street-style partnership. We make new partners every couple of years. When partners retire from Davidson Kempner, they essentially get an earn out on their shares over a several year period. So we're 100% privately owned by current partners and retired partners going through the earn out structure.

We heavily share carry. So we share carry through the principal level here. So we've got a very large number of people that have at least some taste of the upside in the organization. And again, the goal is that someone can come here relatively early in their careers, and make a career of being at Davidson Kempner, you don't have to come here as a stepping stone to somewhere else, that this can actually be your career, and be here for a very long period of time. Having the partnership structure is actually fantastic alignment with our investors, as well. The GP here is, by far, collectively, the largest investor in our funds, and we only offer products where we ourselves

are excited to put our own money in it. I grew up in the old-fashioned style for investing where you want to make sure you're eating a lot of your home cooking.

Q: You sit on the other side of the table as a member of the board of trustees of Princeton University and the board of directors of PRINCO, the investment manager of the endowment. How do those perspectives come back to your work here?

A: To be clear, I'm speaking as an individual, not for any institution. I'm the investment committee chair for both New York-Presbyterian and for New York Public Library. I sit on the board of PRINCO, and I'm a trustee of the university, but I'm not the chair of that one. So there's different things that are required in different circumstances. There are institutions that have board-led models where your staff goes to your board for approval. And there's institutions that have staff-led models where the role of the committee is really more governance and asset allocation.

It's not manager selection. The smaller the endowment, the more the board tends to be the ultimate arbiter of things, although you know you're hopefully improving most of what your staff wants you to do. And the larger the endowment, the more likely it is a staff-led model.

The world is changing for endowment management as well. But the dogma of the traditional Yale model, or Swensen model, It's very challenged right now.

The dogma of the Swensen model is that illiquid assets will always outperform liquid assets, and so you want to maximize your liquid allocations, and you want to put your illiquid allocations into as risky assets as you can because that will earn you the highest rates of return over time.

Our belief is that there's no God-given right for illiquid assets to outperform liquid assets. Illiquid assets should outperform liquid assets if markets are efficient.

But in the short term, markets ultimately trade off of supply and demand. And when you have a circumstance where you

have too many people chasing too few opportunities in illiquid spaces, those assets may underperform liquid assets, and investors may be better off having liquid assets for those periods of time.

Venture capital is a 10- to 15-year asset class. If you look at returns of that class over a period of time, you did very well in the 2010s. You did very well in the 1990s and you did terrible in the 2000s and you did terrible in the 1980s.

And 10 to 15 years is a long time for any institution. We're a 42-year-old institution here, just like we think we need to be innovative at Davidson Kempner to continue to thrive in this environment, endowments and foundations need to do the same, and make sure that they're modernizing their approach to asset allocation and modernizing their approach to manager selection. You can't just stick to the same — you can't just buy Swensen's book from the 2000s and try to follow it as an endowment manager and think that's going to be successful. That just doesn't work anymore.

Q: What does that change look like? Is it pulling out of some of these private investments?

A: I don't think the long-term trajectory is good. They may ultimately be good, but it's not good for the rest of this decade, and so at the margin you've had allocators reduce allocation to absolute return at the expense of [illiquid assets] or to the benefit of those other asset classes.

So it's just a much better diversifier from public market investments, which all allocators should have in their portfolio of public equities, compared to any of these other asset classes ... you've had a couple of folks publicly speak about hedge funds, but I think that they're in the minority.

Actually more money is coming into the asset class, not less money. I think this is the first year you've had net inflows in quite a while in the hedge fund space, and you're going to see more of that.

In terms of what we're doing in the drawdown fund space, while the returns of all of our investments stand on their own, they're also diversifiers and ballasts in

people's portfolios... So if you're going to have a portfolio of private equity-style funds, you're actually much better off pairing opportunistic credit with growth equity and venture capital than you are having those strategies by themselves.

Because the reality is that there are good vintages and bad vintages in those strategies, and you don't have the cash to invest in the good vintages because you're not going to get back from the bad vintages.

The correlation with private credit is much higher. And most sophisticated allocators know that. So you get a lot who want to have an opportunistic credit selection in their less liquid part of their portfolio, and they're going to pair it against higher risk, maybe higher return strategies they're taking elsewhere.

Look, there have been naysayers for anything that we did. There are people who don't want to have any private equity assets in their portfolios either. I don't think that's the right approach. Your dogma can't be we're always going to be maxed out in this asset class because there's times it's a good opportunity, and there's times it's not a good opportunity.

Q: If I did the math right, you're 51 years old.

A: (laughs) Yeah, I think it's public, right?

Q: You're on the younger side for somebody leading a firm. What are your plans for the next five to 10 years? Is it hitting \$40 billion in AUM? Is it growing into another asset class?

A: We can continue to do more as an institution, and there's a lot of room for us to run in what we're doing. And so I'm a little bit less focused on what's the next asset class, and I'm a little bit more focused on building out what we're doing already. I quite enjoy both what I do professionally and who I get to do it with every day. And to me there's a lot of running room on our current plan. And thank you for saying that 51 is young.