Goldman Sachs Exchanges: Great Investors
Paid to Sweat: Centerbridge's Jeff Aronson on the Growth of Private Markets

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Alison Mass: Welcome to another episode of Goldman Sachs Exchanges, Great Investors. I'm Alison Mass, chairman of Investment Banking in Goldman Sachs' Global Banking & Markets division and your host for this episode. Today, I have the pleasure of sitting down with Jeff Aronson, the co-founder and managing principal of Centerbridge Partners. Centerbridge manages over $42 billion in assets across private equity, private credit, and real estate strategies.

I'm excited to hear how Jeff built this business and how he's navigated the opportunities and challenges that face private investment managers today. So Jeff, it's a pleasure to have you on Great Investors.

Jeff Aronson: I'm happy to be here.

Alison Mass: Awesome. So you started your career as a lawyer, and I want to go way back. When and why did you transition into finance?

Jeff Aronson: Yeah, I started my career as a lawyer, not because I knew what a lawyer did but because it sounded good. It sounded good. And I enjoyed law school. I went to work at a big Wall Street law firm. It wasn't for me. It was not for me.

Alison Mass: What law firm did you work for?

Jeff Aronson: It was called Stroock & Stroock & Lavan.

Alison Mass: Oh, yeah.

Jeff Aronson: It's no longer. It's no longer. And I spent two and a half years doing that, and I found my way into the legal department of a small investment bank. It was called L.F. Rothschild, Unterberg, Towbin. And my job as a very young lawyer was to advise the people who were managing the firm's proprietary capital. Two gentlemen, John Angelo and Michael Gordon. And this was, gosh, probably 1986.

So I did that, and I really enjoyed working with them. And then what happened is the stock market crashed in 1987, and L.F. Rothschild went bankrupt.

Alison Mass: I remember that.

Jeff Aronson: So I'm thinking, oh my gosh, it's like I don't want to be a lawyer. My employer just went bankrupt. I am student loans, like, up to my neck. I'm newly married. And John and Michael say, "We're going to go start a new firm." And I said, "Well, I'm going with you." And I remember Michael Gordon kiddingly say, "Well, you're a lawyer. You can't add." And I said I'm actually okay with numbers. I said, "Give me a chance." I honestly said, "I'll work for free."

Alison Mass: Wow.

Jeff Aronson: I was hoping they wouldn't take me up on it.

Alison Mass: Yeah, no kidding, with all of your student loans.

Jeff Aronson: And they gave me a chance. And unlike law, I loved investing. It was like doing puzzles, and I was interested in it. And the rest is history.

Alison Mass: The rest is history.

Jeff Aronson: Yeah.

Alison Mass: So tell us a little bit about what the distress business was like back then.

Jeff Aronson: Sure, so this was in the late 1980s. Distress was a complete backwater. There were really three banks that invested in it through their arbitrage departments -- Goldman Sachs, L.F. Rothschild, and Bear Sterns. And there were a handful, and I mean truly a handful, of firms that invested in these types of assets, and Angelo Gordon was one. And it was not institutionalized at all. The capital was all typically from high-net-worth individuals. There were no large institution allocators or anything like that.

And it was a backwater of an area, and it really stayed that way until the recession in the early '90s, after Drexel went bankrupt and the S&L crisis. And that's when the business really started coming into its own. There were a lot of characters, a lot of characters in this business.

I mean, a funny story, not about the distressed debt business per se but just about being a young person on the buy side. We had just started Angelo Gordon and I was an analyst, but they had me talking to a trader at Salomon Brothers. Very senior guy. I can't remember his name. A prototypical trader. A little gruff, colorful use of language, and things like that. And I talked with him, and he says, "Great, really interesting. Next time you're my first call." So I got off and I told everyone. It was a small office, a dozen people. And they were all hysterical, laughing that I actually believed this fellow. So, it always sticks in my mind, but a lot of characters.

Alison Mass: So tell me how the distress business has changed over the past decades. And obviously it's become more competitive, more institutionalized, but how has the opportunity set changed?

Jeff Aronson: Well, it's changed, first, it's been around forever. I mean, if you go back to the 19th century where there were people who were speculating in railroad bonds after --

Alison Mass: I was thinking of Penn Central.

Jeff Aronson: -- the Civil War and there was a well-known speculator named Jay Gould, and there have been books written about him. And all through the 20th century -- and Goldman was doing this as well and Bear Sterns in particular -- through the Great Depression and things like that, it typically involved fallen angels, an investment-grade company that had fallen on hard times.

And the business for decades was marked by two things. One, it was a function of secondary markets. And from a return perspective, it was a total return investment. You bought something at 70 because it was worth 100. There was no yield because often these companies were bankrupt, so definitionally there was no yield whatsoever.

And what happened after the GFC, a couple of things happened. First, private credit came into vogue. Now, "private credit" again is a bit of a misnomer because it means different things to different people, but if you think about it, it's principally direct lending because the banks retreated for regulatory reasons, and Wall Street abhors a vacuum. And all of a sudden, a new business started of private lenders, non-bank lenders, making the loans.

And what happened in the distressed business, we even started changing the name. It was no longer called "distressed." It was called "opportunistic credit." Sounded a little kinder.

Alison Mass: It's like moving from "junk bonds" to "high yield."

Jeff Aronson: Exactly, exactly. Or from "leveraged buyouts" to "buyouts." And so what happened in the credit business, it started to evolve and we started to evolve. So a business that had been focused on trading and total return started to evolve into a business which is now also focused on primary origination. We were making a loan, and the return was a function of yield. And it was --

Alison Mass: Cash yield.

Jeff Aronson: Cash yield. Cash. It was a real sea change. And if I look at our opportunistic credit business today, it is half primary originations where we're making money through yield and half focused on secondary markets where we're focused on total return. And it's been a huge sea change, and I think it's going to continue.

Alison Mass: Yeah. No, everyone is very focused on the growth of this market. So when did you get the idea to form your own firm? And how did you make that happen?

Jeff Aronson: I loved my bosses, John Angelo, Michael Gordon, they were my mentors. They raised me professionally. But I had been there, I had worked with them for a very long time. We had a great relationship. I kind of did my own thing. They left me alone. There was never arguments over comp or anything like that. It was great.

Alison Mass: They figured out you could count.

Jeff Aronson: I could count. I knew how to add. I was a good manager of people, and I was good with clients. So that was all good. But what I really wanted was I wanted a chance to drive the bus. I wanted that chance.

And, you know, I'll tell you about my partner, but it was a great story. When I left Angelo Gordon, I remember --

Alison Mass: What year was this?

Jeff Aronson: It was February 2005. It was 20 years ago.

Alison Mass: Okay.

Jeff Aronson: And my heart was racing, and I went in there and I told them that I wanted to leave. He stood up, he always called me Jeffrey, and he hugged me. Uncharacteristic. And he said, "Jeffrey, we've thought of you as our son," which was such a nice thing to say. And I told my wife that -- I told her the story that evening. But then I said, "That was exactly the problem."

Alison Mass: Right.

Jeff Aronson: Is that I was still 26-

Alison Mass: Correct.

Jeff Aronson: In their eyes. And it was really, that really summed it up as why I had to do my own thing.

And I did it with a good friend of mine, Mark Gallogly

Alison Mass: Who's great.

Jeff Aronson: Who was at Blackstone for many years as well.

Alison Mass: Did they invest in your business? I'm just curious.

Jeff Aronson: Yeah, they all did.

Alison Mass: Yeah. So that's --

Jeff Aronson: John did. Michael did. Steve did. And Pete. They all invested personally.

Alison Mass: Wow. What a sign of confidence in you.

Jeff Aronson: Yeah.

Alison Mass: I'm just curious, where did the Centerbridge Partners name come from?

Jeff Aronson: So we struggled with a name because every name was taken, and the idea was pretty simple. Even though the name "Centerbridge" sounds -- you know, it has a direction in it, it's got a bridge, it's got a view, whatever. The idea was we were going to take two strategies -- private credit, which was my area of expertise, and private equity, which was my co-founder, Mark Gallogly's, area of expertise -- and bridge them to the center. So there actually was some method behind the madness.

Alison Mass: And it's now one of the iconic names in your industry.

Jeff Aronson: Yeah, it's a real name now.

Alison Mass: Yeah, absolutely. So how did your relationship with Mark change over the years? And you mentioned that you came from one side of the business, he came from the other, and you worked together to build Centerbridge. But did that change over time in terms of your focus?

Jeff Aronson: It did. I'll give you a second on the origin story because that was 25 years ago. And Mark -- so it was 2000, thereabouts. Mark was running the private equity business at Blackstone.

Alison Mass: Yep. I remember that.

Jeff Aronson: He had been at Blackstone since the '80s, around the time of inception. And Mark was interested in credit. And at that point, Blackstone had a financial restructuring advisory business run by a guy --

Alison Mass: I remember that.

Jeff Aronson: -- named Art Newman who was, like, an icon of the industry. And as Mark would tell the story, he went to Art, his partner at Blackstone, and said, "I'm interested in credit, but it's not my thing." And Art said, you know, "I've got someone for you. You should meet Jeff."

And I first met Mark, and I'm thinking, you know, very nice guy but we're literally on different sides of the balance sheet.

Alison Mass: Yes.

Jeff Aronson: But what we did is we developed a partnership. The name of the project at both firms was called Project Spock for "where no man had gone before." And the idea simply was that we would pool our intellectual capital. That we would look at a company and Mark and his team, their alpha was on the left-hand side of the balance sheet and our alpha was on the right-hand side of the balance sheet. And we were 50/50 just on a handshake, and we looked at everything together in the credit world.

Alison Mass: Did you invest in a number of things together?

Jeff Aronson: Oh, yeah. Oh, yeah, we did. And it was hugely successful. And like myself, Mark had been at Blackstone basically since the beginning. Mark also wanted a chance to, like, you know --

Alison Mass: Do his own thing.

Jeff Aronson: -- to drive, so we decided to leave. It was a great story.

Alison Mass: That's a great story. Yeah, I did not know that story. So what were the hardest parts of building the business? And what were the unexpected challenges? If I asked you now, looking back 20 years, what were the things you didn't anticipate?

Jeff Aronson: Well, we were fortunate in that we both had followings in the LP community, I did and Mark did. So --

Alison Mass: With different LPs, though, right?

Jeff Aronson: With different -- there were a couple of LPs who overlapped but very few did. And so we were able to start with a fair amount of capital, so we weren't struggling to try to raise money, which is typical in startups.

The hard thing about it, particularly in retrospect -- I mean, we all know it's a people business. I mean, the business, what we do, what all firms like us do, is really complicated. At its core, it's pretty simple. It's our people and our clients' capital. That's it. And the clients were either going to choose to invest with you or not. And you do a good job for them, and they will and they trust you. That's all good.

But that's their decision, so what can we do as people? And as an investor, I like to think about probabilities because there is no certainty in investing. Zero certainty. Sometimes I think investors try to fool themselves with certainty and beautiful models and everything looks great. And, you know, when a young analyst gives me a model which I couldn't do in a million years, I say -- and jokingly in a nice way -- the only thing I know about your model for sure is that it's wrong.

Alison Mass: Right.

Jeff Aronson: And as I think about it now, I never asked myself once what's the probability of hiring 30 A-plus people in a row? I never thought about it. The probability of that is --

Alison Mass: Zero, right. Right.

Jeff Aronson: -- zero. Zero. And so what happened, we brought in -- again, it's a startup, so I also know why people don't invest in first-time funds because it's hard. It's hard to build an organization that's cohesive with a culture and communicative and collaborative and all those good things.

We hired people and sometimes it's like investing. Sometimes you just, you get that twitch. You know. You know it's not right. And Mark and I, we had that twitch with certain people. We didn't do anything about it.

Alison Mass: So you would have taken action sooner.

Jeff Aronson: Yeah, we let it go. And that was a mistake, and we made some mistakes as a result. So for me, that was the biggest learning is, you know, don't -- again, you have to look at the world and you have to look at people as well dispassionately. The fact that they're people is, on the one hand, hard. You develop relationships. But we have a business to run, and you can't forget that.

Alison Mass: Right. And I always say in the medium term, you're doing them a favor, too, because they belong in a place where they're well suited so they can flourish.

Jeff Aronson: Yeah, I think with people, you almost have to, in terms of decision making, you have to be ruthless. But in terms of carrying it out, you have to be empathetic.

Alison Mass: Yep. I would agree with that. So today, is there a specific profile for people that you hire at Centerbridge? And, or are there specific attributes you look for? And how has that changed in the recent last 10 years?

Jeff Aronson: I mean, attributes, it's the same thing that, you know, that you folks look for. You know, people who are smart and hard working and driven. I want people who are curious, really intellectually curious. I think great investors would also be great investigative journalists. So you're always looking and looking under a rock and asking a question and you have to be a great listener. And then posing the question a different way and see what types of answers you get, people who are contrarian.

So again, I don't really interview young people anymore, but I used to do it this way. So pretend I'm interviewing you.

Alison Mass: Okay.

Jeff Aronson: So Alison, do you have a lot of friends in the buy side?

Alison Mass: Yes, I do.

Jeff Aronson: Great, great. Do you compare notes with them a lot?

Alison Mass: Yes, I do.

Jeff Aronson: Exactly, right? Now, what I'm saying in my inflection is I'm trying to encourage you to say yes. I want someone on comparing notes, "No, I do my own work." So I'm trying to look for people who -- and not many people, if you're being interviewed by me, are going -- because you heard the inflection in my voice and what I'm trying to encourage -- who will have the gumption to say --

Alison Mass: No, no I have my own mind. I make my own decisions.

Jeff Aronson: So things like that.

Alison Mass: So basically you wouldn't hire me now.

Jeff Aronson: Well, of course I'd hire you. But it’s because the way we operate the firm is a bit differently. So we have three strategies. We have private equity, private credit, and real estate. The standard operating model for firms -- and you know this incredibly well -- you have different investment teams. And again, hearkening back to my original experience with Mark where we partnered with Blackstone and it was the same people, we took a different approach.

We said, for example, if you're going to invest in financial services at Centerbridge, you're going to invest up and down the cap stack within financial services as opposed to having one team of investors focus on private equity financial services investments and a completely different set of people focus on private credit financial services investments. We said just do both. Just do both.

The result of that is the people who want to join us, young people, it's self-selecting. It's people who are --

Alison Mass: Intellectually curious about financial services.

Jeff Aronson: -- intellectually curious, but it's not someone, "I only want to do private equity," or, "I only want to do private credit." It's someone who wants to do both.

Alison Mass: And are the incentives aligned to --

Jeff Aronson: Yes, that was critical because you didn't want to get into, you know, "Don't copy my homework." So.

Alison Mass: Right. And, "This is my fund and I only have carry in this --" yeah.

Jeff Aronson: So we spread it, I mean, really really broadly. And it's easy to say that. But if only 5% of the economics are allocated to a different team, are you really aligned? No. It's substantial.

Alison Mass: That's great. So you opened a second office in London in 2011. Tell us about that decision because I know it was a consequential one for you and for the firm.

Jeff Aronson: Yep. We had always invested in Europe. Mark had at Blackstone. I had at Angelo Gordon. And even when we started Centerbridge we had invested in Europe. I think to be able to invest in another jurisdiction, you need people on the ground. You just can't do it from Park Avenue in New York City. That will be a mistake.

And so we did that but, again, I think our eyes were bigger than our stomach. So it's like all the mistakes that you would look for, we -- fancy office in Mayfair? Check. Hire a bunch of people quickly? Check. Raise a lot of money?

Check. And, you know, that was the same thing. We were almost a victim of our own success, and we made some mistakes.

Now, what did we do? We, like, stop, stop, stop. And we had to really look hard at the portfolio. We looked hard at the people. We made some difficult changes, and it was the right decision.

Alison Mass: Those are all growing pains of building a business.

Jeff Aronson: Yep. You have to learn it by doing it, though. It's hard to learn the book.

Alison Mass: Yes, absolutely. We always say that. It's hard to learn deal execution, I tell the young bankers at Goldman, by watching the person next to you work on a deal.

Jeff Aronson: You got to do it.

Alison Mass: You've got to do it yourself. So over the course of your career, is there one particular investment that you can point to that you're particularly proud of or that was pivotal for you as an investor? And tell us about that deal and the story.

Jeff Aronson: I would say less pivotal for me and more pivotal for our firm and even what I'll call the private credit industry. So this was an investment in a finance company called CIT, which you'll probably remember. And it was around the time of the GFC.

Alison Mass: The CIT Financial --

Jeff Aronson: The financial company. And Goldman was a very large investor in this situation. And you know, the world was ending and CIT was basically, it was a non-bank bank. They didn't have deposits. They financed themselves through the markets, issuing notes and things like that, and everything dried up. But they had ongoing maturities, so they were in trouble. But they had a book of loans which were, like, really -- you know, they were excellent. They were principally an asset-based lender. They were lending on inventory and receivables as opposed to enterprise value. So the loans were -- the assets themselves were bulletproof, but the capital structure was just, like, off.

And a lot of investors, you know, including ourselves, we were loading up on the bonds as much as we could do. And again, that was in the secondary market, and we're buying something at 60 because we thought it was worth 100. That kind of old-school way of doing it.

Up to that point, people in my world, in the private credit world -- and this is probably 2009 -- it was rare that we did a primary financing. And if we did, we often did it to protect our existing position in a different part of the capital structure, to play defense or maybe to enhance it. But that loan in and of itself wasn't really to make a lot of money. It was more to prevent someone from doing something bad to us or enhancing our position.

And what happened in CIT -- and I think it was the first time it was done -- it was an enormous debtor-in-possession financing. It was -- I think it was three or four billion dollars. And it in and of itself was hugely lucrative. And not just because of the spread, because of what we designed with make wholes and call protection and things like that. That when CIT worked itself out and we converted debt to equity and it was a great home run, but that DIP loan also became a huge profit generator for us and the other participants in it.

And I think it was a moment that everyone, "Whoa! Maybe there's another way to make money in these restructurings rather than the old-fashioned way of buying a bond in the market at 70 cents and hoping it's worth par. Maybe we can proactively originate a new loan at 100 but, through bells and whistles and structure, turn that into really profitable unto itself." So it was like a sea change in the industry.

Alison Mass: So for our listeners, explain what a DIP loan is.

Jeff Aronson: Sure. A DIP loan is --

Alison Mass: You mentioned debtor-in-possession.

Jeff Aronson: Debtor-in-possession. So it's a loan to a company which is in a Chapter 11 proceeding, in a bankruptcy proceeding. And the virtue of a DIP, debtor-in-possession loan, it gets paid before anyone. So what's the common problem with a restructuring? There's never enough to go around. That's why it's a restructuring. It's pretty simple. And so it's a limited pie. For that DIP loan provider, that lender gets paid before anyone.

So historically, the spread on that loan was tight because it was very low risk because you were the first in the waterfall.

Alison Mass: Very secure, right.

Jeff Aronson: But what we saw with CIT was it was wide, and it became wider through a lot of structural enhancements. So it became -- rather than using a DIP loan to protect yourself, it became an offensive tool as well.

Alison Mass: Yeah, that's an interesting part of financial history. So I'd also like to ask you about another investment that Centerbridge made with Bloomberg and with Goldman Sachs in a program to train, mentor, and hire students for careers in the financial sector. Tell us more about that and your involvement in City University of New York, known as CUNY, and why you specifically describe the 11 schools that are part of CUNY's network as incredible undiscovered jewels right in our backyard.

Jeff Aronson: Right, yeah, that is true. So we, like all firms, we're always looking for talent, okay? And we talked about this earlier. Young, hard working, driven. And we all recruit from the same places. You know, I joke with people I couldn't get a job at my own firm, you know?

Alison Mass: None of us could. None of us could.

Jeff Aronson: I didn't go to an Ivy League school. I didn't graduate Phi Beta Kappa. I don't speak six languages. I didn't discover the cure for cancer when I was nine years old.

Alison Mass: You weren't an Olympian.

Jeff Aronson: Yeah, I didn't do any of that stuff. So we're all scrambling and tripping over ourselves, looking for the same people. And I thought about it, and we had done -- my wife and I had done some private philanthropy with City University.

So City University of New York, CUNY, is the largest urban university in the United States. There are 275,000 students there. When I tell people that, it's like --

Alison Mass: Yeah, I did not know that.

Jeff Aronson: -- that's a mind-boggling number. Huge. And a huge engine of social mobility here in New York City. And I met some of these kids, and they were smart and they were hard working. But you know what else they had? They had grit. There was no Millennial stuff.

Alison Mass: No entitlement.

Jeff Aronson: Zero. They had grit. Most of them worked their way through school. And so we started hiring them. And all they wanted, it reminded me a little like when I started. "I just want a chance. Give me a chance."

And we started hiring these kids, and they were great. And so this is before COVID. And I said, you know, there's got to be something to do here because the financial services industry, which is the biggest economic driver of New York City, is always -- we're all falling all over ourselves. Small firms, medium-sized firms, giant firms, looking for talent.

In the meantime, there's this huge pool of talent right in our own backyard.

Alison Mass: Right here.

Jeff Aronson: The undiscovered jewel that no one's thinking about. Now, the problem is you've got all these students, you've got employers on the other side, all right? How do you create that bridge? How do you get rid of all the gunk at CUNY and bureaucracy and things like that?

And so I called John Waldron, president of Goldman. I called Mike Bloomberg. And I said, "I have an idea." Why don't we all invest in CUNY and we -- ultimately, the three firms, we collectively invested millions of dollars in CUNY to build out the infrastructure, to build the bridge to take these kids who just want a chance and build a bridge to get them a great job. And it doesn't have to be a job as a banker or as investor. There's so many great, well-paying jobs in our industry. Like, tens and tens of thousands.

And so we started it, and it's been a great success and it's been a huge win for these students. It's been great for New York City. And it's been smart business.

Alison Mass: Yep.

Jeff Aronson: It's been good business, if not philanthropy.

Alison Mass: Hire really talented people, yeah. What year did you do this?

Jeff Aronson: Gosh, I think we started in 2019. And we've kept it going, and we've opened it up to competitors.

Alison Mass: That's phenomenal.

Jeff Aronson: Yeah, it's been a good thing.

Alison Mass: Yeah, well, that's a smart thing to do.

Jeff Aronson: Yeah, and that's why I wanted Goldman as, like, representing a gigantic financial institution, and Bloomberg, which wasn't a finance institution but just integral to our network, so to speak. So it's been terrific.

Alison Mass: So let me ask you a little bit about the current environment. Across all of the types of assets and different structures that Centerbridge invests in, where are the biggest opportunities today?

Jeff Aronson: Yeah. I think, you know, this is going to sound like a cliché but in today's world, particularly in the alternatives world, you want to be a solution provider because people -- you know, and you read about this in media. There's lack of liquidity and lack of transactions and things like that.

And why is that? I mean, in the private equity world, a lot of deals were done a few years ago. The rate environment was different. Everything was different. And how do you exit those? Similar dynamic in the real estate world. So how can you help free things up? How can you create liquidity? Particularly because owners of assets want to sell at the old price. Buyers of assets want to buy at the new price.

Alison Mass: Yep.

Jeff Aronson: So this notion of being a solution provider -- and I think about it both from a private equity, private credit, and real estate perspective is what we've been focused on. In private equity, we're trying to do what we call structured equity transactions, where we'll inject equity into a business, a business that we believe in, you know, at a good price, not a crazy price. We're not trying to -- you know, it's not a bottom fishing exercise. At a good price for the sponsor. It creates capital for the sponsor to reinvest.

What do we get? We don't get control, but we get some semblance of governance. And what we also get is some type of seniority vis-à-vis the original equity provider. But from the original equity provider's perspective, that seniority is sleeves off their vest because it's not a troubled company. So they ask themselves, "What's the likelihood that Centerbridge, for example, is ever going to have to avail themselves of that structural protection?" It's nil. And I think we've been doing structured equity since we started the firm. So in nearly 20 years -- and we've done dozens of deals in structured equity -- we've availed ourselves of that structural protection exactly once.

Alison Mass: Wow.

Jeff Aronson: Many, many years ago. So that's been a good strategy today. Related to that is, like, a hybrid strategy, which is something that we're thinking a lot about. That maybe it's not structured equity per se. Maybe there's no governance. But it's neither credit either. You know, maybe there's no maturity or something like that. So I think some type of hybrid strategy is something that we're working hard on, on developing it because there's also -- there's not a lot of capital in that space. There is an amount of capital in the buyout world, an enormous amount of capital in the private credit direct lending world. There's not a lot of capital or investors, for that matter, in the middle. There are a handful but not a lot. So that's one thing we're thinking about.

In our opportunistic credit business, again, this notion of lending. So maybe we go to the sponsor, which is looking for liquidity, but they don't want to part with equity, it's too expensive. We'll make them a loan. And while that loan necessarily won't be cheap per se because it's often some type of unusual situation, there's some complexity associated with it, it's far cheaper than selling equity.

Same thing real estate. I think real estate credit is an interesting space.

And the last thing we're doing, again, also in credit, is from a lending perspective, trying to lend to companies which are not owned by private equity sponsors, which are most companies in the United States trying to penetrate that market. Because if you look at direct lending specifically -- and you know this better than anyone -- the vast majority of direct lending capital is devoted to financing sponsored buyouts.

Alison Mass: Right.

Jeff Aronson: But that's only a very small percentage of companies in the United States. How about penetrating the rest? So we're trying to look for areas which are not well trodden, where there's less competition, and we can do something different.

Alison Mass: No, that's smart. So how do you originate the non-sponsor business?

Jeff Aronson: So we have a partnership with Wells

Fargo.

Alison Mass: Ah, okay.

Jeff Aronson: And so we are their exclusive direct lending provider for their middle market businesses. You know, the family-owned business in Cleveland that has nothing to do with Wall Street, nothing to do with our world, but they're looking for some financing that a traditional bank is just not willing to provide because regulatory, it's a non-pass credit, and things like that. But it's very interesting looking for those companies. When you deal with them --

So as a sponsor, we want to borrow as much as we can prudently because we're trying to enhance our equity IRR.

Alison Mass: Right.

Jeff Aronson: If you're a family-owned business, there's no equity IRR. They're not selling their company. They want to borrow as little as they can. So we find that to be a pretty interesting niche.

Alison Mass: Yeah, but that's smart. So they have the sales force and you have the product and --

Jeff Aronson: And we have the capital and --

Alison Mass: -- solutions. Yeah.

Jeff Aronson: -- and the underwriting capability.

Alison Mass: That's great. So you've been involved in a lot of restructurings over your career. What do you find the most rewarding about helping companies or organizations through difficult times?

Jeff Aronson: That's a good question. I find a lot of people in the restructuring business tend to be pretty aggressive, you know?

Alison Mass: You said that earlier, and you're 100% right.

Jeff Aronson: Tend to be pretty aggressive, and I'm not like that. I mean, I'm not a wallflower. If you're a wallflower in this business, you're going to be run over. But I always leave the last nickel on the table. Always.

Alison Mass: That's a good long-term strategy.

Jeff Aronson: Yeah. It's just smart. It's smart to do.

Alison Mass: Because people want to come back and do business with you again.

Jeff Aronson: Exactly. It's also, it's, like, it's fine. It's, like, there's -- we'll make it work. So the other thing I think about in dealing with these companies -- and again, I think this is -- I've become much more sensitized to this since we started Centerbridge than at my previous career where I was just doing credit.

I think the beauty of our firm is that we deeply understand the businesses that we lend to or that we buy the credit of. So if you think about credit investors, you think about a company's balance sheet, you know, the T, credit investors, I said this earlier, their alpha is on the right-hand side. Credit investors -- and I deeply believe this -- they just don't understand the operations of a business, how a business operates, how to grow it, how to value it, how to evaluate management as well as a private equity investor, which is logical because they don't own companies.

Alison Mass: Right, and they're managing for the downside, not the upside.

Jeff Aronson: Right. It's completely different. And the fact -- I've been doing private equity for 20 years. I have a much finer appreciation of how businesses work, and it's about the people. And I think credit investors, it's almost like the people at the company, it's almost an abstraction. It's like, I'm looking at the balance sheet. How am I going to WACC this up and do this?

First, it's more interesting when you get into the company. You get to understand it and the people. But you also have an appreciation that people are working there, so you have to be mindful of that as opposed to, you know, [SLAPPING NOISES] like this on everything.

Alison Mass: Yeah. So I want to ask about the landscape for the asset management business in general. And I know you've said that Centerbridge has morphed your strategy along with the markets. But if you were starting it today, do you think it would be similar to the firm you cofounded? And talk a little bit about what has driven the evolution in Centerbridge over the last 20 years?

Jeff Aronson: So when we started, we had two strategies. We had private equity and opportunistic credit.

Alison Mass: So no real estate.

Jeff Aronson: No real estate. But we were investing in real estate from day one, but we didn't raise a dedicated real estate fund until 2018. So if there was a real estate investment and it had a private equity bent, it went into the private equity fund. Conversely, credit went into the credit fund.

I think it's hard to start a multi-strategy firm from scratch these days. I mean, I think it's possible, but I think it's really hard.

Alison Mass: I agree with you.

Jeff Aronson: I also think the business has changed. I mean, I think about the alternatives business, and I've been in it since the 1980s. It has -- I mean, it's just an absolute sea change. And one of the learnings along the way at Centerbridge -- so for years, Mark and I, "Why should we grow? This is a great thing!" You know, our investors are happy, we're happy, it's profitable, it's all good.

And it was a few years ago we realized, you know what, we really have to grow because the industry is changing. And you also have to give -- I think part of this was also getting older -- have to give opportunities for younger people.

Alison Mass: Yeah, for the next gen.

Jeff Aronson: Who want that chance to spread their wings and so to speak. So, you know, we've made a lot of changes over the last five years. We've gotten into different businesses, and we've grown as a result of that. And I will tell you, as much as I love investing and I love investing, it's like doing puzzles, growing and building is equally rewarding. And I don't mean financially. Just, like, intellectually.

Alison Mass: Yep. Well, I mean, I want to talk a little bit about your leadership style. And you said that you started

Centerbridge because you really wanted to be driving the bus. But if I had your senior executive management team sitting here with us today and I asked them to describe your leadership style, what would they say?

Jeff Aronson: Well, would I be sitting here when they asked it? When you asked the question?

Alison Mass: How about no? How about no?

Jeff Aronson: I think they would say I'm a pretty even-keeled person. Because my background was in markets, you know, I prize optionality. So I will tend to wait and observe. I think they would say I'm a really good listener. You know, I usually speak last at meetings because I know if I speak people will tend to gravitate towards my point of view.

Alison Mass: Yep.

Jeff Aronson: And I think they would also say I'm good at compartmentalizing.

Alison Mass: So tell me more about that.

Jeff Aronson: So I am -- and again, I think maybe having a trading background in the '80s and '90s has helped me. Not everything works.

Alison Mass: Right.

Jeff Aronson: And I'm not a yeller. I never raise my voice or anything like that. The only thing -- only time I will get agitated is when people do the "should have, would have, could have" game. Second guessing. Monday morning quarterbacking. And I tell people, because it's true, I'm the oldest person at my firm. I have the longest list of mistakes. People make mistakes. And if you're a professional, if you make a mistake, you have to learn from it. But you don't need anyone saying, "Well, I would have done that," or, "You should have done that," or, "You could have done that," because I find that is just culturally corrosive, and I have no tolerance for it.

And unfortunately, I think it's widespread on Wall Street generally because there are a lot of ambitious, aggressive people, and I just have no patience for that. So I'm able to compartmentalize a loss. We have a bad investment, and

I'm saying, it doesn't matter. The money's gone.

Alison Mass: We made the decision with the information we had at the moment.

Jeff Aronson: Right, right.

Alison Mass: We move on.

Jeff Aronson: Bob Rubin, who I love to quote, he once said, "Never judge a decision by its outcome." You make a decision --

Alison Mass: It's a good quote.

Jeff Aronson: And I will do this with young people. So when young people join us and maybe I'll do a lunch and I'll offer a hypothetical. So here's a hypothetical in an investment. You can invest $100. There is a four out of five chance you're going to double your money. One out of five, you get a zero. You make the investment. You get a zero. Good decision or bad decision?

Now, the right answer is it was a good decision, okay? But sometimes young people say, "Well, it was a bad decision. You lost all your money." So that's what I mean by compartmentalizing. I don't get emotional about stuff at all.

Alison Mass: Right. Well, that's smart. So we're at a moment in time where the industry is handing the reins to the next generation of leadership. And, you know, you talked about making room for the next gen.

Jeff Aronson: Yep.

Alison Mass: How are you thinking about management succession at Centerbridge?

Jeff Aronson: So it was something that Mark and I talked about day one. So when we started the firm, we left the firm because we both wanted a chance, as I said, to drive the bus. And we said that when we're ready to step back, that we were going to afford that opportunity to someone else.

So Mark retired December of 2020. We telegraphed that years in advance to our clients. So it became a running joke when he left, it was like, "Finally! All right, enough already!" And it was incredibly smooth, both internally, externally with two constituents, our counterparties like Goldman, and our clients. So it was utterly seamless. There was no drama. There was no -- nothing like that.

At that time -- so this was now four and a half years ago -- I told people -- because I know what's on everyone's mind -- well, what about me?

Alison Mass: Right.

Jeff Aronson: What about me? And I told people that I'm going to do this for another five to 10 years, and that's that. If I had to put a number on it, somewhere in the middle. I wasn't going to do a rolling 5-year thing that it's five years from whenever I speak. And earlier this year, I wrote a letter to our clients that one of my younger colleagues, Matt Kabaker, who you know.

Alison Mass: Yep.

Jeff Aronson: My plan is that when I step back, Matt is going to be the next managing partner of the firm.

Alison Mass: That's great.

Jeff Aronson: And I feel great about it. I didn't want to be one of those people hanging around. I just -- it's just not me. And we have a long runway and everyone knows it's coming. Again, there's no drama. There's no nothing. And it's smooth.

And we studied a lot of these transitions, and I think they're hard. And I understand why they're hard because, particularly as a founder, the firm becomes part of you.

Alison Mass: Yeah, it's like your child.

Jeff Aronson: Yeah. But I just think it's the right thing for the firm and for our clients for our people. So I feel great about it.

Alison Mass: You should. And, you know, you said you studied a lot of the other leadership transitions that you've observed in your industry.

Jeff Aronson: Some go well. Some not so well.

Alison Mass: Are there any best practices other than --

Jeff Aronson: Communication.

Alison Mass: Communicate. Yeah, communication.

Jeff Aronson: You've got to be transparent because everyone wants to know. And by not talking about it, you're talking about it.

Alison Mass: Right.

Jeff Aronson: It's just --

Alison Mass: But communication, I mean, that's such a broad topic because I always say internally every issue we've ever had with a client is because of a lack of communication or less than transparent communication.

Jeff Aronson: Just tell people.

Alison Mass: Correct.

Jeff Aronson: And it's fine.

Alison Mass: Yep. So let's talk about outside of the office. You have a deep and longstanding involvement with your alma mater. You were Chair of the Hopkins Board of Trustees. And you've also served on the board of the NYU School of Law. So why has education been such a focus for you?

Jeff Aronson: So my dad was an educator. My dad started off as a high school gym teacher, and then he went to State University of Massachusetts where he taught Physical Education and was a coach. So I always understood the value of education. And I went to Johns Hopkins because I got a big scholarship, and I couldn't have afforded to have gone otherwise. And the same thing at NYU. And it sounds corny, but I really believe in giving back. And it sounds equally corny, this is a great country. For all the stuff going on, this is a great country.

I think about myself. It's like Horatio Alger. Like, American dream. It's like look what we did. And so I really deeply feel this obligation to give back, particularly to work in this field, really fortunate, you know?

Alison Mass: Yes, very fortunate.

Jeff Aronson: You can create a lot of wealth. You know, giving it out is as much fun as making it. And so regarding Hopkins, you know, it's kind of, again, who I am. And I've been a longtime volunteer. And I've been on the board of trustees for a thousand years. I used to chair the board. And two of our children went there. It's been a big part of my life. And to help others, it's a privilege.

Alison Mass: All right. So we like to end these sessions with a lightning round.

Jeff Aronson: Okay.

Alison Mass: So we're going to run through a couple of questions, just get a quick answer. Could be one word. Could be a few more.

Jeff Aronson: Okay.

Alison Mass: So let's start. So what was your very first investment?

Jeff Aronson: Resorts International, a casino in Atlantic City -- oh, you're laughing -- owned by Merv Griffin. It was a Drexel deal. It wasn't the prettiest deal in the world and, again, a bunch of characters. Carl Icahn was in it. Wilbur Ross was in it. So a lot of colorful people.

Alison Mass: Yes, a lot of characters.

Jeff Aronson: And I still have an old Resorts International casino chip.

Alison Mass: That's funny.

Jeff Aronson: A souvenir.

Alison Mass: In your office? Yeah. All right, so what would you say is your greatest strength as an investor? I mean, you mentioned earlier but -

Jeff Aronson: I, well its kind of what I mentioned earlier. I think I'm a really good listener and I am very even keeled.

Alison Mass: All right. So which investor do you admire most?

Jeff Aronson: It has to be Warren Buffet.

Alison Mass: Fan favorite.

Jeff Aronson: Yep.

Alison Mass: Who have been your greatest mentors? You mentioned a couple.

Jeff Aronson: You know, from a business perspective, it was John Angelo and Michael Gordon, you know, by far. They gave me a chance, and then they let me run with the ball.

Alison Mass: And where do you spend your time outside of the office other than your philanthropy?

Jeff Aronson: On the ski slopes with you.

Alison Mass: Yes, exactly.

Jeff Aronson: We have a growing family here in New

York City, so I take, my wife and I, we take immense, immense pleasure in that. And we like the outdoors. We like the outdoors.

Alison Mass: So finally, what are you most excited about in the world right now?

Jeff Aronson: Putting aside the personal stuff of my ever-expanding family?

Alison Mass: Yeah.

Jeff Aronson: I would say it's what we just talked about. And thinking about it from a business perspective, what's happening in our neck of the woods, in the alternatives space? It is changing so, so rapidly, and I can't wait to see what the next few years are going to be bringing. It's just going to be way different than what people expect. And I think it’s --

Alison Mass: It's exciting.

Jeff Aronson: It's exciting to be part of it.

Alison Mass: Well, Jeff, thank you so much for joining me on the podcast.

Jeff Aronson: And I was happy to be here. It was a fun conversation.

Alison Mass: So thank you all for listening to this episode of Goldman Sachs Exchanges, Great Investors, which was recorded on July 16th, 2025.

I'm Alison Mass. And if you enjoyed this episode, we hope you'll follow us on Apple Podcasts, Spotify, or YouTube, or wherever you listen to your podcasts, and leave us a rating and a comment.

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