

Invest: Philadelphia 6th Annual Leadership Summit Interview with Eric Green



Eric Green, Chief Investment Officer – Senior Portfolio Manager, Senior Partner, Penn Capital Management

Invest: spoke with Eric Green about the shifting dynamics shaping small- and mid-cap investing, including policy changes, interest-rate movements, and a renewed appetite for the asset class. “I cannot stress enough that we have a competitive advantage by looking at the whole capital structure, and that’s allowed us to perform over the long haul,” said Green, on their competitive advantage.

What changes in the broader economic environment over the past year have had the biggest impact at Penn Capital?

The economic environment has been heavily influenced by policy shifts — tax legislation, tariff strategy, and a more deregulatory framework. For the small-cap universe specifically, deregulation can be a major tailwind because reduced compliance costs directly benefit earnings and reinvestment ability. The move lower in interest rates has also been significant, improving balance-sheet flexibility for the companies we follow and strengthening the backdrop for both financing and growth.

How would you describe the current environment for small and mid-cap companies, and how has it influenced the opportunities you’re tracking?

Small caps have substantially underperformed large caps for more than a decade, which aligns with historic cycles where leadership alternates every eight to 15 years. We believe the next cycle is shifting in favor of small caps. Several factors are lining up: tax policy is relatively more favorable for smaller businesses, the current tariff structure is less punitive for them than for larger global companies, and rate cuts are occurring alongside stable economic growth. At the same time, small caps now trade at a roughly 20% to 25% discount relative to large caps — the opposite of historical norms. We believe that valuation gap, paired with increasing M&A activity and a supportive credit backdrop, creates compelling opportunity potential.

How are you thinking about the balance between credit and equity in today’s market? Are there situations where one offers a better risk-reward profile?

At Penn Capital, we analyze the entire capital structure — from bank debt to bonds, convertibles, preferreds and ultimately equity. Credit always comes first in our process. Right now, credit conditions are signaling a green light for equities. The high-yield market is notably healthy: spreads are low, default rates are near historical lows and maturities are well below long-term averages. Typically around 30% of the high-yield market matures within two years; today it’s about 9%. Lower near-term maturities reduce refinancing risk and help keep spreads stable. That supportive credit backdrop is especially positive for small caps.

What are you seeing in terms of investor appetite for growth versus value in the small-cap space, and how has that shaped your portfolios?

We see a fairly balanced appetite between growth and value. We benchmark to a core index and maintain exposure to both styles. The real shift has been renewed interest in the small-cap asset class overall. After years of large-cap dominance, many institutions and individuals became underweight small caps, and they’re now looking to rebalance. At the same time, some investors are

reassessing illiquid private equity and private credit exposures, where certain deals haven't matured as expected. They're seeking liquid opportunities with genuine value — and small caps offer that. This is the strongest interest we've seen in about a decade.

You emphasize discipline around strategy capacity. How does that protect client performance and guide your culture?

Capacity limits are fundamental to preserving performance. In asset classes like small cap and high yield, allowing assets to grow too large forces managers to move up the market-cap spectrum or hold hundreds of positions simply to stay nimble. We avoid that.

We're intentionally more concentrated and committed to keeping our strategies at a manageable size so we can continue to operate in the true small-cap universe. Our goal isn't growth for growth's sake — we would rather be a \$5 billion firm with strong performance than a \$20 billion firm that's compromised its process.

We want the first investor and the last investor in our strategies to have access to the same opportunity set. That discipline has always been part of our culture, and in the past we've closed strategies when we reached capacity.

Do you see any lasting changes in how companies in your space raise capital or manage their balance sheets?

Most public companies continue to rely on the high-yield market, which remains healthy. The area of greater concern is private credit. Smaller companies are increasingly turning to private credit deals because spreads in the traditional high-yield market are tight. But private credit often involves higher risk, higher rates and less liquidity, and we've already seen recent blow-ups in that space. By contrast, the public high-yield market offers deeper liquidity and a broader investor base. We prefer to see companies raise capital there, and today we aren't seeing any issues with accessing that market.

What are your top priorities for the firm over the next three to five years?

We've built a highly experienced team — many of whom have been with us for more than 15 years — and our majority owner, Seaport Global, has expanded our marketing and distribution capabilities. With strong long-term performance, solid financial backing and a stable team, our priority is to grow thoughtfully. I've set a capital-raising objective over the next two years, while maintaining a defined capacity framework designed to support the consistent execution of our investment strategy.

Is there anything you'd like to add that we may not have covered?

We're a Philadelphia-centric firm and proud to be part of the region's investment community. We encourage people to come visit us — we'll be moving from the Navy Yard to Schuylkill Yards in April 2026. Ultimately, what differentiates us most is our integrated credit-to-equity approach. We start with the bonds and move to the equity only when the fundamentals justify it. We firmly believe that we have a competitive advantage by evaluating the whole capital structure, and that's allowed us to perform over the long haul. With what we believe is the beginning of a new small-cap cycle, we see meaningful opportunity for attractive performance in the years ahead.

Important Disclosures:

The contents of this interview have been modified for press release.

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