EUROPE TO REMAIN CHENAVARI'S SPECIALTY

Loïc Fery, CEO & co-CIO of the $5.5bn manager, sets out where he is spotting growth opportunities across the continent

BY JASMIN LEITNER

"Our business model is not about asset-gathering, it's about high performance delivery to our LPs," says Loïc Fery, CEO & co-CIO of Chenavari Investment Managers, a credit, structured finance and private debt-focused alternative manager about to start its 10th year of operations.

"We're not fans of huge multi-billion-dollar funds," he continues. For someone unfamiliar with the firm, this might be hard to believe, given the Luxembourg-headquartered firm has some $5.5bn under management.

That AuM isn't sat in one flagship multi-asset product, however, but divided across a range of funds, managed accounts and securitised vehicles spanning the credit spectrum from liquid to illiquid investments. They range from trading asset-backed securities, financial subordinated debt such as Cocos, to investing long term in the debt financing needs of European private borrowers.

Several of Chenavari's products have capacity capped well below $1bn, with the firm preferring to raise and deploy capital across a niche opportunity set to maximise investors' returns. This is also a way of offering customised investment solutions to pension funds, which account for the vast majority of the firm's investors, Fery says.

The European specialist is getting ready to launch a new private debt fund, which will specifically target European specialty finance opportunities.

"In the private debt space, we have always been opportunistic and shifted our focus where we see attractive value: today we favour secured specialty finance over direct lending to corporates where risk/return metrics are deteriorating" Fery explains.

He adds that they expect demand to outweigh their overall $700m asset target, with a first close of around $200m slated for April, followed by a second close in the summer.

BUILDING UP EXPERTISE

As anyone in finance knows, markets are cyclical, and Chenavari's approach to private debt has been built up over several years in a similar fashion, starting in real estate and SME lending in 2010 and now focused on areas such as receivables financing, equipment leasing and asset-based finance, Fery explains.

"The private debt approach has been a cycle for us. We started with real estate private loans and today Chenavari is a major actor in the space with a very mature business. We started there because it was the area that banks were starting to slow down on," he says, adding that they then moved to focus more on direct corporate lending.

Unsecured mid-market lending is an area they are less involved in today as valuations are not as attractive compared to three years ago. "We used to lend to mid-market corporates at low double digits with three times net debt EBITDA leverage, but today there is tens of billions of capital chasing opportunities at mid-single digit returns with a much higher leverage ratio. This is not for us."

The areas of private debt Chenavari is now focused on can be divided into three categories: secured specialty corporate, such as receivable financing or equipment leasing, consumer finance, and real asset finance, where the debt is backed by collateral such as ships, rail cars or other logistics material.

Purchasing consumer loans, or debt backed by assets, is not for everyone, Fery argues, as these types of investments require significant collaboration with servicers,

CROSS-SELLING AND DIVERSIFICATION

Having a deep product range can be a blessing and a curse. Firms that don't think strategically about diversifying their product range can risk spreading themselves too thinly or worse, launching something that isn't successful.

"If something goes wrong, your LPs really blame you so we don't take it lightly when we start a new product," Fery says.

He stresses that diversification in itself is not a goal for Chenavari, and that often, they have launched carve-outs and sub-strategies because of investor requests.

The specialty finance fund being launched in April has been structured with their insurance clients in mind, for example.

Solvency II rules, first agreed in 2014, have introduced market risk calculations and capital charges for insurers based on asset type, risk evaluation and transparency, which can see hedge fund allocations hit with capital ratios of up to 49%, meaning that for every $1 held in hedge funds, another $0.49 has to be kept in reserve.

Chenavari's Luxembourg-domiciled specialty finance fund will aim to deliver high single-digit net returns with a low single-digit solvency cost ratio. Fery says they worked with auditors to ensure that the fund is also optimised from an SCR standpoint.

originators and banks.

Chenavari has built a long-standing track record with several partners, he says, citing the example of two consumer loan originating and servicing businesses Chenavari acquired in Belgium and the Netherlands in 2013, which employ over 500 people and originate nearly €500m ($530m) worth of loans annually at an average yield close to 10%.

"Those businesses are not start-ups, they have been operating for 20 years with proven underwriting and servicing capabilities, so we get the comfort from that."

Private debt is particularly interesting in the broader context of a shifting European economy, according to Fery. "[It] is very much at the early stage of its revolution and you still have a very high proportion of the economy that is financed on bank balance sheets," he says, adding that a lot of that financing activity is now being shifted to alternative lenders or high-yield and debt capital markets. "A big part of what we do, being an alternative lender, is making that bridge between private and public markets."

He adds that Chenavari often works by buying whole loans, warehousing them on a two or three-year basis before securitising them, allowing their investors to benefit from all stages of the transformation.

"Our strategic originating and servicing partners operate in nine core European countries and are producing over €1bn ($1.1bn) of specialty finance loans each year, with a weighted average spread of around 9%, while the annualised cost of risk on these loans is below 1.5% on average. We feel there is a consistent and attractive pipeline in that market."

BANK DELEVERAGING

A continued focus for the firm, which will hit its ten-year milestone in May, is the deleveraging of bank balance sheets. "People say [the industry] has been talking about that for many years, but the growth of the disposal is exponential," Fery says.

While bank deleveraging has played out in some markets, such as the UK and Spain, Chenavari anticipates that opportunities will continue in other countries, such as Ireland and Italy. Although they have previously invested in non-performing debt, the firm is largely focused on performing loans at present, as the opportunity to transform whole loans into securities is greater there.

"This is even more attractive in a context where the quantitative easing programme of the European Central Bank is IRR accretive to our bank deleveraging investment strategies" says Fery. "We are a leading player in that space." He adds that Chenavari is currently deploying capital for a sequel fund.

That fund, Chenavari European Deleveraging Opportunities II, will close with around $400m at the end of this month, *HFMWeek* understands, with Chenavari considering raising another later this year.

EUROPEAN FOCUS

Although it has a research and investment office in Hong Kong as well as some marketing staff in New York, Chenavari is very much a Eurocentric firm in terms of investments and business operations. Fery says recent and upcoming political upheavals only strengthen their resolve to focus on Europe. On the investment front, the firm sees the potential volatility created by the continent's big elections this year as benefiting fundamental long/short strategies.

"Volatility is cheap at the moment, so we think Europe should be able to find its new cruise speed, and maybe there will be less people on the boat, but we feel that the core group of economies are really entrenched in the EU" he explains.

Financials, in particular, are offering relative value opportunities across the capital structure, with some 100-plus issuers in Europe, as do stressed and distressed corporates. Post-restructuring situations where credits have de-levered and have a lower probability of experiencing recurrent capital structure issues are compelling, Fery and co-founder Fréderic Couderc told investors in their annual outlook letter.

Asked if Chenavari would consider looking at other geographies, such as the US, Fery says that Eastern European economies make more sense, adding that further integration of former Eastern bloc economies into the EU would expand their trading remit.

"We see some people are opportunistic and shifting two or three people from New York to London. I think our LPs recognise that 120 people dedicated to Europe will be in a position to do a better job than three to 10 guys who have just been sent here."

Having sold a minority, strategic stake to Dyal Capital Partners in 2015, the firm also has marketing and distribution support in the US.

COMMITTING TO THE UK

Chenavari is not only a big believer in Europe, but also of the UK, and that has not changed, despite Brexit looming on the horizon. Fery is optimistic on the working rights of non-UK citizens and believes that Europeans working in financial services in particular should be able to weather the storm, given the importance of that sector to the UK economy.

Chenavari has recently signed an 11-year lease on brand new offices located in Victoria, in the heart of London's Westminster district. The firm's UK staff will move to their new 12,000 sq ft residence, which provides "ample flexibility to hire more people", at the end of this month.

Fery adds: "It's a good sign of the commitment and long-term ambition of the firm. At the same time, the group also expanded in Luxembourg, where our headquarters and our AIFM are located, also signing a new long-term lease there. Our job is to hedge, in case Brexit turns out to be a disaster, so it will be easy for us to transfer our UK operations there". ■