UK's Chenavari aims at €250m debt investment in UK, Europe

London-based hedge fund Chenavari, founded in 2007, aims to allocate €250m by year end to property debt. With $1.8bn AUM, it can enter different kinds of deals in UK and Europe, and has closed 16 investments to date, says a senior executive.

Andrew Haines, partner in Chenavari Investment Managers, told PIE in an interview that the firm's debt fund, Chenavari Real Estate Trading, targets returns upward of 15% IRR, and often enters deals where earnings are deferred in roll-up form. "The things that distinguishes us from other funds is we don't necessarily need current pay so we can take opportunities where we roll up our interest for the exit and do deals where we take a profit share," he said. "We're looking at one at the moment for instance where we get paid some current interest, some roll-up and then we split the profit on the back end."

Founded in 2007 by French ex-banker and football club president Loïc Féry, Chenavari focuses on debt or credit investment opportunities presented since the global financial crisis, especially targeting corporate credit strategies covering asset-backed, regulated capital structure finance and real estate. "Actually we can do the whole of continental Europe but we have a big bias to Germany, the UK and, to a lesser extent, France," Haines said. "Our history is very much the UK and Germany, and we think that both markets will weather the Euro crisis better than other countries, so those are the markets we're focused on." Chenavari has bought debt at discounts of 35% to 65% in the past, but he sees growing pressure on margins as more non-banks enter debt investment alongside traditional lenders.

Chenavari has a dedicated real estate fund and a multi-strategy fund that can invest in property debt in different ways. "We've got access to two pots of money, and about €250m is our target to deploy by the end of the year," he said. "We are more opportunistic in our approach… but we are debt driven so we don't own properties directly. As well as real estate debt, Chenavari has a corporate credit fund which is focused on high-yield instruments in that world. We have an ABS fund which invests in residential mortgage backed securities, CLO, CDOs, as well as CMBS. Then we have a regulatory capital fund which is helping banks reduce their higher risk exposure without actually having to sell loans, effectively offering them insurance against the mezzanine risk piece."

The firm is less active in core or senior segments. "We do offer senior debt against real estate, but we're not a senior debt fund," Haines added. "We can make mezzanine loans but we've probably got a lot more flexibility than many of the larger players because those guys have obviously raised money for a very specific window whereas we can be a lot more flexible and look at special situations. We can invest in the higher leverage end of the capital structure, and like turnaround assets."

Chenavari has done deals as low as £3m and last month was closing a new transaction for £13m backed by London residential assets. "We're much more focused on higher return, value-add, transactions," Haines said. "We're a lot more sponsor-led than bank-led, though we have purchased secondary debt from banks." The fund was on the list of bidders for a portfolio coming out of French bank Société Générale recently, and one from the Irish workout agency NAMA. But in general it assesses transactions on the basis of quality and upside, rather than size. "We're not really likely to go head to head with Blackstone and Cerberus," Haines said. "We're finding that there are a lot of opportunities either directly linked with the banks, but also led by the borrowers, including DPOs - borrowers buying back their own debt at a discount. Some of the borrowers are capital-constrained so we will finance them to purchase their loans too." ■ **pie**

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