Chenavari builds on stellar returns

Loïc Fery's boutique has established itself as one to watch in credit, managing two high-performing funds and developing a pipeline of new asset management initiatives


Loïc Fery

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In a three-year period that has seen many hedge fund firms wrestle with poor performance, stifled investor inflows and — in the case of some new start-ups — an inability to get off the ground at all, Loïc Fery's London-based credit outfit Chenavari has certainly risen to the challenge.

Established in 2007 as the financial sector was starting to go into a tailspin, the firm has launched two credit hedge funds successfully, both of which have gone on to post impressive returns. With close to $600 million under management, the firm is also branching out — taking on long-only mandates and developing a UCITS version of its flagship.

Fery is a well-known face and name in the credit space. Before setting up his own shop, he was Calyon's global head of credit markets. He had joined Crédit Agricole Investment Banking from Société Générale in 2001, with a mandate to build a credit trading and derivatives business from scratch, and established a 40-trader unit in two years.

After the merger with Crédit Lyonnais that created Calyon in 2003, Fery continued to build out the bank's credit offering to span most of the available trading capabilities in the credit space, including European credit prop trading activities. He managed around 250 people when, at the end of 2007, he left the firm and set up Chenavari Investment Managers.

Fery took with him two longstanding Calyon colleagues, Sofiane Gharred and Malek Meslemani, as chief risk officer and senior portfolio manager respectively. Also on board from day one were two well-known buy-side credit professionals.

One is Atif Malik, who was leading the European high-yield research team at BlackRock and who is now a partner in charge of high-yield research at Chenavari; the other is Demian Brasil, a former senior credit portfolio manager at Washington Square Investment Management and HSBC Asset Management with more than 12 years' experience in credit fund management.

Malik and Brasil both come from a fundamentals background, while Gharred and Meslemani are more concerned with risk management and technical trading. Fery believes this combination of talents gave Chenavari an early advantage over some of its competitors in the credit space.

"At the time, the landscape for credit management was such that 90% of asset managers were very fundamental, but they didn't capture the new technical elements of the credit market," he explains.

"The other 10% were exotic-focused guys, with little if any fundamental input in their investment strategy. Credit is a very technical market now, and my conviction was that combining fundamentals and technicals in a single book, with an elaborated set of risk management rules including tight stop losses, would allow us to perform."

Fery estimates that, at present, at least a third of flows in the credit market are driven by the exotic desks, so there is a real need for a combination of fundamental and technical expertise. "We're basing our investment decisions on fundamentals, but we're leveraging off the technicals that the exotics are bringing to the market," he says.

This concept formed the basis for the firm's flagship fund, the Chenavari Multi Strategy Credit Fund, which employs both fundamental and technical disciplines in one book. The strategy began life as a private account trading partner money, and debuted as a pooled fund in October 2008 after securing an investment of nearly $40 million from a London-based multi-manager.

The fund was launched at a difficult time. "It was a bumpy market," Fery recalls, adding that the flagship's early success was largely a result of the team's decision to maintain a market-neutral approach.

The Multi Strategy Credit Fund made 4.5% in the last three months of 2008 and went on to notch up another 33% last year. It did not record a monthly loss until May this year — when the majority of hedge funds came unstuck to some extent — and even then, it was down by only 68 basis points. June's 1% gain more than recouped that loss, and the fund's

to grow credit market platform

Flying start for Toro specialist European ABS vehicle

In recent months, one fund above all others in the credit space has merited a regular mention in *EuroHedge*'s performance reports – Toro Capital, the stressed and dislocation debt fund focused on European structured-finance securities.

Toro is the second and most recent addition to the Chenavari hedge fund stable, and has performed spectacularly since launching just over a year ago, in June 2009. It made 80% last year during the seven months it was active, and is up by another 55% so far in 2010. All told, this makes for an extraordinary annualised return of 158%.

Unlike some high-performing hedge funds, Toro's returns are not the result of a highly volatile track record that swings between massive gains one month and losses the next. Somewhat remarkably, the fund has not had a losing month since inception – despite beating a flattish EuroHedge Credit Index last month, Toro's solid 2.16% gain marks the fund's lowest monthly return to date (its highest was last August, when it made 18.63%).

ABS fund Toro is managed by portfolio manager Benoît Pellegrini, who joined Chenavari several months after the fledgling asset manager had opened its doors with the Multi Strategy Credit Fund.

He previously worked at Natixis in various roles, most recently spending six years managing multi-billion euro portfolios as a high-frequency flow ABS/CDO trader. Pellegrini works closely with Dan Turner, who was previously a senior ABS investment analyst at European Credit Management.

Toro was seeded at launch with €4 million of partner money, and has since grown to over €50 million. It counts one fund of funds among its external clients, but the bulk is private wealth money. Toro has an estimated capacity of around €200-250 million.

The ABS fund tends to run smaller positions than its multi-strat stable mate – Toro's individual positions typically account for 3-4% of the portfolio, with the very largest holdings peaking at around 7%. The fund also has a longer holding period than the Multi Strategy Credit Fund, maintaining most positions for about six months.

Fery is proud of the fund and of the colleagues that manage it, but he is also realistic – acknowledging the part played by timing in the good or bad fortunes of any hedge fund.

"I think we do things better than other people, but we acknowledge that we also benefited from good market timing when the Toro team decided to launch a European structured finance recovery fund," he says.

annualised return since inception is just shy of 25%, on an annualised daily volatility of 6.5%.

The firm has maintained the same approach to portfolio construction since the Multi Strategy Credit Fund launched. It invests almost exclusively in corporate credit default swaps, ensuring that the fund is highly liquid.

The Chenavari team has been able to continue trading within its risk framework, even during the highly volatile days of mid-May, thanks to the continuous nature of the CDS market, says Fery. "Within credit, someone who wants liquidity should focus on CDS-based investments, not bonds — which, in essence, are short liquidity," he adds.

Fery describes the fund as "global credit, but with a strong European credit flavour". This reflects the team's expertise, as well as the fact that European credit opportunities tend to be less crowded than the equivalent US trades. The fund generally invests 60-70% in European credit, employing a variety of sub-strategies including relative value, directional and convexity trading.

The team will often latch on to a broad sector theme or opportunity, and exploit it through various credit exposures. For example, the fund became very active in the European automobile sector following the introduction of car scrappage schemes across the continent in 2009.

The Multi Strategy Credit Fund honed in on selected credits issued by carmakers that the investment team believed would benefit most from the schemes — generally the manufacturers of affordable family cars, as they reasoned that the financial incentives of scrappage would be most likely to appeal to consumers on a budget. "Our fundamental analysis paid off," Fery says.

He continues: "Generically, we like idiosyncratic risk. We like to take a fundamental approach, and we aim to be as de-correlated to the macro environment as we can be. And we also aim to have strategies in the book that make money from market volatility, so we can make money in flat conditions, or in a bumpy month."

An average position within the fund accounts for 4-5% of the portfolio and the largest exposures are capped at 10%. Positions are typically held for between two and three months.

The strategy is nearing the $200 million mark and Fery believes it could accommodate $1 billion. Investors include pension funds, multi-managers and high-net-worth individuals — but Fery points out that client inflows have come as a trickle, rather than a flood.

"The path from $50 million to $200 million is a complex one in this environment," he says. "We are focused, and confident that money will keep coming in if we do our job well."

While the multi-strategy fund continues to grow steadily, Chenavari is also busy on other frontiers. It already has a second strategy up and running — Toro Capital, which has performed with striking success thus far (see box) — and the firm is developing other offerings to further expand its range.

Aside from the two hedge funds, Chenavari has also entered into long-only investing, having been selected by SocGen unit Lyxor Asset Management to take over the management of various synthetic credit mandates.

Chenavari agreed to become the replacement manager for the credit derivatives business of the former SGAM Alternative Investments from Lyxor late last year. Existing funds, as well as the credit derivatives portfolio management team led from Paris by Stephane Parlebas and Steven Le Moing, are in the process of transferring from Lyxor to Chenavari.

The firm is running $450 million that has already been transferred, and will take over management of another chunk later in the summer. All told, the long-only credit derivatives business should account for close to $1 billion in assets by the end of the year.

Chenavari plans to boost its asset base further by launching a UCITS III-compliant version of the flagship multi-strategy fund later this year. The firm has already lined up several investors for the Luxembourg-domiciled version and Fery expects regulatory approval imminently, in time for a September or October roll-out.

The UCITS version will not be identical to the fund that inspired it. The increased liquidity profile and constraints on leverage demanded by the UCITS framework mean it will be unable to mirror exactly the exposures of the Multi Strategy Credit Fund, which can be leveraged up to three times.

But Fery expects the fund to appeal to large onshore European institutions that are looking for credit exposure via a liquid vehicle, adding that it is likely to debut with around €50 million in assets.