An experienced hand in a volatile market

Aperture Credit Opportunities Sub-fund

Simon Thorp took some time to give us an overview of the Aperture Credit Opportunities Fund he manages jointly with Shikhar Ranjan, as well as his perspective on credit opportunities at the moment, and as we move into a post-Covid era.

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Simon Thorp is the Chief Investment Officer, UK, based in Aperture's London office. Simon is a career credit investor, with over 30 years experience in fixed income markets as well as an investing track record spanning over 15 years, most recently serving as the CIO of KKR Credit. His experience spans broking, investment banking and fund management. Simon received his B.Sc in economics and politics from the University of Keele. He has received and been nominated for numerous honors throughout his career, including Hedge Fund of the Year in 2009, the 2005 Eurohedge runner-up for Credit Fund of the Year, and nominations for Credit Fund of the Year in both 2008 and 2009.

An approach built on experience

Using both fundamental and quantitative analysis, Simon and Shikhar identify opportunities for idiosyncratic returns across the global liquid credit universe. Simon explained how this approach draws together his and Shikar's decades of experience in the credit markets.

By its very design, this approach has the dual advantage of being robust across market cycles, and it can be implemented at any point in the credit cycle. Focusing on convex returns allows them to be opportunistic without compromising the liquidity of the portfolio or taking significant draw-down risk.

The fund itself consists of a portfolio of global, liquid credit instruments and aims to generate returns above SOFR +2% with reduced correlation and draw-down risk throughout the market cycle. It is also overlaid with portfolio hedges.

Given the absolute return strategy, the fund aims to achieve both income and capital growth. To do this, the fund invests, either directly or indirectly, in investment grade and high yield cash bonds that are either exchange-traded or OTC financial derivative instruments, focusing on debt securities.

Walking a fine line - the post-Covid recovery

With credit spreads and yields at, or close to, record lows, Simon believes the upside for owning credit at the moment is limited. However, by keeping an open mind about the shape of post-Covid recovery, the fund is well positioned to both capitalise on opportunities and limit potential downsides.

On the one hand, if economies rebound too strongly, Simon believes we could see a mass exit from fixed income markets as the risk-free rate goes up. On the other hand, if economies fail to generate sufficient momentum, dispersion spread will widen even further than today as default expectations increase. Given these risks, Simon is expecting increasing market volatility and spread dispersion over the next 12 to 18 months.

To guard against these unknowns, on the short side of the balance sheet, Simon says he and Shikhar are evaluating several options including fundamentally weak businesses that, irrespective of Covid, require restructuring or that are overpriced. They are also looking at names and sectors with downside symmetry in conjunction with anticipated worsening future performance.

He believes the optimism in credits perceived to have manageable covid-related risk is misplaced and that credits will probably struggle to refinance as debt maturities shorten.

Taking all of these factors into account means they may consider a couple of hedging positions. Hedging interest rate risk through government bonds, futures and bond options, and hedging market beta risk through instruments such as credit indices, out-the-money equity plays and ETF and IBOXX indices.

Volatility also brings opportunity

The current environment does present some interesting opportunities. Simon believes long-short credit strategies are particularly well placed to take advantage of this increased spread dispersion because of their flexibility.

Furthermore, when combined with inefficient markets, spread dispersion can create alpha opportunities - for example, in the relative value of two credits trading at the same spread. Simon explained how, in this scenario, he looks to understand when one might sell off and then bet on that dispersion. This tactic means he doesn't have to be overly concerned about market timing – when the two credits disperse, the outcome the fund has bet on will come true. It also helps preserve capital.

Simon also sees some attractive long opportunities, specifically in short-duration high-yield credits, Covid re-opening plays and strong Covid-performing credits. Other potential opportunities might be found in refinancing and liability management, in IPOs and attractively priced new issues that could form core long positions as well as merger and acquisitions and equity-linked plays.

Aperture Investors is part of our multi-boutique platform

Aperture Investors, based in New York, is a global asset manager founded in 2018 by a partnership between Generali Group and Mr Peter Kraus, former Chairman and CEO of AllianceBernstein. Aperture operates with an unconstrained investment approach and a unique fee model that aligns the company's profitability with that of its clients. The company charges low, ETF-like fees when performance is at or below stated benchmarks. When and only when returns are generated in excess of a strategy's benchmark, Aperture Investors charges a performance-linked fee, and as such, investment teams are compensated primarily on outperformance.

Key features

AUM	$640 M (as of end of February 2021)
ISIN	LU1958553239 (I EUR-H Acc.) LU1958553072(I USD Acc.)
Inception date	05/08/2019
Benchmark	Secured Overnight Financing Rate (SOFR) +2%
Fund Currency	USD
Domicile	Luxembourg
Management fees	0.39%
Performance fees	30% > benchmark
Management Company	Generali Investments Luxembourg S.A.
Investment Manager	Aperture Investors

Performance analysis

	MTD	YTD	1Y	3Y	5Y
USD I Acc.	0.68%	1.31%	6.84%	n/a	n/a
Benchmark	*0.15%*	*0.32%*	*2.11%*	-	-

Source: Generali Investments Partners S.p.A. Società di gestione del risparmio as of 26.02.2021. Past performance provides no guarantee for the future. No express or implied liability or guarantee is assumed that the future performance will correspond to the performance described above. The value of and income from fund units or sub-fund units ("Units") may rise or fall. No guarantee can be assumed that the investment objectives of the fund will be achieved. The performance of and income from the Units have to be reduced by costs and taxes.

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