FOOD FOR THOUGHTS

by Andrew Capon

Manicomio

with David Forbes-Nixon, chairman and chief executive, Alcentra

Manicomio's website boasts that that the City has taken to it, "like parmesan to pasta!" You might quibble with the use of English (and the irritating way everyone needs to exclaim!) but it would be churlish to disagree with the sentiment. The place was heaving. It might have been a thank God it's Friday moment, or the post-Olympics feel good factor, but for whatever reason Manicomio was stuffed to the gills with City folk.

The patrons were animated and a tad boozy, almost to the point of good old-fashioned brashness. It was quite unlike the deathly pall that has hung over several Square Mile establishments that have been visited for this column.

Five years on from the onset of the credit crunch, disciples of Austrian economics might see the process of creative destruction at work. Though there have been many losers, it is also now possible to spot an emerging breed of winners.

David Forbes-Nixon, founder of sub-investment grade credit specialist Alcentra, is too modest to categorise his firm in such a way. But, in spite of having been a significant player in what is now seen as the poisoned well of structured credit, Alcentra looks more robust today than it did during the boom years. Forbes-Nixon says the abiding principle of the firm has always been diversification and this is what saved it from a brush with existential angst.

"Correctly structured, with good management, there is absolutely nothing wrong with CLOs [Collateralised Loan Obligations] and CDOs [Collateralised Debt Obligations] as investment products, though I realise the latter has become a financial four-letter word," he says. "My intention has always been that Alcentra should be able to access opportunities from high yield bonds through mezzanine and distressed debt and senior loans. The structuring is secondary. It is spotting where there is value that matters to clients."

This diversification-equals-opportunity mantra is driving both the investment and business decisions of Alcentra. Last month it was announced that the US high yield bond team of Standish Mellon Asset Management, a company also under the ownership of BNY Mellon Investment Management, would be joining the firm's New York-based business. This boosted assets under management from $15bn to $23bn, but, more importantly, it has rounded out its skill-set.

"The global sub-investment grade credit opportunity is approximately $2.2tr," says Forbes-Nixon. "Half of that is US high yield. That means a credible US presence is essential. There are very few firms that can claim to be able to have a holistic global view on this asset class. This transaction positions Alcentra very well to be among this small group."

A global credit manager able to range across the capital structure represents the realisation of Forbes-Nixon's ambitions for his firm. But now the correct building blocks for further success are in place, he believes this is just the start. Having spent a decade banging on doors in Europe and meeting with scant understanding of his asset class, he grasps better than most the Biblical warning that a prophet is never loved in his own land. But Forbes-Nixon can sense the tide is beginning to turn.

"Many institutional investors have annual return targets of around 8%," he says. "That is difficult to achieve in a zero interest rate environment. Many are now reviewing how their asset allocation strategies worked during the crisis. That has already seen a shift out of equities into fixed income. Credit is the next logical step.

"There's an educational effort involved, but increasingly this is not a hard sell. The running yield available from products such as leveraged loans is very attractive from a risk-return perspective."

There is also business logic behind this evangelical zeal. The banking sector is in deleveraging mode, trapped between the rock of raising core tier one capital and the hard place of unreceptive and unforgiving funding markets. Asset managers are now stepping in where the banks increasingly fear to tread. One opportunity that Alcentra is keen to exploit further is direct lending to corporates.

Mr Mojo rising

Three line whips and choking gagging clauses that would make the protagonists of Fifty Shades of Grey turn puce, prevent Forbes-Nixon from saying too much, but Alcentra is on a list of seven firms that could be part of HM Treasury's Business Finance Partnership scheme. This is an initiative designed to increase the flow of funding to small and medium-sized enterprises through non-bank lending channels. Regardless of the outcome, he sees a much bigger scale institutional senior loan market as the next step for European sub-investment grade credit managers, mirroring the role similar firms play in US lending.

David Forbes-Nixon: abiding principle is diversification

"Our asset class is credit. The wrapper is not as important as the skills that are applied to making an evaluation of an investment. The banks are focusing on core clients and deals where they expect to get ancillary business. Institutional lending from funds with committed capital is the way forward. There is a tremendous opportunity, in the hundreds of billions, for firms with the right credit skills to partner with banks that have origination capacity."

The lackwow factor

Manicomio also seems to have spotted a profitable gap in the City if this fevered Friday service was in any way typical. Spanish padron peppers are the perfect appetisers for inveterate risk-takers. They have a Russian roulette quality. They are mostly dulce (sweet) but every now and again you get full on chilli heat. The trouble is that those peppers were about as exciting as the menu got. Everything else seemed slightly overly familiar. The food was very good: not brilliant, nor lacklustre, more lackwow.

For that little lack of menu pizzazz Manicomio was flirting with a lower rating. But the setting in a sawn-off Norman Foster glass tower in the middle of Gutter Lane and the sheer buzz-buzz-buzziness of it all left me feeling uplifted. Though it would be unwise to extrapolate to the zeitgeist from the evidence of one lunch meeting, I left Manicomio thinking the City may be finally getting its mojo back.

Manicomio: Gutter Lane, London, EC2V 8AS
Starters: Smoked haddock and hake fishcakes; Padron peppers stuffed with squid, nduja sausage and tomato ragu
Mains: Slow roast Dorset lamb shoulder, peas, broad beans and spring greens; Dorset brown crab linguine with chilli, curry leaves and basil
Drinks: 1x bottle mineral water; 1x glass Regeleali Inzolia Sicily; 1x espresso; 1x Earl Grey tea
Total (including service): £95.62
Rating: AA