MULTI-STRATEGY

As rates go up, so does interest in multi-strategy credit

With less accommodative and co-ordinated macroeconomic policies taking hold and an increase in geopolitical uncertainties, investors have to think more carefully about their investment choices to maintain returns and reduce volatility. **Leland Hart** and **Vijay Rajguru** of Alcentra describe the growing demand for multi-strategy portfolios

Q Could you explain what is meant by a multi-strategy approach?

VR: Multi-strategy aims to deliver absolute returns by bringing together different elements of the European and US sub-investment grade credit universe and managing the mix dynamically to take advantage of the most attractive opportunities. The strategy combines top down analysis of macro factors with bottom up individual security selection. Alcentra has been very successful managing liquid credit & alternatives strategies including structured credit and special situations. In multi-strategy, we combine these liquid credit and alternative credit strategies to provide strong returns and improved risk-adjusted yield. The resulting portfolios have performed well with lower overall volatility to the broader high yield markets.

Successfully managing a global multi-strategy approach comes down to combining the top-down sector views from Alcentra's sector specialists with bottom-up fundamental analysis on a credit by credit basis. We look across the entire Alcentra credit platform and talk every day with Alcentra's sector specialist portfolio managers. We are constantly looking for relative value opportunities where the best liquidity-adjusted returns are available across the spectrum of below-investment grade credit globally. This dynamic process takes into account single name opportunities as well as sector over weights and under weights.

Leland Hart

"WE ARE CONSTANTLY LOOKING FOR RELATIVE VALUE OPPORTUNITIES WHERE THE BEST LIQUIDITY-ADJUSTED RETURNS ARE AVAILABLE ACROSS THE SPECTRUM OF BELOW-INVESTMENT GRADE CREDIT GLOBALLY AND ADJUST THE STRATEGY ON THAT BASIS"

Q Are portions of capital allocated to each 'sub-strategy' or is it entirely opportunistic?

LH: The asset allocation decisions are dynamic but do not typically change on a daily basis. We take a strategic view over the next month, three months and year looking at changes in fundamentals, valuations and technicals. We have daily discussions, and to the extent that there are idiosyncratic opportunities, we would certainly act to capitalise on them. There is no pressure to invest in any single security for benchmark purposes, given the fund can invest across the five opportunity sets in both the US and Europe: US Loans, European Loans, US High Yield, European High Yield, Structured Credit and Special Situations. This alleviates the pressure to chase yield or make investments relative to a benchmark.

Q Which types of investors are typically interested in this approach?

LH: The multi-strategy investment is being considered as a replacement of some or all of a client's existing high yield exposure. These investors have invested historically in high yield and benefitted from the decline in rates. Today, they have concerns about the cycle and duration risk but still want to maintain their high yield exposure. We incorporate bank loans and credit alternatives to enhance the yield while at the same time reducing the overall volatility versus straight high yield exposure.

The other conversation we are having is with investors looking for a complement to their existing core/core-plus exposure. Given the impact rising rates have had on this area of late, and the expected continued pressure going forward, the addition of multi-strategy nicely creates lower overall volatility due to reduced duration while

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also increasing overall yield. In this case it is typically added as a complement to the client's existing core fixed income exposure.

Q Do multi-strategy portfolios tend to look similar, or are they bespoke according to an investor's requirements?

VR: We allocate in a certain way in our flagship commingled fund to provide maximum yield and total return while maintaining appropriate liquidity. We also have separately managed accounts (SMAs) where we have more alternatives (or less liquidity). There is a common thread regardless of vehicle that this is where we think the current value is and we allocate and execute on that basis. We take a consistent firm-wide view and portfolio tilts or weightings will look similar.

Q Is multi-strategy investing a cyclical trend? Why is now the time for investors to be thinking about a multi-asset strategy?

LH: From an investor's perspective, a global multi-strategy approach will continue to grow in importance and is a long-term solution. Clients are looking to do more with fewer managers and the reality is that their governance does not allow them to be nimble enough to make important investment decisions when opportunities arise.

We expect asset class correlations to go down and a decoupled environment to emerge where you have to find skilled managers who have insights across geographies and sectors of the below investment grade markets. The opportunity to generate alpha will be much more prevalent for managers equipped across the different strategies. Having a dynamic multi-asset approach allows investors to focus on absolute return and gives them the investment flexibility necessary to take advantage of the more dynamic markets ahead.

Vijay Rajguru

"UP TO NOW, INVESTORS HAVEN'T BEEN FOCUSED ON THIS BECAUSE THERE WAS QE, WHICH WAS LIKE THE WIND IN EVERY INVESTOR'S SAILS"

Q Are investors familiar with multi-strategy, or is there still an education process required?

LH: Many investors have adopted or embraced a multi-strategy approach but some are still figuring out where it fits within their asset allocation and how best to deploy. Given the changing monetary environment and geopolitical uncertainties, investors will inevitably come to see it as an opportunity.

VR: UK and European pension funds have been early to adopt the multi-strategy approach. Investors who have been invested with us are paying attention to how these portfolios are managed and the returns and liquidity you can get and we are now seeing more and more interest from the likes of US Investors. ■

__Vijay Rajguru__ is global chief investment officer and __Leland Hart__ is head of US loans and high yield at Alcentra, the global asset management firm focused on sub-investment grade corporate credit

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HOW ALCENTRA DESCRIBES ITS MULTI-STRATEGY APPROACH

Alcentra's Global Multi-Credit Solutions strategy (MCS) offers investors access to US and European investment strategies on an integrated basis with the additional benefits of dynamic asset allocation, increased diversification, integrated risk management, and consolidated reporting. These dynamic, outcome-focused solutions can deliver, in one vehicle, holistic exposure to liquid and semi-liquid investments such as senior loans, high yield bonds, special situations, and structured credit, and in certain circumstances, illiquid investments, including middle-market direct lending. Bespoke multi-strategy solutions can be provided for through managed accounts.

Leveraging an experienced asset allocation committee process, Alcentra's Global CIO establishes the initial and ongoing strategy allocations seeking to exploit the most attractive and timely opportunities in our markets in search of income, capital appreciation, or both. Allocation decisions are based on forward-looking determinants of relative value across global markets, assessment of liquidity premia, and the identification of major risks. Risk is managed top-down through the strategy allocation process and bottom-up at the individual position level in order to meet investment objectives in varying market scenarios.

Source: www.alcentra.com