

Interview with Simon Thorp, Manager of the Aperture Credit Opportunities Strategy

Exploiting credit opportunities through a long/short approach



Simon Thorp, CIO at Aperture Investors UK, Ltd, part of the Generali Investments multi-boutique platform. Simon, with over 30 years of experience in fixed income markets, was previously CIO at KKR Credit.

Where does credit stand and what are the main opportunities investors should look at?

We saw extraordinary and rapid moves in March 2020. It almost felt like the whole Global Financial Crisis was condensed into just six weeks. Much liquidity disappeared completely and the central banks realized they had to do something.

The actions of the central banks drove two changes: investors confidently realized there was a floor on the market, and it also brought liquidity back to the markets. Very quickly, the US credit market, followed by the European credit market, reopened. Companies and banks were able to come to the market and raise money, so the liquidity aspect of the crisis disappeared quite quickly. Since then the market has settled down and has been on a relatively steady run, but higher in price and tighter in spread.

So where are we now? In Europe, the main index people look at is the iTraxx Crossover index. That spread was around 200 back in February, historically a very tight level. It then blew out to 750 and now it is back to around 400, meaning we've recovered just over half of what we've lost. That's a pretty sensible move to me given we have total uncertainty as to what the future holds, and therefore there has to be some risk premium still priced into markets.

Why could a long/short credit strategy prove effective for institutional investors' portfolios?

Our strategy of being long and short in credit allows us to try to select the best opportunities for the long side of our portfolio i.e. names that are undervalued, that we believe to be improving in

credits. On the short side we seek the mirror image of that i.e. overvalued names with a deteriorating profile. In that way we aim to protect invested capital, especially when we do have a big market move. This balance is why our strategy is attractive to institutional investors aiming to generate stable long terms returns in their portfolios.

The key, from a 360 degree view, is trying to be flattish on a risk-adjusted basis when markets begin to go down, maybe even a bit short, and then to undo some of those shorts as the markets begin to bottom out, to expose those long positions that can benefit from a rally.

Scouting opportunities in credit: a powerful combination of experience, coverage and research

Our philosophy is to protect investors' capital. We seek opportunities that do not come around often, we do deep fundamental work, understand if something seems to be misunderstood by the markets, and then buy in a relatively concentrated manner. Over time we also tap cheap insurance to protect the portfolio because no one knows when the next move is going to happen.

We are set up to protect investors' capital in a bear market. In a bull market our philosophy is to target Alpha through the selections that we make, with a smaller amount of our return being Beta. We don't run 100% of our money in long only (we're normally running 25-30% long).

As a long short fund we can use leverage, we can short single names and we can use indices, options, and ETFs to hedge and increase the amount of exposure. We have a lot of tools to try to optimize our portfolio.

Our approach to single names is informed by the top-down themes we look at. We use quantitative models to find the names that we think can best perform if a theme is correct. Analysts then dig in. This is a top-down approach followed by bottom-up analysis. Other times we'll start with an individual credit idea. In those cases we look at the specific name, do the work, and see whether it can fit in the portfolio and has the correct risk reward profile.

In active management there is no substitution

for experience. We've been doing this a long time: I set up one of Europe's first long short funds over twenty years ago and so we have seen a few cycles. The majority of our team has been doing this for more than 12-14 years. Additionally, we have teams based both in NYC and Europe, meaning we cover ~95% of the global liquid credit markets we look at. Real time information is passed between the two teams throughout each day to help one another.

US credit markets have three times the size of Europe. Many occurrences in the US tend to follow through to Europe and the rest of the world. It is a combination of experience, having this twin-centers approach, and finally having a hybrid approach to investing that sets us up for success in our portfolio.

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