

ALT CREDIT INTELLIGENCE

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Featured fund

Cheyne Total Return Credit Fund 2022

London-based credit manager Cheyne's Total Return Credit strategy has been consistently producing top performing funds.

The Cheyne Total Return Credit Fund 2022 has been one of the top performing funds in HFM's credit data over the past year, having ended the year with a return of 28.2%

This is all the more notable for the fact that the fund is sizeable, with over \$1.3bn in assets under management, and has achieved those returns with minimal monthly volatility.

The strategy sells protection on a portfolio of investment-grade corporate credits, with a fixed investment horizon of five years, to match the maturity of the CDS, periodically releasing new vintages of the fund.

The strategy does its trading on margin, using the leverage built into CDS contracts to take exposure to investment grade, rather than invest in riskier credits using less leverage. The

portfolio is not static however, and credits can be switched and weightings changed, while the strategy also trades in options to hedge tail risks.

"Investment-grade spreads currently price in default rates far above the historical average," says Duncan Sankey, head of credit research at Cheyne, "this is not supported by fundamentals, as illustrated by US investment-grade corporates having sufficient balance sheet cash to cover 92% of debt maturities for the next five years.

Conversely, we feel that high yield credit offers little premium to default risk where quantitative easing has fostered poor underwriting and security erosion."

Moreover, increased passive investment exposes high yield to 'stampede' risk. Our credit exposure is expressed through CDS, which we feel is the most efficient way to position credit



DUNCAN SANKEY, CHEYNE

owing to the zero-cost leverage, high liquidity (particularly in times of stress and far superior to that of bonds) and the refuge from rate risk."

The firm puts 2017's performance down to credit research and defensive positioning. Investment grade credit rallied significantly throughout the year in general, highlighting the fund's ability to avoid any pitfalls rather than finding any spectacular trades.