Cheyne builds momentum again with emphasis on core skills and strengths

Twelve years on from its inception and after a post-crisis rejuvenation, credit-based specialist Cheyne Capital is seeing growth across all five of its key investment areas

Cheyne Capital, the London-based firm founded by ex-Morgan Stanley duo Jonathan Lourie and Stuart Fiertz that is now 12 years old, has proved itself many times over as a survivor and an innovator in the fast-changing and often turbulent hedge fund world.

Having overcome a number of setbacks around the credit crisis in 2008 and 2009 and the resulting industry-wide problems, the firm is on a roll again.

Most of its mainline funds are performing well – several of them very well. Net assets are around $6 billion – with $4.5 billion in hedge funds and with the firm attracting some $3 billion of fresh capital over the past few years.

And new managers are joining the firm's 45-strong investment team to expand further its range of core investment strategies spanning corporate credit, real estate debt, event-driven, convertible bonds and equities.

The air of optimism and self-confidence at one of London's longest-established and most emblematic hedge fund operations owes much to the dynamism, determination and business acumen of its two founders – who worked together at Morgan Stanley for 10 years before establishing Cheyne in 2000.

But it is also due to an overhaul of the firm's investment and risk management operations – and its product range and personnel – that was set in train by the arrival of Chris Goekjian as Cheyne's chief investment officer.

Goekjian, who joined in April 2009, is a well-known figure in the investment banking and capital markets world – having spent many years at Credit Suisse First Boston in its heyday, leading the highly successful Credit Suisse Financial Products derivatives operation before becoming head of global fixed-income for the Credit Suisse group.

He then moved into the asset management world, running his own fund of funds business called AltEdge Capital – which he founded in 2001 and which was subsumed into Cheyne as part of the move to bring Goekjian in as the firm's CIO.

The appointment triggered a series of changes to restructure and reposition the firm for renewed growth – with some legacy products and teams being shut down or moved on (either because of poor performance or lack of scale), and with the firm refocusing around a hard core of strategies in which Cheyne could show consistent best-of-breed excellence, a strong track record and a sustainable competitive edge.


Chris Goekjian, Jonathan Lourie and Stuart Fiertz

Just as importantly, though, the overhaul has also repositioned Cheyne as an asset manager that offers a robust, well-resourced and institutionalised infrastructure for new teams or managers to launch new funds or bring existing strategies with them.

At a time when the climate for talented managers looking to set up their own firms has never been harder, many individuals and teams that would have had no difficulty in launching new shops in the pre-crisis era are being attracted more than ever either by seeding-type platforms – or, alternatively, by established houses that can offer institutional-scale infrastructure, global distribution reach, internal capital resources and access to a deep and broad bench of existing talent.

Two such new additions have been made just in the last few weeks – both of them involving individuals with very strong reputations and long-standing pedigree in the investment management and hedge fund worlds.

The first is a two-man team comprising Christian Dangerfield and Calum Graham who recently moved on from legendary investor and long-time former Soros manager Nick Roditi's London-based Belvedere operation – and who have been running their Malacca south-east Asian-focused long/short equity fund since the start of September from Cheyne's London headquarters off St James's Street.

The second involves Robert Rowland – one of the best-known names in the European long/short equity space, formerly of Soros and Lazard Asset Management and more recently a partner at a hedge fund called Impala Asset Management, who has joined the firm to develop a long/short European equity strategy.

At an interview at Stornoway House, the firm's elegant offices in Lord Beaverbook's former residence overlooking Green Park, the three Cheyne principals outlined their strategy for the firm in this new phase of its eventful life.

"Since 2008 we feel we've handled the fiduciary and legacy issues pretty well and we have raised $3 billion of fresh capital in that time, so people have voted with their cheque books," says Lourie, the firm's founder and CEO. "We've continued to produce good performance for investors, launch new funds and kept everything going forwards."

He adds: "While we were switching gears we never lost a proven alpha generator. All the people who have performed for investors over time are still here – and we have kept a very solid base from which to build and expand again."

In corporate credit, the long-established team led by John Weiss and David Peacock – two of the earliest pioneers in the credit derivatives business at JP Morgan – is continuing to rack up striking returns with their suite of credit-focused strategies and products that collectively run net assets of around $1.5 billion.

The actively-managed Cheyne Total Return Credit Fund is up by 66% to the end of September this year – while Cheyne's entire levered credit programme has generated an annualised return over 10 years of some 15%, putting it among the highest echelon of hedge fund performers anywhere in the world over that time period.

The team's other credit products – which comprise the Cheyne Credit Alpha long/short corporate credit strategy, the UCITS-compliant Cheyne Global Credit Fund and the Cheyne Corporate Loan Fund (a regulatory capital-driven fund investing in bank loan securitisations) are all also showing good positive returns this year.

In real estate debt, the growing team led by experienced sector specialists Shamez Alibhai and Ravi Stickney is also delivering strong results with their expanding range of products targeting the real estate finance market.

The flagship, and EuroHedge award-winning, Cheyne Real Estate Debt Fund is up by 15% to the end of September this year – and is annualising at a punchy 15% since inception in October 2009.

That strategy – which is currently running assets of $900 million – is due to close at $1 billion and the team is thought to be Europe's largest dedicated manager of real estate bonds and loans, managing net assets of $2.5 billion.

The more recently launched Cheyne Real Estate Credit Holdings Fund, which invests in unleveraged real estate loans as well as bonds, is also up by almost 14% this year – while the UCITS-compliant Cheyne European Real Estate Bond Fund that the team runs is up by 2% this year.

In event-driven, Simon Davies' Cheyne European Event Driven Fund, which blends equity and credit investing, is one of the firm's few strategies that are in negative territory so far in 2012 – showing a loss of 3.5% to the end of September – although it is still annualising at over 7% since inception in 2009.

Under Davies' leadership, the firm has re-established itself as a leader in the event-driven investing space where Cheyne has been active since 2003. After Massi Khadjenouri, who managed the former flagship Cheyne Special Situations Fund, left in 2008, Davies took charge of running down that fund – a process that lasted several years.

He has since rebuilt the firm's event-driven activity and the new flagship European Event-Driven Fund has performed well in a tough period for many event-driven managers, with strong asset inflows taking the strategy to approximately $550 million.

His team also manage the Cheyne European High Yield Fund, which invests in high-yield bonds and leveraged loans and which is up by 10% this year. Overall the event-driven team manage net assets of $1.7 billion.

In convertible bonds – the origin of Cheyne's formation back in 2000 – the firm's activities are these days centred around the UCITS-compliant Cheyne Convertibles Absolute Return Fund, which is run by long-standing former Morgan Stanley man Akin Akinloye and which is up by 3.5% this year in a choppy year for CB funds.

In equities the firm's range of long/short equity products – including the Malaccca ASEAN-focused fund (which was up by 5% in its first month at Cheyne) and Rowland's new European strategy – are expanding the reach of the equity business under the leadership of Edward White.

Cheyne Capital: at a glance

Established: 2000

Founders: Jonathan Lourie (CEO), Stuart Fiertz (president)

CIO: Chris Goekjian

Assets under management: $6 billion ($4.5 billion in hedge funds)

Strategies: Corporate credit, real estate debt, event-driven, convertible bonds, equities

Headcount: 150 people

White, who spent several years with SAC as head of equity capital markets in Asia before rejoining Cheyne in 2011 to oversee the building out of the firm's equities franchise, also runs the global long/short Cheyne Equity Fund – which is up around 3% this year.

Proof of the strong results across the board this year is evident in the performance of the Cheyne Multi-Strategy Fund – an internal capital allocation vehicle overseen by Goekjian himself that provides diversified exposure to Cheyne's range of liquid investment strategies. Year-to-date, the multi-strat portfolio is up by 15%.

All of the teams in the five core investment areas in which Cheyne is active have long-standing expertise in their respective sectors stretching back over many years. And the firm is confident that its strong existing investment talent base will act as an additional draw for other managers looking to start their own funds or run strategies under a more solid and secure roof.

"Since I joined Cheyne my primary mandate has been product – what are we offering, what are we good at and what are our core strengths as an investment firm?" says Goekjian.

"We've sorted out legacy issues and the historical range of funds. We've launched new funds for existing teams that are compliant with the post-2008 climate – that avoid asset-liability mismatches, that are not overly complex and that provide the liquidity and transparency that many investors need. For a significant portion of our AUM we also back-end our performance fees."

He adds: "We've had a complete review of all areas of our risk management and investment oversight operations – and we believe our operational infrastructure is as strong as you'll find anywhere in the industry. And the final piece, which we've only started to focus on in the last year or so, is to look at bringing in new teams."

The firm's senior partners believe that a key draw of Cheyne for potential new recruits – and for potential investors in newer strategies – is the extent to which the principals themselves are prepared to back new funds and commit their own capital.

"We put our own money in alongside the portfolio managers," says Lourie. "So we can give people time to build their own track record if they need to – and we also have tremendous global distribution reach in terms of marketing and access to all types of investors around the world."

He adds: "The lifeblood of this firm is alpha generation – and it always will be. But it's very important to be able to balance that with the ability to raise capital. There's no point in having the most brilliant product in the world if you can't sell it."

Goekjian believes the ever-increasing investor focus on operational due diligence, risk reporting requirements and business safety will only increase the pressure on would-be start-up managers to join established fund management firms such as Cheyne – which numbers almost 150 staff – rather than to start out on their own.

"We can tick all the boxes in terms of due diligence, risk oversight, infrastructure, compliance, scale and so on," he says. "The market has identified that there is a potential problem with sub-scale organisations – and that's not going to go away."

While retaining the breadth and spread of investment strategies that are consistent with a US-style multi-strategy firm, the principals believe that a further key attraction of Cheyne to managers and investors is the ability to offer specialist, discrete strategies – as well as an overarching multi-strategy product for those investors that want exposure across the full strategy range.

> *"We've continued to produce good performance for investors, launch new funds and kept everything going forwards"*

"Our portfolio management teams have a feeling of ownership here at the fund level that you simply cannot offer in a big multi-strat firm," says Fiertz, the firm's co-founder who also serves as its president and director of research. "And investors know what they are getting, which is not always the case with a single multi-strat fund."

Having gone through a cathartic experience in the crisis, Cheyne's founders believe that the firm has come out the other side in a cleaner and clearer state than before – with a stronger sense of its key skills and strengths.

"We know exactly what we do and we know what we are good at," says Lourie. "We invest across the capital structure based on fundamental, bottom-up analysis. And our message to investors and managers is that we are at the forefront of what we do, we align ourselves with our investors and we're here for the long term."