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Asset Management

Hedge fund Cheyne raises €1bn fund for stressed loans from European banks

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London-based hedge fund Cheyne Capital has raised €1bn for a new fund that will aim to profit from European banks selling down their loan portfolios to meet new accounting and regulatory standards.

The Cheyne European Strategic Value Credit fund, run by Anthony Robertson, will buy the debt of stressed middle market companies from banks, which are finding it harder to hold them due to the higher provisions they must make against them.

The fund, which is Cheyne's first portfolio focused on stressed and distressed credit, will hold between 25 and 30 positions, typically of €10m-€50m each.

Cheyne says purchases of this size present an attractive investment opportunity as such loans can often be overlooked by larger distressed and special situations funds.

The launch comes as the pressure grows on European banks to clean up their balance sheets and sell off their troubled loan exposures.

For several years global regulators have been tightening capital standards on the biggest, most systemically important banks, making it more punitive to hold higher-risk loans. On top of that, new accounting rules known as IFRS 9 — effective from the beginning of last year — require banks to make provisions for expected losses over the life of their loans. The previous standard, IAS 39, was more backward-looking, requiring banks to recognise losses only when assets actually turned bad.

"Although the banks are not forced sellers, these sub-performing loans often represent uneconomic exposures . . . and absorb too much capital relative to the returns they accrue. This is leading banks to be more selective with what they hold," said Kerry Hugh-Jones, co-managing partner in Cheyne's Strategic Value Credit team. She added that the fund would aim to work with management teams to turn around their businesses.

Greater regulatory scrutiny of banks' loans portfolios has seen the European Central Bank write to banks this year to tell them how much capital they should hold against old assets that have turned sour. The stock of outstanding bad loans has fallen to 3.8 per cent in the fourth quarter from 4.9 per cent a year before, according to ECB data.

Mr Robertson, who previously ran the €14bn global leveraged finance group at BlueBay, said that Cheyne would home in on mid-market loans because there is much more competition in loans to large-cap borrowers.

Demand for the fund reflects investors' need "to diversify their fixed income and private credit investment portfolios into opportunistic strategies that will address the dynamics presented by changing market cycles," said Jonathan Lourie, Cheyne's chief executive and co-founder.

Cheyne said that the new fund would aim to profit from "increased dislocation and heightened illiquidity in sub-investment grade credit markets as the current late-stage credit cycle advances".