THE LAST WORD

ALBACORE

New kid on the block

London-based fund manager AlbaCore was formed last year to focus on the European credit markets and secured a €500m seed investment from Canada's Public Sector Pension Investment Board. Managing partner and chief investment officer **David Allen** tells **Andy Thomson** about the firm's plans

Q What are the differentiating features that AlbaCore brings to the market?

The background of the team is a differentiating feature. We have an investment team with experience in private equity, hedge funds, M&A, restructurings and many have worked together successfully over many years, investing over multiple market cycles. One of our capabilities is bespoke structuring to create upside and preserve capital in our transactions. We are large enough to be relevant in the market, but small enough to be selective.

Q Why was AlbaCore launched and what is the background of its core team?

AlbaCore was launched to maximise risk-adjusted returns while minimising risk of loss. We think differently to many players in the market. The benefit of longer-term capital means we can be patient, selective investors, but quickly exploit opportunities in private and public markets. The AlbaCore team is diverse, speaking many languages, which gives us an edge in situations where local knowledge is important.

The senior investment team – myself, Bill Ammons and Deborah Malka – worked together at CPPIB and built its European credit business. Prior to that, I worked at GoldenTree in New York before moving to London to establish and run its European office. We also have heavyweights in risk, operations and legal. AlbaCore's COO Matthew Courey was head of European high-yield trading at Credit Suisse, and our general counsel and chief compliance officer, Safraz Zavahir, previously led legal and compliance for Davidson Kempner in Europe.

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Q You have what sounds like an interesting approach to structuring deals. What lies at its heart?

We follow two rules religiously: firstly, don't lose money; and secondly, if companies perform, have scope for upside through capital appreciation in addition to cash coupons. We source quality companies and invest with a strong margin of safety. We avoid ones with no earnings visibility. For example, we avoid oil companies where at a $100 oil price, EBITDA is $150 million and at $70 oil price, EBITDA drops to zero. On cyclicals, I've seen those movies before, and they often don't end well.

When our companies grow in enterprise value and certain catalysts come into play (IPOs, debt pay-down, sale), we can realise upside on top of the coupon. We aim to achieve half of our returns from cash coupons and half from embedded upside with no incremental credit risk. That's been my proven strategy over the last few decades. Regarding capital preservation, if you take care of the first rule, the winners take care of themselves.

Q You had a seed commitment of €500 million from PSP Investments. Do you think pension funds will continue to increase their commitments to credit strategies?

Yields are low across many global asset classes, so investors are looking for attractive yields. For those with a long-term investment horizon, we see value in less liquid strategies. There are several ways to make additional returns but most are just adding risk.

We have found other ways to make extra spread, such as illiquidity spread, complexity premiums or buying at a discount because of poor market technicals. This was the case back in 1987, 1994, 1998, 2002, 2008, 2012, 2013 and most recently in February 2016 when credit traded with spreads well in excess of expected losses. This was a great time to buy assets. We will see the same thing again – it's inevitable. In the meantime, we see value from other areas, such as complexity or illiquidity premiums and sourcing our own transactions. ■

WHAT DO YOU THINK? HAVE YOUR SAY

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