

Aperture Credit Opportunities

Active long-short credit for turbulent times

An active approach to managing duration and spotting long and short credit opportunities will be key to finding risk-adjusted returns in a volatile year for bond markets, explains Simon Thorp, manager of the Aperture Credit Opportunities fund and UK CIO of Aperture Investors.



Central bank intervention is the main force driving credit markets. What should we expect over the next months?

Credit finds itself, as ever, in a “piggy in the middle” situation, sandwiched between extremely low-yielding government bonds and equity markets with exceptionally high multiples. Whether investors see credit as the worst of both worlds or the best of a bad bunch remains to be seen. The investment grade section of the market is most vulnerable to rising risk-free yields and interest rate normalization and so, in theory, should underperform high yield. High yield bond markets typically can weather inflationary headwinds¹ better but run the risk that, in taming inflation, authorities crash the economy, pushing up perceived default risk (and spreads) dramatically.

We expect increasing volatility as well as increased spread dispersion especially in the first semester of 2022 as markets attempt to price in much higher-than-expected inflation as well as likely responses from central banks around the world.

How will credit markets react in this scenario?

If inflation does remain elevated and central banks respond by tightening monetary policy, then credit markets are likely to sell off in price terms and total rates of return (especially for investment grade debt)² will be negative. The high yield market is better able to withstand a higher term structure of rates but only if this is partly the result of much stronger than expected growth and not a stagflationary³ environment. In the former, the higher cost of capital will be perhaps more than offset by stronger earnings as the operating environment improves, thus allowing for deleveraging and improving credit metrics.

Stagflation could be met with rising default-rate expectations and much wider spreads.

So, the successful management of duration will be key to delivering strong risk-adjusted returns this year. I believe that current credit market conditions are likely to persist well into 2022.

How should investors position themselves?

Long opportunities will centre on “re-opening” trades and event-driven opportunities (M&A⁴, corporate actions, IPOs⁵, restructurings, leveraged buy-outs). On the short side, this is likely to include businesses that struggle with rising input costs (margin pressure) and those that are likely to disappoint a market that has priced most credit to perfection. I believe a key theme for 2022 will be to identify those credits that have come through Covid in better-than-expected shape and those that will prove to be struggling. I think there will also be a number of new investment themes which are likely to drive increased spread dispersion as the year unfolds.

The Aperture Credit Opportunities fund adopts a long / short approach that responds well in this context. Can you describe the fund’s approach?

We use fundamental analysis as well as quantitative tools to identify opportunities for idiosyncratic returns across the universe of global credit while taking what we believe to be limited draw-down risk⁶. Within the portfolio we continue to prioritise those unique opportunities that we believe carry embedded convexity (both long and short). We are looking to add risk concentration to ensure that the investments with the highest conviction

and corresponding liquidity are sized accordingly. The key for our fund will be to continually search for mis-priced, idiosyncratic opportunities (long and short) across credit markets whilst taking advantage of periods of low volatility to buy cheap insurance premium in the way of tail risk hedges to attempt to protect our capital from the uncertainties that by their nature are extremely difficult to anticipate.

An active short side of the portfolio (single names, thematic shorts and portfolio hedges) will be essential in navigating credit markets that have started the year priced close to perfection but where risks to markets seem to us to have grown quite significantly.

1. *Inflation: A general increase in prices and fall in the purchasing value of money*
2. *Investment Grade debt: Bonds that are believed to have a lower risk of default and receive higher ratings by the credit rating agencies, namely bonds rated Baa (by Moody's) or BBB (by S&P and Fitch) or above. These bonds tend to be issued at lower yields than less creditworthy bonds.*
3. *Stagflation: Persistent high inflation combined with high unemployment and stagnant demand in a country's economy*
4. *M&A: Mergers & Acquisitions activity*
5. *IPOs: An Initial Public Offering*
6. *A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough.*

FUND MANAGER



Simon Thorp is the Chief Investment Officer, UK, based in Aperture's London office. Simon is a career credit investor, with over 30 years experience in fixed income markets as well as an investing track record spanning over 15 years, most recently serving as the CIO of KKR Credit.

His experience spans broking, investment banking and fund management. Simon received his B.Sc in economics and politics from the University of Keele. He has received and been nominated for numerous honors throughout his career, including Hedge Fund of the Year in 2009, the 2005 Eurohedge runner-up for Credit Fund of the Year, and nominations for Credit Fund of the Year in both 2008 and 2009.

IMPORTANT INFORMATION

Sources of the data (unless specified otherwise): Aperture. Marketing communication issued by Generali Investments Partners S.p.A. Società di gestione del risparmio. This document refers to the Fund Aperture Investors SICAV (the "Fund") and its compartment Credit Opportunities Fund (the "Compartment"). This document is only intended for retail investors Italy, and it is not intended for US Person. Investors must read the Prospectus (available in English) and KIIDs (available in the language of the country of residence of the investor) and particularly the risks, costs and conditions, before making any final investment decisions. The documents are accessible free of charge on www.generali-investments.com. The future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. Access to a summary of your investor risks including common actions in case of litigation at EU and national level on this website as well (in English and in the language of residence of investors). Absence of legal, tax or investment advice within this content. The Management Company, Generali Investments Luxembourg S.A., has the right to terminate the arrangements for distribution of any product at any time. All information and opinions contained in this Document represent the judgment of the author at the time of publication and are subject to change without notice. The views expressed are those of the author but may not be the views of Aperture Investors UK, Ltd and its parent company Aperture Investors, LLC ("Aperture"). Sources of the data (unless specified otherwise): Aperture. Aperture Investors SICAV: Luxembourg UCITS-SICAV subject to the Luxembourg law of 17 December 2010 relating to undertakings for collective investment, as amended. Aperture Investors SICAV – Credit Opportunities Fund: to implement a total return strategy to achieve income and capital appreciation by investing directly or indirectly, through the use of exchange-traded and OTC financial derivative instruments, in a portfolio of different asset classes with particular emphasis on debt securities - Active management - Main risks: liquidity risk - credit risk - capital loss - volatility risk - derivatives risk. In the case of the use of derivatives, the use of financial leverage can increase the potential risk of losses or increase the potential for returns. Yields may rise or fall due to currency fluctuations. - Risk & Reward Profile (class IYH, acc): 5 (High to Very High volatility) - Main costs of this class: Entry fee: 5% - Exit fee: 1% - Ongoing charge: 0,55% - Performance fee: 30% per annum of the positive return above the Performance Fee Benchmark (SOFR + 2%) - Fund Currency: EUR – Class registered in: AT, DE, ES, FR, IT, LU - Benchmark: SOFR + 2%. Warning: Past performance does not predict future returns – The Fund is not a guaranteed product, which means that there is a risk of losing some or all of your initial investment.