The smooth operator

At Chenavari Investment Managers, keeping volatility low helps its flagship multi-strategy fund deliver steady growth and attract large investors. By *Mike Peterson*

At a time when many credit funds are generating stratospheric returns by focusing on distressed assets, it may seem unusual to pitch a credit fund as offering stable returns with a 20% return objective.

But London-based Chenavari Investment Managers believes that its active credit trading strategies can deliver something that many pension funds and other long-term investors want: decent returns with low volatility.

The two-year-old firm is one of a number of credit hedge fund managers that have started up since the beginning of the crisis. But one thing that differentiates Chenavari from a good number of these new credit shops is that it has succeeded in raising a decent amount of money from third party investors.

"The combination of great returns with low volatility appeals to pension funds"
Loic Fery

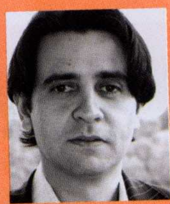
The firm now has $550 million under management, which will rise to over $1 billion with the addition of several long-only funds as part of its recent acquisition of the SGAM Alternative Investment business, and the launch of a planned Ucits III credit fund (see page 1). It currently has some €125 million in its flagship fund, the Chenavari Multi-Strategy Credit Fund, a number of managed accounts, and $50 million in the Toro Capital structured finance fund (see opposite).

Chenavari started with an initial investment from multi-manager WestLB Mellon, and has gone on to raise capital from several European pension funds, a sector that has proved difficult for many credit managers to tap. Managing partner Loic Fery says that a number of northern European pension funds have invested with the multi-strategy fund, attracted by its now 19-month track record without a down month. The fund has a 34% annualised return since inception with 6% daily volatility.

"Our style and our risk management process are geared towards minimising volatility," says Fery. "We put it ahead of returns. The combination of great total returns with low volatility appeals in particular to pension funds. And it is also attractive to the fund of fund managers that are now starting to shift out of long-biased credit into market-neutral credit funds."

Chenavari's chief risk officer, Sofiane Gharred, former head of correlation trading at Calyon, is the partner charged with keeping volatility under control. "We have very strict stop losses," he says. "We are a delta-neutral fund so it is very important that we are not simply placing bets. We identify and implement strategies that we are convinced will perform well regardless of the direction of the market. Then we closely manage them."

As senior portfolio manager Demian Brasil points out, the fund is not designed to be the high-volatility component of a bigger investment portfolio. Rather, it is designed as a standalone product, delivering high returns with low volatility.



"The fund is a standalone product, delivering high returns with low volatility"
Demian Brasil

Controlling leverage is also important to keep volatility in check. The fund is constrained at three times leverage on its long positions, but in practice runs with leverage of less than two times.

Chenavari was founded by Fery, who was global head of credit markets at Calyon and comes from a structured credit background. He was soon joined by Gharred, by Brasil (who joined Chenavari as a partner from Washington Square Investment Management where he was portfolio manager of both a credit fund and a CSO), and by Malek Meslemani (who was in