Low-levered corporates are a good short bet

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Emmanuel Weyd is the chief investment officer for credit at Eiffel Investment Group, a Paris-based hedge fund manager with strategies spanning credit and equities and total assets under management of €550 million.

The firm's Eiffel Credit Opportunities fund has put in returns of 11.5% annualised since inception in December 2011. It pursues a long-short approach, focusing on European liquid credit across corporates and financials.

Weyd joined Eiffel in 2009 shortly after its inception, having previously worked at JP Morgan in London, where he held senior roles in credit research, origination and prop trading.

What is the best investment in credit?
The best opportunities are in post-restructuring cyclical names. We look at issuers of bonds or institutional loans that have emerged from some kind of impairment or maturity extension. The stabilisation and modest economic improvement in Europe will help those credits to recover.

What is the worst investment?
The worst investment is in low-levered investment grade corporates. I don't expect a wave of fallen angels or defaults. But given where we are in the credit cycle, those names carry significant event risk given their tight spreads. We can make money being short credits like that.

Which names would you short?
Vodafone is a good candidate. Its leverage is relatively limited at 2.5 times, which makes it vulnerable to releveraging event risk through a combination with a company such as Liberty Global.

Why is your firm called Eiffel Investment Group?
The Eiffel Tower is a world famous French construction that is still standing after 125 years. We were set up in 2008, so we have a long way to go, but we aspire to the same permanence.

What was your first job in credit?
I started as a ratings analyst with Standard & Poor's in 1992 just as credit ratings in Europe were emerging. I learnt quickly that management credibility is the cornerstone of credit.

When you start your career you think a chief executive or a CFO would not lie to you and would be able to forecast their business. You quickly realise that some people know their business better than others, that some are lying and some are telling the truth.

You have a strong interest in football. How should a credit hedge fund manager run a football club?
I would like to think they would be a value investor, finding undervalued players rather than wasting money on high profile signings, such as Manchester United paying $9 million for Radamel Falcao on a one-year loan.

What was your best ever trade in credit?
We did well trading the Dexia complex, which blew up in late 2008 and then a second time as a result of the eurozone crisis in October 2011. This was an extremely complicated situation where you needed a deep understanding of the relationship between the different entities to make money. We played on the long side in various parts of the capital structure starting in 2011, trading a dozen instruments from five entities. Some of those bonds have returned over 50%.

What was the worst?
In September 2011 we went long half a dozen legacy tier-one hybrids from high quality European banks that had sold off considerably. Our view was that the management would have to "liability manage" those bonds to enhance their bank solvency under Basel III.

Ultimately, all of those positions were called, exchanged or bought back at a gain. But the market dislocated further: our hedges broke down and we had to enforce some stop-losses and unwind certain positions. We managed to recoup the lost P&L but it was painful.

What makes you bang the table?
We need stronger and more consistent language on creditor protection in high yield bonds. It makes sense that as we move through the cycle leverage goes up and prices become tighter. But the core documents should not change.