



BlueBay's Farley: Event-Driven Investing 'Should Get A Lot Easier'

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Duncan Farley, portfolio manager at BlueBay Asset Management and manager of the BlueBay Destra International Event-



Driven Credit Fund. Read the Q&A below as Duncan says that the current economic and market conditions that are making headlines and rattling investors are actually creating something of a 'perfect storm' of opportunities that should make it easier to profit from alternative credit investments moving forward.

Duncan Farley

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Duncan Farley, portfolio manager at BlueBay Asset Management is here, and we're talking about the international credit events driving the credit markets right now, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today we're heading in the direction of international event-driven credit with Duncan Farley, portfolio manager at BlueBay Asset Management, and the manager of the BlueBay Destra International Event-

Driven Credit Fund, which you can learn about at DestraCapital.com. You can also learn more generally about closed-end funds, business-development companies, and interval funds at AICAlliance.org, the website for the Active Investment Company Alliance. Duncan Farley, welcome back to The NAVigator.

DUNCAN FARLEY: Yeah. Hi Chuck, really good to be back with you.

CHUCK JAFFE: Right now there are so many different things happening that are disruptive. You've got political tensions, you've got inflation, you've got war, you've got supply chain problems and all the rest. Is this chaos or is this opportunity?

DUNCAN FARLEY: Well, certainly some days it does feel pretty chaotic, there's definitely a confluence of factors that we've never seen before. If you've spoken to anyone in the distressed or stressed world, over the last 15 years they'll always have told you that now's the time, but I have to say with all the factors you've just mentioned and quite a few more, now certainly does feel the time. It is really quite a sort of perfect storm out there at this point. What you've got to remember is not only those issues that you mentioned come on the back of we are still recovering from Covid here. Many, many companies coming out of Covid with more leverage, higher debt levels, and less profitability, so they haven't yet grown back into their capital structure. So when they're now faced with all these other pressures, they're just not ready for it.

CHUCK JAFFE: You have the purview to be able to go anywhere, you are running an international fund. So you can be in any market you want to be but your focus is mostly Europe, which some managers are finding very uncomfortable right now. Why do you focus so much on Europe?

DUNCAN FARLEY: Well, first of all, that's where we are, that's where the bulk of the team are. We do have some resource in the US and in other locations, but the bulk of the team are based in Europe, in London. That's where between us we have over 100 years of experience focusing on the European market, so it makes sense for us to focus there. But to your first point, there's an enormous amount going on at the moment; the number of bonds, loans, bank debt that are trading at stressed and distressed levels means that every day's a busy day. We are getting to look at an enormous amount of new situations day by day, so it's not that we don't want to go to the US or elsewhere in the world, we don't really feel the need to so. There just is so much to trawl over, to disseminate through at the moment, that we're

going to be kept very, very busy we think for quite a few years to come in this market. I mean, one of the things you didn't mention is the rate rises that we've seen, particularly in the UK where we're based. We've seen gilts go through 5% today, this morning on news. This is making the cost of finance for many European companies, particularly UK companies, just meaning that refinancing isn't possible at this point in time. So yeah, we're just busy focusing on the markets that we're most used to, and we think they are where the opportunity most lies at this point in time.

CHUCK JAFFE: Help people understand what you consider event-driven opportunities right now, because the definition of event-driven for a money manager is a little different than it is for me or the ordinary guy or the listener out there.

DUNCAN FARLEY: Today there are situations and opportunities arising across the board, but in what have been the good times let's face it, for the last few years, it's been harder to actually identify where those stressed and distressed opportunities are. We have particular experience in the shipping and in the offshore oil space, we identified that these are the sectors that were stressed, and we identified situations where the debt associated with some of those companies was trading at very, very distressed levels. So I'll give you an example, a company, I won't use the name but just as an example, a company that had two vessels, two offshore support vessels that were built around 2010 for a combined cost of \$200 million. Had gone through a restructuring back in 2017 and 2019, and we were able to pick up the debt at a dollar price that effectively created these two assets at about \$16 million. Whenever we do an investment, what's the first thing we're looking for? We're going to make sure that we don't lose any money. Or if we do lose some money, that it's a lot less than what we can make if the trade goes right. So we thought the scrap value on these two vessels was about \$12 million, so our downside was quite limited. If we then looked at the potential upside value, and we thought, we got a couple of independent valuations done that said if the market returns these things could be worth \$80 million combined. So on the basis that we could see the market turning, we could see that there could be demand for these products, we were confident in buying those bonds. Fast forward 15 months later, we've sold one of those vessels for \$30-odd million. And we're looking at a potential, today the bonds trade in a mid-50s context, but we actually think there's a path to a sort of par recovery here. So something that we paid mid-teens for in dollar price since, we're hoping to get a par recovery. Because

A, we were familiar with the sector, but B, we were able to identify they were stressed, or in this very distressed, assets unloved by many other investors that we were able to pick up. Now that was very sector-driven, but today we don't need to be so sector driven because we're going to see idiosyncratic issues across multiple sectors, so hopefully easier to find things.

CHUCK JAFFE: The fund itself is a couple of years old, and it's really had a remarkable start. Obviously as every document any investor's ever gotten says, "Past results no indication of future returns," but investors tend to be worried. On the one hand they do follow into hot things, and they may like. And I should point out, because I haven't said it, that the BlueBay Destra International Event-Driven Credit Fund, the A shares are ticker symbol CEDAX. But sometimes they flow into the hot things, sometimes they go, "Oh, no, no, no. If it's been hot, I'm too late to the party." So for you, again, it's been a pretty good time. How long does this party continue even if it doesn't feel like a party to the rest of us?

DUNCAN FARLEY: Well look, it's been four and a half years since inception, and performance has been strong from the get-go. And as I just mentioned, it's actually been pretty hard to find stressed and distressed investments in the past few years. The markets, you only need to look at the equity markets until the last year, have been very strong. Obviously we had the blip around Covid, which brought source of opportunities for us, but it's been difficult to source ideas. So I think it's testament to the team that we've been able to do that successfully. What we've been waiting for is what's happening right now, a multitude of opportunities across different asset classes that weren't presenting itself previously. So it should get a lot easier. So I would argue actually now is an even safer time to invest into this asset class or this product given those opportunities, versus in the past where we can see a path to making returns but it was definitely going to be harder to do so. It's not say it's easy by the way, because with so much uncertainty out there clearly things can go wrong, but that's when you need an experienced team and an experienced manager to navigate through what's actually happening at this point in time.

CHUCK JAFFE: Duncan, it's been great chatting with you about all of this. We'll watch how it plays out, we'll talk with you again on The NAVigator down the line.

DUNCAN FARLEY: Thanks, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, that's me, and you can check out my show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Duncan Farley, portfolio manager at BlueBay Asset Management, manager of the BlueBay Destra International Event-Driven Credit Fund which you can learn about at DestraCapital.com. And the firm's on Twitter at both @BlueBayAM and @DestraCapital. The NAVigator podcast is new every Friday, ensure you don't miss anything by following us on your favorite podcast app. We'll see you again next week, and until we do, happy investing everybody.

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