The Interview – Ronald Neumunz, Alpstar Capital: “One of the lessons of the global crisis is always to have ready cash on hand to take advantage of buying opportunities”

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Ronald M Neumunz, head of sales and investor relations at Geneva-based Alpstar Capital, says the firm’s concentrated focus on Europe is a key differentiator that appeals to non-European investors who want dedicated continental credit exposure, along with an investment process combining macro and micro elements with a real operating world overlay.

GFM: What is the background to your company and funds?

RN: Alpstar Capital has its heritage in a Geneva-based wealth management business established in the 1990s by Belgian entrepreneur Daniel Mignon. Today we are a full European asset management firm with a credit specialty. We run approximately USD1.5bn across several funds, structured credit vehicles (collateralised loan obligations) and a wealth management platform. Our partners bring a wealth of knowledge and experience in the European industry, macro (including asset allocation) and, of course, credit to our platform.

We have a core focus in European credit, something few – if any – other managers specialise in. In addition to running a dedicated fund business, we are building a business acquiring and restructuring distressed assets, particularly in Spain. We are adding talent, and we have tightly focused our efforts on our principal fund, the Alper European Credit Fund, insuring it meets the needs of today’s investors for liquidity, transparency and performance.

The new Alper European Credit Fund is in effect a more comprehensive version of our original Alper fund, which was launched in April 2008. Our clients wanted higher liquidity, greater diversification and lower fees. The launch of the new Alper fund in April this year gave them that, and has brought new interest as well. Assets in the fund currently total some USD150m and we view capacity at around USD750m.

GFM: What is the structure of your fund?

RN: The fund has a master/feeder structure. The Alper European Credit Fund (feeder fund) and Alper European Credit Master Fund are Cayman exempted companies. The feeder fund invests substantially all of its assets in the master fund, which uses the services of the investment manager to invest and reinvest assets of the fund, together with assets of other similar entities that typically follow the same investment strategy as the feeder fund. We are in the process of adding an onshore version of the product so that investors can choose the structure that best meets their needs.

The investment manager of the fund is Alpstar Capital UK Ltd, a UK entity authorised by the Financial Services Authority, while the investment advisor is Geneva-based Alpstar Capital S.A. The fund offers euro and US dollar share classes with a minimum investment of EUR1m or USD1m. The minimum can be waived by the fund’s directors to the minimum amount required under Cayman Islands regulations, the equivalent of USD100,000.

GFM: Who are your key service providers?

RN: The administrator is Citi Hedge Fund Services and the custodian is Pictet & Cie. The auditor is Deloitte, and our legal advisers are Walkers in the Cayman Islands and Tannenbaum Helpern Syracuse & Hirschtritt in the US.

GFM: Have there been any recent changes to the management team?

RN: A few months ago Bertrand Pinel joined as a partner and chief executive, a new position for Alpstar. The former head of Dresdner Kleinwort’s global finance group and member of the bank’s executive committee, he brings a wealth of credit and management expertise that add significantly to our profile. We have built an active office of talent in Spain to mine the considerable opportunities there, distressed and otherwise, and, we continue to add credit specialists selectively in Geneva and London.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base? What is the split of your assets under management between institutional and private clients?

RN: Historically we were fortunate enough to have had such demand for our products that simply answering the phone was good enough. Nowadays, of course, it is a much tougher game. On the fund side, our core base is in the wealth management and ultra high net worth segment. In structured finance, where the majority of our assets currently are, it has been exclusively institutional.

We think there is ample room to boost institutional interest and investment in our new credit fund, not only because of its unique sole focus on Europe but because we feel we have the institutional pedigree to perform. In 2007 we underwent full due diligence and were awarded a European credit mandate by Pimco, but it was never fully executed because of the subsequent deterioration in global markets.

That said, we continue to build on our credit strengths in Europe and we think that this will ultimately be reflected in renewed institutional demand for our dedicated European fund.

GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?

RN: It was a difficult period for most funds, especially credit ones. We were lucky to be a survivor, and to have learned some good lessons. The crisis forced us to both think creatively (hence the mandate in Spain) and to focus on our core strength in European credit. We also rationalised the staff and developed more transparent and robust risk management models. As many of our competitors did not survive the challenges of 2008, we now face a very different landscape and an opportunity to make the best of it.

GFM: What is your investment process?

RN: Our investment process stems from the integration of four key building blocks. First, our strategic asset allocation group generates a top-down macro and sectoral view using a proprietary scenario-based model.

Secondly, we make intensive use of highly experience industry leaders, including former chief executives and chief financial officers, in specific relevant sectors as a way to gain insight into companies and their operating environment that we might not always see. This has proved invaluable to us in the past, and is a process we are expanding.

Thirdly, we carry out concentrated bottom-up research both on companies and their respective sectors, carried out by a number of highly skilled analysts that focus exclusively on this. Their job is to know the company, the products, the management and the sector inside out. Finally, our trading desk delivers insights on market-related conditions that can influence decision-making and/or the timing of investments.

These building blocks form the basis of ongoing discussions and decisions and, in case of longer-term investments and strategic positioning, of a larger review by the investment committee, which consists of our most senior people. We believe that in current markets we need the combination of these four elements to operate a successful investment process and portfolio management. Each is critical to us, and this is one of our key differentiating factors as a top credit manager.

G**FM: How do you generate ideas for your funds?**

RN: We have a team approach – everyone contributes and we pick the ‘best of the best’ through a committee process. We try and maximise the input of our various experts across credit (loans, trading and high-yield), macro and our network of entrepreneurs. We have three basic levels for idea generation, a monthly portfolio strategy review, investment committee meetings and our ongoing daily market dialogue, which can often result in opportunistic trades.

For example, we have been managing the portfolio with ample liquidity recently to be ready to take advantage of buying opportunities, having earlier selected a list of names that would be attractive in the event of market dislocation.

GFM: What is your approach to managing risk?

RN: Risk has to be managed correctly if return is to be optimised. We manage risk in a two-tier framework. A control level with a strict set of limits is designed to help preserve capital and ensure appropriate discipline in risk-taking against the background of return objectives and investment guidelines of our funds. An additional management and monitoring level kicks in inside the limit framework in order to help us in proactively monitoring risk at strategy and portfolio levels with well-structured review thresholds.

This approach is an integral part of our decision-making process and allows us to take appropriate action early enough for frequent adjustment of risk-taking to optimise return.

GFM: How has your recent performance compared with your expectations and track record?

RN: We are quite satisfied with performance to date, and anticipate that we can continue to deliver. One of the lessons learned in the past year or two was clearly the double-edged sword of leverage. One should expect good, consistent returns with this fund going forward, with moderate volatility and very modest use of leverage. In the future I expect the fund to reflect our key strengths, trading and investment selection in the European credit markets.

GFM: What opportunities are you looking at right now?

RN: Given the uncertainty in Europe surrounding Greece and the euro, we see attractive dislocations in credit in particular opportunities in a number of European names with solid business models as well as in names with take-out potential. We are also looking at good assets that have been disproportionately impacted by lack of liquidity due to broader market issues, as for instance in Spain.

GFM: What events do you expect to see in your sector in the coming year?

RN: What one expects or hopes for and what can actually happen are often two very different things. One of the lessons learned from the global crisis is to always have some ready cash on hand to take advantage of buying opportunities, and to buy when others don’t or can’t. In a broader context, we also expect a continuation of industry trends such as more onshore products and greater regulation.

GFM: How will these developments affect your own portfolio?

RN: Our macro view captures these trends, and, in the context of our detailed company and sector analysis, we can generally get a fairly good idea of who will prosper and who won’t. The past 18 months have vindicated our models and process, and we think the next 18 months will bring additional unique investment opportunities.

GFM: How do you assess investors’ current expectations?

RN: We maintain an active dialogue with existing and prospective investors, who are quite vocal about what they like and don’t like in a fund, its performance and its structure. We have deep, time-tested relationships with the major dealing banks, which provide a daily commentary on clients and flows that, in context, is also quite valuable. But nothing beats face-to-face client interaction, as often as feasible.

GFM: What differentiates you from other managers in your sector?

RN: Our concentrated focus on Europe is a key differentiator that we think is appealing to non-European investors who want dedicated continental credit exposure. Our investment process is a rare combination of macro and micro with a real operating world overlay. And we have a very talented and well-rewarded team.

GFM: How do you view the environment for fundraising over the coming 12 months?

RN: The easy times seem to be behind us for now, and the bar has clearly been raised. Investors are more savvy and sceptical; a good return is no longer the end point for investment, but the starting point. Personally, I think this is good for everyone. Smart, demanding clients are an asset to any business and always keep you on your toes, striving to excel.

GFM: Are you considering any mergers or acquisitions in the foreseeable future?

RN: We have some enormous opportunities in our businesses right now. In European credit we see some macro trends that will certainly provide some great investments in the near to intermediate term. In Spain, our business growth is just beginning to take off, and the myriad opportunities we see there are just the tip of the iceberg.

We can certainly take advantage of this ourselves, and we have taken appropriate steps – such as a substantial capital increase – to do so, but, in proportion to the greater market, we are relatively small, the process an intense one, and the opportunity set is huge. We recognise that we can’t do everything as efficiently as we would like, and we do miss some deals that, with the right resources and backing, we could easily monetise. A partner or partners would help accelerate growth, and, most importantly, overall returns, so we are being thoughtful and open-minded about strategic options in this area.

GFM: Do you have any firm plans for further product launches?

RN: We are currently launching an investment vehicle in the form of a holding company to acquire and operate distressed European companies, which will incorporate our investments in Spain and raise further capital for new acquisitions. The vehicle is being seeded by partners and we are discussing the integration of targeted entrepreneurs into the structure, as well as considering adding an institutional partner to the mix. We believe this innovative approach to operating a private equity platform will offer unique advantages to investors including direct ownership, transparency and a participating structure.

Additionally, we are developing an integrated and participative strategic asset allocation platform that is now seeing good traction among private banks, independent asset managers and family offices. It’s an outgrowth of our top-down macro approach, but very systematic and tuned for wealth management.

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