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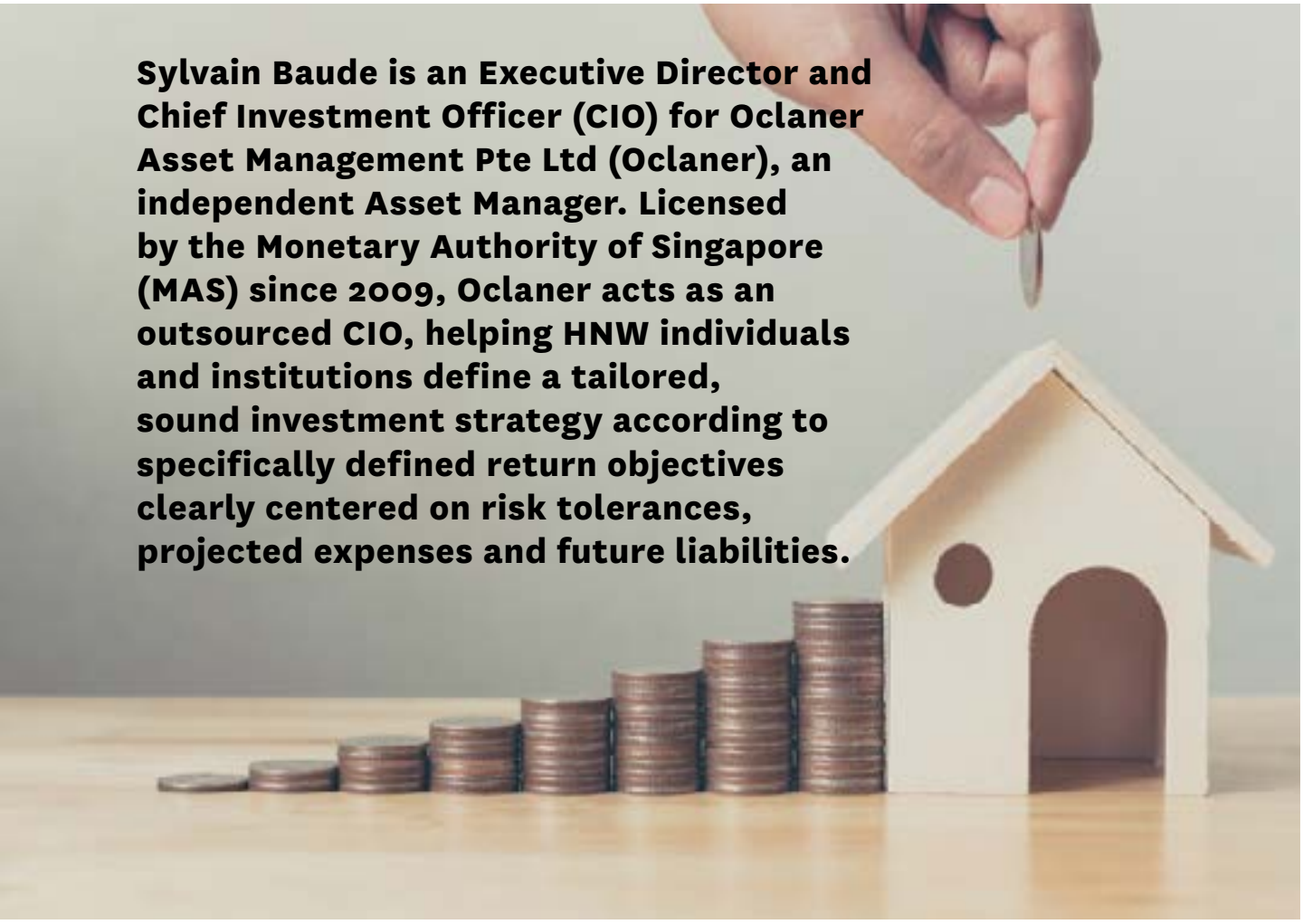
# Investing in the Asian Credit Markets in a smarter way



**Sylvain Baude is an Executive Director and Chief Investment Officer (CIO) for Oclaner Asset Management Pte Ltd (Oclaner), an independent Asset Manager. Licensed by the Monetary Authority of Singapore (MAS) since 2009, Oclaner acts as an outsourced CIO, helping HNW individuals and institutions define a tailored, sound investment strategy according to specifically defined return objectives clearly centered on risk tolerances, projected expenses and future liabilities.**

# Executive summary

Oclaner Asset Management was crowned best fund manager at the Wealth Briefing Asia awards in 2017. In 2018 it was nominated by Citywire for best hard currency Asian bond fund in Singapore for its 3-year risk adjusted performance, alongside giant fund houses Allianz Global Investors and Credit Suisse Asset Management.

In a nutshell, Oclaner focuses on two core service lines. First and foremost, Oclaner offers portfolio management solutions, in the form of both discretionary and advisory mandates, allowing accredited investors and institutional clients to directly benefit from the company's infrastructure and investment know-how. Additionally, subject to a minimum size requirement, Oclaner can create and manage bespoke fund vehicles across a variety of jurisdictions.
Its second core service line is fund management. In fact, Oclaner manages a full range of UCITS V compliant funds out of its Luxembourg SICAV.

Importantly, Oclaner is not a typical family office, the focus is purely investment performance.

**CURRENTLY, OCLANER** operates four funds from Luxembourg under société d'investissement à capital variable (SICAV), licensed by Commission de Surveillance du Secteur Financier (CSSF). Track records are demonstrated by the performance of the CIS (SICAV) funds.

The firm's flagship product - the Oclaner Asian Bond Fund (ISIN: LU1004651599, LU1089904491), is a long only, Asia credit focused fixed income UCITS, which generally holds a 'balanced' (50/50) mix of strong investment grade names along with higher grade, high-yield bonds. The fund has a moderate number of holdings of around 70 positions and is A rated on Citywire as well as followed by Morningstar. This number of holdings sits in contrast to other bespoke funds that it manages, which are more concentrated such as its high-conviction fixed income fund for sophisticated investors, which typically adopts a more sharply defined set of exposures (20 - 25 positions) based purely on bottom-up 'special situation' plays.

The investment house also runs a limited array of other products primarily for private investors and institutions. One such UCITS fund, a long-only equity Asia ex-Japan fund, from an investment manager's view sits comfortably alongside the company's focused credit-driven FI fund. The equity focus is on medium term non-proprietary thematic plays such as, among others Asia 2.0; a play on increasing Asian tourism industry; and increasing consumption of certain products due to rising wealth in the region.

## Super-Tactical Investments

Given Oclaner's investor base, one key advantage and differentiator, is that it, is able to embark on high probability event driven limited period investments on a purely thematic basis.

Once the investment team has identified a situation, which makes them believe that certain dislocations in asset values in a number of related market prices result in a tilting of the risk/return profile to match investment criteria, they embark on dedicating resources to exploit the profit potential.

### Getting Personal

Sylvian was born in France's second largest city, Marseille. Educated in England, Canada and France, he has specialised in the fields of Economics and Finance.

As an undergraduate, Sylvian cut his teeth in the chilly north England city of Durham, where he majored in Economics and Finance. Thereafter, he proceeded to seek even colder climes of Montreal, Canada, where he undertook a Masters degree at Concordia (Montreal).His Post Graduate MBA was back on home ground in France at IAE University.

Sylvian is a CFA charter holder, which he acquired while with BNP Paribas working as portfolio manager. He spent three years with BNP in Paris and a further five years in Monaco. From there he moved to Geneva, where he met and joined Ivo Bartoletti, Chief executive Officer of Oclaner, which they established in Singapore.

As a favourite and only son, Sylvian is now a family man living with his Spanish wife and a young one.

He is passionate about finance, boxing, skiing, guitar playing, and wine tasting. His favourite ski areas include Morzine, and Val d'Isłre
Being French by birth and therefore a foodie, Sylvian has a penchant for Japanese cuisine.

Next on the agenda of French interests is, of course, wine. Here he paradoxically lists among his favourites the Australian Shiraz, Cabernet Sauvignon blend - Penfold Grange! From the French stable, Bordeaux comes out on top but as any gourmet will tell you, it's the pairing that is important.

In his younger years our intrepid CIO was an active football player. Strong legs also carried over to amateur boxing. Current soft spot in the arena is for Lomachenko, the Ukrainian light weight, known for his speed and timing and widely recognised as pound-for-pound the world's best boxer.

For a man dedicated to excellence - there are no surprises here.

SYLVAIN BAUDE
Oclaner

One such medium-term play currently in Oclaner's cross hairs is a tactical trade based around the fundamentals of misaligned supply and demand in the world's uranium market. According to Mr. Baude the argument runs as follows: nuclear energy supplies 15% of the world's energy and rising, and is the only carbon-free base power load. China's energy needs are fed 66% by coal and only 3.6% by fusion, which compares unfavourably to the USA at 20%. India is a similar story. Given the emissions and other health related arguments regarding coal and all fossil fuels, the over reliance on a fundamentally unclean source of energy is not sustainable.

The drop in uranium prices from the highs in 2007 has been in the order of 80%, from its peak of USD152 in June 2007 the price collapsed to reach USD18 in December 2016. While sources of uranium resource have dropped a staggering 90% (Oclaner estimate), as miners were forced to shut down their operations. This presents potential for a significant supply/demand imbalance as the mining market collapse with its prolonged production cycle lead times tries to accommodate a return of demand. Japan, as an example, has begun reopening nuclear reactors (closed since the Fukushima accident in March 2011) ahead of the anticipated increase in power consumption associated with the Olympic Games in 2020.

The big picture of course is the pollution led argument. On the pricing side, Germany's post Fukushima closure of nuclear plants coupled with Japan's total nuclear shutdown, created a steep and prolonged decline in uranium prices of about 60% since 2011. As a result, many mines shutdown. Today, the market price for the commodity is low by historic standards and the demand side is anticipated to be stronger especially in Asia over the next five to 10 years.

Supply/demand imbalances existing today should therefore create the ideal scenario for a uranium bull market, in Baude's opinion.

The opportunity, according to Oclaner: this year alone, the price of uranium is one of the best performing commodities at up 20%. The average price of the uranium mining companies is down 20%. The spot to stock (miners are next in line to see increased stock prices) discrepancy will drive this imbalance to profitable results. For the first time since 2004 "we are seeing a supply deficit". With only two companies controlling more than 50% of the uranium supply market (by comparison: in oil, Saudi Arabia, the largest producer, controls only 12.8% of supply directly and its influence through OPEC is much greater), restarting uranium production could be a slow process. Other key catalyst to look for is how quickly Japan will reopen its reactors - there were nine so far in 2018 but with the 2020 Olympics, they will want to be prepared for peak power. Strong demand in the face of a supply deficit should lead to a commodity squeeze.

At times, when the risk/return profile is positive, tactical investments are undertaken but 'on the margin', i.e. typically a limited percentage of the portfolio and tightly managed with stops.

To ensure a competitive performance in challenging markets, Oclaner's key strategy/approach to running its portfolios is to always run bonds on a balanced approach between investment grade and high yield. According to Oclaner's information, in the last 8 years it has had zero down years. This year, however, with the benchmark performance down 5% - 6%, Oclaner is down 2% so far with one month before year end. Risk profiles on the high yield side are closely managed in terms of holding period reviews, they are typically bottom up specific situations geared to short-term credit technical factors with little (managed to stay at very low) duration. On Investment Grade, the focus is on high quality companies with longer duration.

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## Portfolio Positioning

Baude believes current conditions are particularly tricky and this plays well into the fund manager's approach to risk. "At the moment it is a tough environment to interpret - looking to the end of November's G20 for any talisman into compromises that can accommodate the Trump administration's cavalier approach to trade and finance. Trade war worries are likely to drag on for months to come even if compromises are found. There is potential for a brief year-end relief rally (from the current negative return situation) should the G20 result in positive outcome. Also, if the Federal Reserve surprise by not touching rates at their meeting, this would also give the market a much-needed lift."

## The Pitch and the Pitched

Oclaner mainly wins clients through word of mouth and referrals. Investors are geographically spread globally.

Why do investors come to Oclaner? Typically, they are looking for asset protection, to preserve and grow wealth without taking too much risk. Portfolios, therefore, are generally defensive but with occasional flurries into tactical-based ideas injected as reflected in the uranium play. These forays primarily look to enhance returns in a risk-controlled way.

The company pitches a demonstrated expertise as evidenced through nearly a decade of track record. Undoubtedly, the focus is Asia fixed income (since the company's inception) also in which, according to Mr. Baude, they ranked third last year in 280 by Citywire in hard currency bonds.

Typically, Oclaner's investments are defensive but not altogether boring as these managers will move their base volatility considerably if they think the 'odds' are stacked in their favour.

None of the investors nor the funds are 'benchmark' driven. In the philosophy of Oclaner, priorities are 'not to lose money' and then to make money.

Management believes this approach removes the 'top down' macro bias of typical benchmark thinkers. In essence, Oclaner's benchmark is 'capital preservation'. The approach plays well into the Asian investor mindset, which is particularly sensitive and heavily biased against losing capital no matter what the potential returns may be.

Oclaner focuses on specific area for investments, much like a hedgefund and other boutiques. The outcome?: "The results speak for themselves", Mr. Baude points out, "there is something to show".

Other differentiators for the Oclaner funds are that they mainly invest in liquid assets. There are no lock-ups at an investment level or at a fund level. Investments are mostly US dollar denominated debt, with a maximum of 10% in local currency bonds. That is rare, due to the extra layer of risk that the currency component adds, which often does not pay enough for the additional expected return.

## Longer Term Challenges

Oclaner is looking at the global debt situation - this is a big picture issue that might affect Asia especially since China's over-levered economy goes through contractionary convulsions.

As China's GDP is heavily reliant on fixed investment, deleveraging efforts over the last year and a half, have resulted in a negative effect on GDP growth. This, combined with a potential stalling of trade with the USA could create further problems. The market is getting cheap but not stable enough yet to increase equity risk.

## Organisational DNA

- Priorities - not to lose money, create value for clients
- Raise capital

Delivering high-risk weighted returns to clients. Providing personalised and comprehensive investment solutions to discerning investors that can vary in size from institutional to large family offices and to wealthy individuals.

## Challenges

Asset growth: Although Oclaner does not suffer from a lack of performance, it faces the same problems as any boutique firm does in a market that favors mega players and increasingly leads into a concentration of assets.

In targeting individual clients, wealthy multifamily offices and open architecture banks, the process of asset gathering is naturally organic, and continues growing at a steady, moderate pace. Managers at Oclaner are focused on ensuring that their investment strategy continues to generate reasonable risk-adjusted growth for their clients to remain relevant and competitive in a challenging environment. This level of attention is at the highest level of priority, and indeed should be, for any asset manager who wishes to continue to succeed in a business that in many circumstances favours scale. ■