RBC BlueBay Asset Management

Why allocate to a liquid alternative credit strategy?

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Within liquid alternatives, there has been growing interest in alternative fixed income and credit strategies. These strategies make use of a wide range of tools, such as shorting, leverage and derivatives, to deliver attractive absolute returns and low correlation to traditional asset classes.

However, investor interest in these strategies is particularly pronounced today given the significant opportunity presented by dispersion, asymmetry and volatility in debt markets.

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Interest in liquid alternative fixed income and credit strategies (hereafter "liquid alts") comes at a time when family offices are looking to increase exposure to areas such as fixed income and private debt. Some 38% of respondents to the 2023 UBS Global Family Office Report signalled their intention to allocate more to fixed income over the next five years, while 26% plan on increasing their allocations to private debt[1].

In liquid alts, family offices have a flexible and liquid solution that can provide access to a wide variety of debt instruments.

A strategy for every situation

There is no such thing as a 'typical' liquid alts strategy. Instead, there is a wide range of approaches to choose from.

For example, macro strategies aim to deliver returns despite significant market uncertainty. With a range of economic and geopolitical challenges facing many governments today, policy and politics will play a key role in driving price action in global sovereign debt markets. Flexible strategies underpinned by deep fundamental analysis, such as BlueBay's Global Sovereign Opportunities strategy, can take advantage of 'capturable volatility' in these markets: namely opportunities for alpha that are driven by volatility as opposed to the direction of government bond markets.

[1] Source: UBS 2023 Global Family Office Report Published December 2023
https://advisors.ubs.com/mediahandler/media/563297/ubs-gfo-report-2023.pdf

Long/short strategies, particularly those with a relative-value bias, can also be used to exploit dispersion, asymmetry, and volatility across liquid credit markets. RBC BlueBay offers both developed and emerging market offerings, namely the BlueBay Global Credit Alpha and BlueBay Emerging Market Alpha strategies. There is a very established universe of long-short credit managers operating within developed markets, making it a more familiar and viable option for investors. However, it is worth noting that credit opportunities within emerging markets also include many sovereign credits, from Argentina to Nigeria, that have issued both short and long-dated debt and have active credit default swap ("CDS") markets. These offer investors the toolkit to trade many opportunities on a relative-value basis, from national elections through to stressed situations.

Other specialist strategies can focus more specifically on special situations and distressed debt. The BlueBay Event-Driven Credit strategy offers exposure to a diversified pool of idiosyncratic investments uncorrelated to each other and the broader credit market. Distressed debt/special situations also present an evergreen opportunity, as companies that issue debt within the high yield and leveraged loan markets can experience distress at any point in the economic cycle.

Meanwhile, certain opportunistic strategies can identify opportunities across both corporate and consumer credit. BlueBay Securitized Credit Opportunities strategy, for example, invests in the most compelling investment ideas in securitised credit markets, including senior and mezzanine/equity tranches across various collateral types. These markets are large and diverse in terms of the underlying collateral exposures: from corporate loans to mortgages. Securitized credit markets can also offer investors protection from defaults via the more senior tranches of collateral structures.

Finally, a multi-strategy fund can offer a 'one-stop shop' using a combination of strategies to deliver compelling yields and provide greater diversification than a single strategy. That diversification means a multi-strategy fund can also have a smoother return profile, as the strategies being combined are lowly correlated to each other and aim to outperform at different points in the market cycle. A solution, such as the BlueBay Multi-Strategy that combines hedge fund strategies, can do this at a lower cost than a typical strategy fund of hedge funds that charges multiple fees.

What is best for your family office?

Although the assets and strategies utilised by liquid alts would not be anything new for family offices, they can be valuable in helping to navigate a more challenging investment environment. With such a broad range of strategies, however, choosing a manager who understands your family office is essential in order to identify a solution that best meets your requirements.

RBC BlueBay Asset Management is an experienced fixed income specialist with more than $110bn[2] in client assets. Our liquid alts strategies are process-driven and supported by a longstanding and highly skilled team of analysts, researchers, and portfolio managers. We also incorporate environmental, social, and governance (ESG) factors into the investment process, which is crucial to all our investment decisions and increasingly important to our stakeholders.

Whatever your investment needs, an allocation to liquid alts can play a crucial role in a balanced investment portfolio and help deliver the best possible outcomes.

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[2] Source: Fixed Income Specialisms | RBC BlueBay Asset Management

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