

# GraySwan builds track record, sees benefit in alternative credit

The GraySwan Alternative Credit fund will invest in a blended portfolio of local fixed income unit trusts, fixed income hedge funds and private credit

Independent investment consultant and wealth manager GraySwan is extending access to its alternative credit offering, as investors seek stable but higher-yielding investment opportunities in a low interest-rate and difficult economic environment.

Philippa Owen, GraySwan's COO and a senior member of the GraySwan Alternative Credit Investment team, says the company has recently been awarded its category II (a) licence, in addition to its category I and II licences, enabling it to offer a broad range of traditional and alternative products. It is awaiting approval for the alternative credit fund in a Qualified Investor Fund (QIF) format.

The fund will invest in a blended portfolio of local fixed income unit trusts, fixed income hedge funds and private credit, and is designed to be a portfolio diversifier and stable source of returns in excess of money market yields.

Owen notes that investors are currently in desperate need of higher returning but stable alternatives, with money market returns at decade lows and equity markets potentially due for a pullback after adding 50% in 12 months. "Traditional investment thinking may lead many investors to only look to listed and well-known government nominal and inflation-linked bond opportunities to earn higher yields," she said. "But there are so many other higher income-generating opportunities to be considered. They are less understood and less liquid yet there is a strong case for seeking returns from non-traditional interest-rate risk in the alternative credit space."

Headed by Duncan Theron with an experienced investment team, GraySwan recently celebrated its 10-year anniversary and now has around R15 billion under advisory and management, and a combination of high-net-worth private clients, family offices and institutional clients.

The alternative credit offering will be managed by GraySwan Investment Management, the asset management side of the business, which will house the QIF. The offering will be available to qualified high-net-worth and family investors. For larger institutional clients GraySwan will tailor bespoke alternative credit solutions, allowing these clients to invest directly into the team's best ideas.

The alternative credit offering has been run-

ning with R25 million seed capital in an *en commandite* partnership, approaching its two-year anniversary in June. The partnership has achieved its SteFi plus 2% performance target, net of all fees.

"We have taken time to build a track record and are pleased to have proof of concept that works and has met its targets. The partnership will be converted to a QIF structure, which offers monthly liquidity and 90 days' notice," says Owen. Once the QIF has been set up, qualified investors could be approached for investment into the QIF.

The portfolio comprises about 60% in credit (currently allocated to three underlying portfolios), 20% in fixed income hedge funds (invested into two managers) and the rest in daily-priced high-income unit trusts, creating a diversified South African-focused portfolio designed to yield higher returns in a low interest-rate environment.

The GraySwan team does extensive due diligence on underlying managers, with environmental, social and governance factors (ESG) at the forefront of its analysis. GraySwan is a signatory to the United Nations Principles of Responsible Investing (UNPRI) and incorporates best practice responsible investing principles across its advisory and wealth management offering.

In the alternative credit space, they advocate diversifying investments across managers who focus on different areas of the debt markets to

ensure efficient allocation of capital, hence the fund of funds structure.

On the credit side, it has invested with proven South African managers with long-term track records of making an impact on the real economy by funding well-researched lending portfolios to small and medium-sized enterprises, with preferential terms and low default risk.

Owen adds that the fund is "very scalable" and GraySwan will be looking to reach R100 million under management in the next 12 months.



Philippa Owen