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It's essential to be senior in the capital structure

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Glenn Koach is president of Concise Capital, which he co-founded with the firm's principal, Tom Krasner. Concise Capital manages a short-term, small-cap high yield hedge fund, the Canepa Short-Term High Yield Offshore Fund, and has around $270 million in assets under management.

In the 1980s, Koach founded and ran Riverside Capital, an asset manager focusing on the short-term high yield market. After he sold the firm in 1997, Koach became CEO of a public company he had initially helped to start with venture capital. A few years later, he was drawn back to the world of high yield bonds and "decided to get the band back together". Resuming his partnership with Krasner, the two set up Concise Capital in 2004.

The fund has a buy-and-hold strategy, investing in short-dated bonds issued by small-cap high yield issuers. It achieved a return of 16% in 2016 and is up 274% since inception without leverage.

What is the best investment in credit today?

We really like our niche strategy, which is one that no one else follows as far as we know. We buy short duration high yield bonds of two years or less in duration, from smaller issuers. Our sweet spot is bonds with outstanding sizes of $150 million to $250 million. These issues are under followed by analysts and are often too small for the multi-billion-dollar fund managers to consider. The short duration keeps our exposure to interest rates low.

What returns do you get on those bonds?

We get yields to maturity in low doubledigits from the bonds we are buying today, which are all cash-paying, performing bonds. That reflects the illiquidity premium we can harvest from a part of the market that is much less efficient than for large-cap borrowers.

Where do you find them?

We send offer wanted lists of eight to 10 names to brokers, who trawl the market on our behalf and help us to build up our positions over time through odd-lot trades in the secondary market. We don't deal with the large investment banks and don't buy in the primary market.

What is the worst credit investment today?

I would say double-B bonds because investors are not getting paid sufficiently for the credit risk they are taking and are likely to be impacted by rising rates.
Explain your firm's name? Concise fits our short duration strategy and the way I like to communicate. My business partner Tom Krasner has pointed out that I am never verbose.

What was your first job in credit?

I had a lot of relevant experience in public accounting and corporate finance, but my first job in credit was when we developed the short-duration corporate bond strategy at Riverside Capital.

What was your best ever trade?

We bought the bonds of Clean Energy Fuels, a natural gas company majority owned by T Boone Pickens, in February, at 88 cents on the dollar. They are now trading close to par as the company is raising equity and using the proceeds to go into the market and buy back its debt. A common denominator with many of the positions is that we are senior secured in the capital structure, and treasurers are motivated to take out this debt well ahead of the maturity. We always look at who owns the company and at their motivation and reputation. In this case, I went and visited the CFO before we bought the bonds to understand the company better. We bought the bonds at a 14% yield and we still like owning them at close to par.

And the worst trade?

We bought into a $175 million bond issued by Noranda Aluminum in April 2015 that was junior to a $400 million bank loan. The company was hit badly by a collapse in aluminium prices and this resulted in impairment, not only for the bond but also for the loan. We may get back a penny at most. The lesson is to be extremely cautious and keep to our discipline of being senior in the capital structure. The other lesson is not to be too sticky on price: we should have sold when we had a chance as soon as the bond became distressed, but we didn't like the bids.

Where is the market heading?

We think defaults will stay low for the next 18 months, and spreads could even tighten in the short term.