First Eagle Investments

November Views from First Eagle Alternative Credit Team
Video Transcript

Introduction and Question 1
39
00:06:12.150 --> 00:06:16.699
Ethan Seid: Thanks for joining this month's first legal alternative credit update call. First question for you, how does the team factor in the current economic environment into our evaluation process and portfolio management decisions?

Answer 1
41
00:06:26.850 --> 00:07:26.050
Bob Hickey: Thanks Ethan. And I think this Credit [question] is really about process, and how we approach underwriting credits. One of the key things we do, and most credit managers do this also, we look at multiple scenarios: How a company or a credit will survive or thrive in differing economic environments. It could be an expanding economy. It could be a contracting economy. It could be a higher interest rate environment like we're seeing right now, or a lower interest rate environment like we've seen for the prior few years. When we look at credits and we model them, and we get them ready to present to the committee for decisions. we're showing multiple scenarios and multiple outcomes to that committee, so we have factored in a lot of these risks as we make our decision.

Our objective from a portfolio management perspective is to purchase those credits and buy those credits into the portfolio that are likely to thrive in a specific economic environment, while also limiting some of the downside risk in different scenarios, so portfolio management is key to it but process is at the core of how we manage that type of risk.

Question 2
16
00:02:32.090 --> 00:02:45.150
Ethan Seid: Thanks, Bob, and second question for you. I know the team has begun to notice a shift in the upgrade downgrade ratio specific to the bank loan market. What potential risks and opportunities are we finding today?

Answer 2

22
00:03:31.240 --> 00:05:00.080
Bob Hickey: The rating agencies are a key part of the market. They will influence how credits trade, how people perceive them who are potential buyers, insurance companies, CEOs, money managers. They all have mandates that are often determined and limited by what's going on from a rating agency standpoint. So when the rating agency is an upgrade cycle, or when they're in a downgrade cycle, it will affect how the market trades, the liquidity, and the performance of different credits.

I think one of the more interesting things that we see in the market is when we have a fundamental belief or perspective on a credit that differs from the rating agencies, we may see a downgrade from the rating agencies because of some specific focus point by them. We may not view it as being as big of a risk as they are, and that creates an opportunity for us as a buyer to maybe take advantage of a market mispricing or Miss Miss prospecting or mis considering

It gives us the opportunity as a buyer take advantage of a misperception in the market that may allow something to trade at a price that's cheaper than its fundamental underlying credit would suggest.

This is what makes portfolio management, particularly active portfolio management, an important thing to consider.

We have the ability to go take advantage of these market differentiations when there’s a downgrade, where we don't think it's appropriate or an upgrade where we don't think it's appropriate, but it allows us opportunities to turn the portfolio over to create potential total return opportunities or just change the risk profile of the portfolio overall to what we think is more appropriate for that given point in time.

Closing

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00:05:02.050 --> 00:05:06.070
Ethan Seid: Thank you for your insight, Bob, and we look forward to hearing from the team next month.

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- Volatility of returns;
- Interest rate risk;
- Restrictions on transferring interests in a private investment strategy;
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- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds;
- Use of leverage which magnifies the potential for gain or loss on amounts invested and is generally considered a speculative investment technique and increases the risks associated with investing in the strategy;
- Carried interest which may cause the strategy to make more speculative, higher risk investments that would be the case in absence of such arrangements; and
- Below investment-grade loans which may default and adversely affect returns.
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