Interview

Xavier Hoche, Head of Convertible bonds at SILEX Investment Managers

Convertibles: Best of both worlds

Prior to joining SILEX, Xavier Hoche was Head of convertible bonds and dated funds at Oddo Asset Management from 2008 to 2013. He then founded the convertible bond management company AltaRocca AM, backed by Primonial group. Xavier is a recognized and often-consulted thought-leader in the convertible bond world. He also brings his entrepreneurial spirit to SILEX, as well as his experience as a founder of an independent asset management company. Xavier graduated from ISFA in with a degree in actuarial science.

Hello Xavier, you recently joined SILEX in June 2020. Can you tell us a bit about yourself?

XH: I have spent the past 25 years on convertible bond and credit markets. Before joining SILEX, I was head of convertible bonds and dated funds at Oddo AM from 2008 to 2013. I then founded a boutique asset manager specialised in convertible and high yield bonds, AltaRocca AM in partnership with Primonial Group. It was then sold to LFDE in 2018.

You are about to launch the fund SILEX Risk Managed Global Convertibles. What is the role of convertible bonds in private wealth management?

XH: Let's go back to basics. A convertible bond is a hybrid instrument between bond and equity. It is a classical bond, i.e. senior corporate debt with a fixed coupon and a notional value to be paid back at maturity. This is important since, except in case of default, the investor knows his maximum expected loss. But on top of the bond sits an option to convert into equity. The investor can at any time claim this right and transition from debtholder to equity holder.

The value-added of the asset class is therefore to gain exposure to equities with bond-like risk.

In practice over the long run, convertible bonds have enjoyed a performance similar to equities with half the volatility.

Financial markets have rebounded spectacularly since April. Is it the right time to invest in convertible bonds?

XH: It is actually a perfect timing. With interest rates at rock-bottom, it looks difficult to make money in traditional fixed income, especially if the economic recovery takes hold and interest rates start to rise.

> “IT IS ACTUALLY A PERFECT TIMING TO INVEST IN CONVERTIBLE BONDS”

In that context, bond investors have an opportunity to diversify and get equity exposure through convertible bonds without the associated risks.

On the other side, equity investors may become wary about valuations and look to convertible bonds for ways to maintain exposure and benefit from cheap protection in case markets start to roll over.

What are the key differentiating factors of your investment philosophy compared to existing funds on the asset class?

XH: I have had the same philosophy for the past 12 years, i.e. a conviction-driven approach based on fundamental bottom-up analysis and implemented through pure-play strategies.

To go in greater detail, the fund is investing globally as we need to find growth wherever it is. Technology in the US for example. But there are exceptional and great-value companies in Europe, which is why 60% of investments will be made in Europe. All my ideas start from fundamental analysis of companies over the long term, starting with their capacity to meet their debt payments. Then come considerations about the equity's upside potential and technical factors specific to convertible bonds, which can prove important. Finally, we favour convertible bonds that exhibit convexity, in order to benefit from the buffering effect in case of adverse scenarios. We recently saw with Covid-19 that this could be very useful with unexpected events.

Some investors are worried about the sensitivity of convertible bonds to interest rates, especially when yields are very low. What do you tell them?

XH: Against conventional wisdom, convertible bonds have historically performed well in periods of rising interest rates. In practice, two key forces are playing out. Their fixed income features imply that convertible bonds suffer as interest rates go up. But the equity call also tends to appreciate in those phases. And the net effect is positive most of times. Since 1993, convertible bonds were up 10 out of 11 times in phases of rising yields.■

This interview was finalised on September 1st 2020.

SILEX
Investment Managers
www.silex-im.com

9 rue Beaujon, 75008 Paris
SAS with share capital of €1,000,000
RCS Paris 843 847 989
Approved by the AMF GP-18000022