Dynasty AM founded in 2014 by Philippe Halb, Laurent Pluchard and Eric Bozzetto as a specialised credit boutique celebrates its 7th anniversary with 1.2 billion under management this year. The New Year is the perfect time to review past performance, objectives and Dynasty's view for 2021, with Philippe Halb – Chairman.

Philippe, for starters, how was Dynasty's year ?

It was interesting to say the least. After a quiet and business as usual start to the year the 'small' COVID problem in Wuhan in China evolved into a global situation which - let's be perfectly honest - nobody really saw coming and hence nobody was prepared for. Businesses shut down, economies shut down, whole countries shut down. As a result, markets tumbled. And our portfolio's suffered as a consequence.

True but the damage was contained and limited. How come? Where you prepared?

No of course not. No one can be prepared for a situation like this. But we have been implementing the same strategy for years now and indeed drawdowns were severe but limited.

Explain ?

We have been operating for years now in an environment where external shocks create volatility in a system that is basically supported by monetary and fiscal stimuli. Just think of all the major events that took place over the last 10 years : Lehman Brothers, the US housing market collapse (a.k.a. 'the big short'), the US downgrade, Greece & the threat of a Eurozone collapse, Brexit, Covid, and I am probably forgetting a few. All this makes the 1960 - 2000 period look like a long quiet walk in the park.

After a hesitating start, you notice response mechanisms are put in place. Two conclusions are obvious (a) response from policy makers is getting faster and better co-ordinated every time and (b) it is also getting more massive every time. As a result, we notice undeniably a fast growing monetary base, in absolute terms, but also as a percentage of GDP. And most importantly: we observe that it seems very complicated - if even desired - to reduce this monetary base to its former proportions.

So we are in an environment where exogenous events create shocks to the system, and policy makers by all means tend to avoid that these shocks create economic problems by taking massive support measures designed to avoid bankruptcies, massive unemployment and social unrest. So I believe we will stay for a while in an environment with low - but steady - growth, low inflation, low interest rates, probably asset prices going up (quality real estate, precious metals and - lets get adventurous - cryptocurrencies).

“All this makes the 1960 - 2000 period look like a long quiet walk in the park.”

So although rates are low and spreads are tight, but still offering value, this is to me obviously a bond friendly environment since central banks are buying bonds and supporting valuations, keeping spreads under control and allowing for liquid, functioning bond markets. Of course not every segment offers the same value and within each segment not every bond offers the same risk return profile. As a rule of thumb, we don’t own government bonds and very little IG and focus on spread - HY, subordinated credit, convertibles - where we see value. We do not invest in financials. As a rule of thumb, one third of the bonds we look at ends up in our portfolio’s.

Obviously, the monetary action is going to be supportive for equities as well but lets not forget that equity markets are not really cheap for the time being and that as an asset class they tend to be more volatile, and rather driven by sentiment and quarterly results.

We do not own TESLA CB’s for example, and that has been a huge drag on relative performance for the CB portfolio’s. But we do not understand why that company should trade at a P/E of 1200 and by worth more in market cap than the rest of the US auto industry. On top of that, we are not 100% convinced by their corporate governance.

How are your portfolio’s positioned for the end of the year and the beginning of 2021 ? What are the previsions ? Any major changes to your strategy ?

No major changes no. We have had a fair to good year, most portfolio’s recovered with the convertible bonds portfolio’s even up by more than 10% and our assets are flat to slightly up. We do believe we will continue to operate in the environment described above and therefore continue to invest along the same guidelines:

- Moderate delta's in the convertible portfolio's, around 40%
- Active bond picking, focus on governance issues when looking at risks
- Look at growth in bond selection (e-commerce, asian consumption)
- Look at where inflation might happen (precious metals)
- Avoid traps (deeply cyclical, deep value, no financials)

Two funds for 2021 ?

Without a doubt the convertible bond funds. Given the massive issuance we have had this year - 1/3rd of the univers has been renewed - I believe good years lie ahead of us.

And secondly, Quilvest Credit Sub, a very unique product we launched a few years ago investing in subordinated bonds issued by corporates, not financials. HY like returns with an IG rating and a short duration.

DYNASTY AM S.A.
16 avenue Marie-Thérèse L-2132 Luxembourg
Tél : +352 2469 77 www.dynasty-am.lu