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Ellington finds Ucits success with mix of structured and synthetic

by **Sayed Kadiri**

Fund managers are finding ample liquidity in the structured and synthetic credit market and this is helping them outperform in the Ucits fund universe.

These assets typically find themselves in hedge fund structures, but Ellington Management founder Michael Vranos says that a multi-strategy structured credit portfolio can also be compatible with a Ucits fund structure.

"We have been modelling this sector opportunity for years, and, having gathered data, we realised it made sense to look for other sources of capital for these assets beyond traditional hedge fund investors," explains Vranos.

Ellington Trium Alternative Credit Ucits Fund was launched in December and invests in a core portfolio of legacy CLOs, CMBS, CRE CLOs and RMBS. It also has a pocket that invests in synthetic credit. The fund is up 5.29% this year.

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Michael Vranos
Founder and CEO
Ellington Management

"Structured credit has become more liquid. We trade the assets that we own within the fund with approximately 60 dealers," says Greg Valli, portfolio manager for the fund.

One of Ellington's best trades was going long the 7-15% of the CDX IG index in May. As credit tightened in June, this position appreciated particularly fast given that synthetic tranches react quicker than cash instruments.

According to Valli, the synthetic market is a liquid way to efficiently put on risk quickly in such a move, which can be later monetised with limited bid-offer spread.

Xaia Investment uses Ucits funds to invest in single name CDS and portfolio manager Jochen Felsenheimer says that liquidity and the existence of a term curve make credit derivative instruments ideally suited to Ucits offerings.

"Liquidity in the single name CDS market — and also in tranches — is much higher than in corporate bonds," says Felsenheimer. "On top of this, I am able to invest in my preferred maturity bucket independent of the maturity of the underlying debt."