anaxis

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The Anaxis management team describes two examples of recent investments that demonstrate its Short Duration fund's ability to seize opportunities, even in difficult market conditions.

On top of its investments for the Anaxis Short Duration fund's core portfolio, the management team also makes more opportunistic purchases. An example of this is a short-term acquisition that we made at the end of 2018 in a bond issued by Italy's Safilo, a leading glasses frame producer.

At the time, the company was competing with Luxottica and Kering in particular. These bigger rivals were enjoying stronger sales growth. To reinforce its capital structure, Safilo announced a capital increase aimed first and foremost at repaying a bond maturing in May 2019 but also, more generally, at taking advantage of improved margins to kick-start its business.

After the initial announcement, the bond picked up a little in September 2018, rising from around 87% to 90% of the nominal. However, it was really when the EUR 150 million capital increase was confirmed and above all underwritten by a pool of issuing banks that the bond quickly converged towards par, as it would be redeemed at this price in May 2019.

We therefore bought the bond opportunistically at a little over 97 in September 2018, following confirmation of the capital increase, and benefited from repayment at par just a few months later.

These trades are less frequent than our core portfolio investments. The positions are for smaller amounts (0.5% of the fund's value at the time for Safilo) but they allow us to seize opportunities with a very high annualised return of 6% or 7% over a short period. The main reason for our access to this type of trade is our strong long-term relationship with a number of counterparties who can put forward such ideas when they emerge.

A second example of an opportunity, taken this time during the crisis of early 2020, is Ardagh. We particularly like the packaging industry as it is resilient and non-cyclical. Ardagh is one of the world's leading producers of metal and glass packaging for food and drinks, with an equal split in terms of end markets. The company is number one or two on most of its markets, especially in Europe and the United States.

Ardagh enjoys a strong long-term relationship with its clients. These are highly diversified and are mostly blue chip companies such as Pepsi, Coca-Cola, Findus and Nestlé, making its end markets even more stable. Capital expenditure is pretty hefty as production apparatus must be updated regularly. This business model therefore generates free cash flows, albeit at a consistently modest rate. The company's FCF oscillates between 0 and 5% of gross debt, meaning that deleveraging would take time. However, this has not stopped the company from refinancing very easily, even in difficult periods for the markets such as the recent one, and taking advantage of a well-managed debt ratio.

How has our investment in Ardagh's 2.75% 2024 bond fared? Ardagh is an issuer that we have always held in our Short Duration portfolio. We already had a slightly smaller position of between 0.6% and 0.7% of the NAV, which we strengthened in April of this year. The bond was then trading below par. We strengthened in expectation of refinancing not as early as the first call date, which was in early June, but rather on a 2021 or even 2022 horizon. However, soon after our purchase the company announced that it was refinancing this 2024 bond at the first call price of 101.375. We had bought the bond at around 97 a month earlier, and therefore reaped an annualised return of around 25%, even though such an early call had not been our central scenario.

This example shows that issuers like Ardagh, whose business model is very stable, are capable of overcoming the type of volatility that we have seen in recent months, and keeping relatively easy access to the markets, even without a government support package or help from shareholders. This regular access to the markets allows us, as investors, to generate attractive capital gains when the opportunity arises in resilient sectors like this one.

Safilo 1.25% 2019

- **Safilo** is an Italian company specializing in the production of glasses frames
- In 2018, the company lost ground against its competitors Luxotica, Kering EyeWear,…
- In order to strengthen its capital structure, Safilo announced in September 2018 a capital increase to refinance its 2019 convertible bond. The AK is "Guaranteed" by the main shareholder and a pool of Italian banks.
- Initiated position: 0.54%

Ardagh 2.75% 2024

- **Ardagh Packaging** is the world leader in metal and glass packaging for food and drink
- Ardagh has a number 1 or 2 position in most markets, a strong long-term relationship with its customers and stability in its end markets
- Although requiring significant investments, the business remains FCF generative
- Portfolio historical average weight of the issuer: 0.80% - 1.00%

	2016	2017	2018	2019
Revenues	7014	6390	6676	6660
EBITDA	1281	1141	1115	1173
FCF	164	228	3	190
FCF / Gross debt	2%	3%	0%	3%

About Anaxis Asset Management

Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.

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