



Lester Coyle

Born: Carlow, Ireland

Lives: Boca Raton, Florida

Education: Trinity College Dublin,
University of Michigan

Hidden talent: can milk a cow

Lester Coyle is the co-chief investment officer of III Capital Management, a hedge fund manager based in Boca Raton, Florida, and the portfolio manager for its credit funds.

Before joining III in 2005, he served as head of credit correlation trading at Commerzbank in New York.

III, which is affiliated to broker-dealer AVM, has around \$3.7 billion under management across various fixed income strategies, of which \$2.3 billion is in credit.

We look at where the bonds will be in a year

What is the best investment in credit? We favour short dated structured credit with static portfolios, such as European CMBS and 1.0 mezzanine CLOs. The curves are not steep enough to compensate for longer dated bonds.

The base yield on a double B 1.0 CLO might be 5% or 6%. But because of roll-down, the first year real yield could be 8% or 9%. In European CMBS we are buying paper with a two-year average life that has as much as 10% yield.

Why does roll-down provide such a big pick-up? Many double Bs should get upgraded as the senior notes pay down, and ratings-sensitive investors will pay more for a bond with an investment grade rating. Whereas many investors focus on the headline base yield, we look at where the bonds are likely to be in a year.

What is the worst investment?

We have a lot of concern about emerging market corporate debt.

If emerging market economies continue to slow, spreads will widen significantly and companies will struggle to refinance. Investors are not being compensated well enough today for that lack of liquidity.

Why is your company called III?

The company's name stood for Illinois Income Investors when we started in Chicago in 1982.

The connection to Illinois only lasted for one year until the company moved to Florida where the weather is much more pleasant. Now the name is III [pronounced "triple I"] Capital Management.

What was your first job in credit?

After leaving academia I worked as a credit quant at Bank One from 2000. I built models for the new world of credit, starting with single names.

What was your best ever trade?

In May of 2007 we bought protection on senior bespoke tranches where the underlying entities were triple B CMBS. We paid a spread of 50 basis points and we unwound those positions in less than a year at 50 points up front.

Partly, we were taking a fundamental view on CMBS at a time when similar trades referencing subprime RMBS were already starting to trade much wider. But we also felt there was a mispricing within the capital structure, with the seniors carrying tremendous risk relative to their tight levels. This was just before the cracks really started to appear with the collapse of the Bear Stearns Asset Management hedge funds. We felt something was going to happen and we wanted a hedge that would cushion us in a sell-off.

What was your worst trade?

In late 2012 we shorted a number of Japanese single names in CDS at around 190bp. We didn't think anything would kick Japan back into economic growth, but the new government and the start of Abenomics caught us out. Within a few months those names had tightened to around 140bp.

The lesson, which is relevant for Europe and the US, is that Japan's demand for yield is so large that it takes a very big credit event to move spreads wider. If we are in a zero inflation world, you could see a scenario of significant compression in spreads.

What makes you bang the table?

There is a reluctance on the part of some players to modernise our industry. We need to have more transparency. Single names and options should trade electronically as indices now do. The fact that loans settle in 20-30 days is illogical. These things hamper the market.