



David Allen

Born: Gloucester, Massachusetts

Lives: West London

Educated: University of California, Berkeley

Hidden talent: Rowing (competed at US national level while at college)

David Allen is the managing partner and chief investment officer of AlbaCore Capital, an independent investment firm he founded in London in May of last year to invest in European private debt and opportunistic credit.

The firm is majority-owned by its management team, and its fund received a €500 million seed investment from Canadian pension fund manager PSP Investments.

Allen previously ran the European credit business for Canada Pension Plan Investment Board in London, along with several colleagues who have joined him at AlbaCore. They include founding partner and portfolio manager Bill Ammons and deputy portfolio manager Deborah Malka.

As of May this year, AlbaCore had already deployed €300 million, mostly in senior debt.

Tuna fishing with a harpoon is a lot like picking credits

What are the best investments in credit today?

Those that, due to complexity, we can negotiate and structure directly with the borrower or in situations where a secondary seller is not price sensitive and we can buy assets cheap to fair value.

A lot of investors are looking for those same opportunities. How do you find them?

What differentiates us is that we have a reputation for providing creative, bespoke solutions, and can offer reliability of execution.

What is the worst credit investment currently?

It would be a low-coupon triple C bond priced to a two-year call option. There has been a lot of triple C issuance lately, often with coupons below 6%, which do not reflect the high leverage and default risk of these borrowers. At the same time, there have been large flows into short-duration credit, pushing short-dated bonds into the stratosphere. The worst investment will be one that combines these two trends. Generally, the more liquid the market, the more expensive an investment is.

Explain your firm's name

In 1998 I worked on Amazon's first bond deal and Jeff Bezos told me that a company's name should start with an A and be a word people can spell. Alba is the Gaelic name for Scotland, where my family are from, and is derived from Albion, the Latin name for Britain. I combined it with "Core", which I liked because it suggests a strong foundation, to come up with AlbaCore. Albacore is also a type of tuna and my grandfather was a tuna fisherman. He would catch each fish individually with a harpoon rather than trawl for them. That has a strong parallel with our approach as an investor.

What was your first job in credit?

My first job was working in the M&A department at Morgan Stanley in 1992, and from there I migrated to the high yield desk. I still have the lucites for bonds we arranged for companies like Del Monte and NTL. On them, the coupons stated are well above 10%. That is the biggest difference between the market then and now. Then, public high yield bonds paid investors more appropriately for the credit risk.

What was your worst ever investment in credit?

I have made a lot of mistakes over the years, and learned from them. One of my early mistakes ended up being a great lesson in risk taking with a pretty cheap tuition. Not long after graduating, I bought \$2,000 Trans World Airline (TWA) bonds for my own account in 1990. I paid 51 cents for the bonds, which had a 12% coupon. I sold them at eight cents on the dollar, which was a good trade because they ultimately went to zero. But I kept and framed the certificates for seven now worthless shares that I received in a restructuring. The lesson I learned is that yield is not return. TWA is exactly the kind of cyclical company I have learned to be wary of. In the early 1990s, it was hit by the double whammy of rising costs and falling revenue caused by the recession, the first Gulf war and rising oil prices. I have never bought an airline since.

What was the best?

At Morgan Stanley we bought Fokker 4% bonds at two cents on the Deutschmark after Daimler Benz pulled its support for the Dutch aircraft manufacturer. We sold them at 30. When you can buy at such a low price, the asymmetric upside is huge: it's not often you can make a 15-times return in credit.