

Interview: Sean George - Granit Global Credit Opportunity Fund

Stockholm (HedgeNordic) - The Swedish fund management company Granit Fonder will shortly launch a hedge fund focused on the global credit markets. The fund will go under the name Granit Global Credit Opportunity and will be managed by Sean George (pictured). In an interview with financial news agency Finwire, Sean explains what to expect from the new fund, how he approaches markets and why he believes that the Swedish market needs a hedge fund with the mandate to go both long and short of global fixed income and credit markets.

What is your background?

Sean George: I have extensive experience in the credit markets. I headed trading desks for so-called Credit Default Swaps (CDSs) at Bank of America, Deutsche Bank and most recently at Jefferies. During my 20 years in the credit markets, I have predominantly been active in the US where I have built an extensive network of contacts. Those contacts will be very important for us when we now launch the Granit Global Credit Opportunity Fund.

Why Sweden and why Granit Fonder?

Sean George: I was born in the US but grew up in Sweden and studied at the Gothenburg School of Economics. During my time in Sweden I got to know the owners of Granit Fonder and when I was asked if I was interested in setting up a fixed income hedge fund in Sweden, it was an easy call.

The way I see it, there is a gap in the Swedish market for fixed income funds. Very few funds have a flexible mandate that allow them to go short fixed income and credit markets and there is a lot of focus on the local market where a majority of the exposure is taken through real estate bonds. This has most likely resulted in very concentrated portfolios, the way I see it. The Swedish fixed income markets trade at lower yields and are less liquid, so the risk adjusted returns are lower here in Sweden when compared to the US for example.

What would you say characterize the way you manage money, what do you do differently?

Sean George: I focus primarily on finding attractively priced corporate bonds, which is currently done within the high-yield market in the US, Europe and Asia. The goal is to create a portfolio of 15-20 holdings with an average yield of 6 percent. This credit portfolio will work as the core around which I structure hedges. The purpose of the hedge strategies is to protect the core portfolio from tail risk events, which we believe could be an outcome of the European elections later this year for example.

The hedge positions should partly be used as a capital preservation tool but could also be used as an opportunistic short-term trading book. For example we will trade the secondary offering market in the US and Europe and take on relative value positions where we trade stock indices against credit indices. Through the hedge book we can create a net exposure on portfolio level that is short duration and or short the credit market, meaning creating a portfolio that can profit from rising interest rates. In my view this is a crucial part of the fund's profile.

Are hedge positions always active or are there moments when the core portfolio is unprotected?

Sean George: When we judge the climate for the core portfolio to be beneficial we won't be as active in the hedge book. The core portfolio can run unhedged at times but typically there is some hedging activity. For example we always hedge the currency risk back to SEK.

How do you come up with the fund's exposure?

Sean George: We analyze markets both on macro and micro level. The macro level takes the macroeconomic environment into account looking at things like leading indicators, economic statistics and the interest rate outlook. The micro-level analysis is company specific and considers information such as cash flows, balance sheets and income statements, debt structures and ownership. We do both our own analysis as well as using third party research.

What does your macro analysis tell you at the moment?

Sean George: We are in a period of increased uncertainty where we see both equity and bond markets as having reached stretched valuations, on top of this, market volatility has remained extremely low despite underlying political risks. We think that this environment could turn around quickly in the near future, and as a result we have reduced risk and added hedge positions.

What can investors expect from the fund?

Sean George: The expected return given the stated volatility target for the fund will be in the range of 5-7% annualized. The fund will have the risk-class 3 label meaning it corresponds to an investment grade bond investment, bonds with a relatively high credit rating that is. The annualized volatility of the fund should be less than 5%.

Why should one invest in this fund?

Sean George: For investors looking for a complement to traditional fixed income portfolios or who look for diversification in a portfolio heavily invested into equities, I view the fund as an interesting option. It will have a low correlation to both equities and bonds thanks to its flexible mandate and its active hedge positions. We have had a long period of rising equity and bond markets but nothing lasts forever and many investors need to find exposures that could benefit from an environment of rising interest rates, which is likely to be the road ahead.

When do you expect the fund to launch?

Sean George: We are still in the process of getting approved by the Swedish Financial Supervisory Authority (FI) but we expect the fund to launch within the coming two months.