Handsome Payoff For Asgard Low Risk Approach

Stockholm (HedgeNordic) – With +19% returns in the past year, Asgard’s Fixed Income EUR 600 million Fund must be doing something right. The key lies in the fund’s preference for the safest bonds, instead of riskier ones, with a dollop of leverage on top.

The Copenhagen-based fund’s investment policy is based on a top-down approach that follows a disciplined investment process divided into three phases: Macro and Micro analysis, portfolio construction, and evaluation/monitoring. Strategies are divided into five sub-strategies: Directional, Yield Curve, Volatility, Event and Relative Value, the latter of which primarily focuses on analysis of investment opportunities in the Danish and Swedish mortgage markets. A proprietary model is used to forecast and pick the best risk premiums in short-term, high quality bond markets. Most of the fund’s bonds, such as Danish mortgage bonds, are triple-A rated.

Ingrained in the management’s belief is a high degree of risk control and maintaining a diversified and largely uncorrelated portfolio. “That’s the core of our strategy,” Moma Advisors’ (which runs the fund) Chief Investment Adviser Morten Mathiesen (pictured at the 2016 Nordic Hedge Award), told Bloomberg’s Jonas Cho Walsgard. “The best risk-adjusted returns are actually the low volume trades.”

Ignoring the negative direction of interest rates in Europe at a time of high risk for bond investors (and as the ECB prepares to scale back stimulus), Mathiesen reemphasizes the fund’s lack of need to speculate whether rates go up or down. “We’re typically fully hedged,” he says. “We’re long risk premiums in fixed income. We have a strong bias towards the Nordics. We invest in anything that has a risk premium that doesn’t involve credit risk.”

The fund bets on yield spreads, country spreads and money market spreads in European fixed income markets. Its biggest risk is in Scandinavian covered bonds, but the fund has recently decreased holdings due to what Mathiesen says is “a lot of spread narrowing”. The fund hedges the bonds with derivatives in order to offset the interest rate risk and is only exposed to the spread, which is usually small, so the fund borrows money to boost the return. Current leverage is roughly x11, with the volatility target set at 6%.

“We’ve been successful in providing alpha. We’ve produced a higher risk-adjusted return than what carry should justify in the positions we hold,” Mathiesen told Walsgard.

Read the Bloomberg article here.