

Carlsson Norén Macro Fund Welcomes Increased Volatility

Stockholm (HedgeNordic) – Carlsson Norén Macro Fund is a Sweden-based hedge fund that invests in fixed-income markets in Nordic and G7 countries. Fredrik Carlsson and Martin Norén started the fund at the beginning of 2008.

Although the returns earned by the Carlsson Norén Macro Fund have been underwhelming in recent years, the fund has more than proven its ability to preserve capital in uncertain times on several occasions. For instance, the fund ended 2008 up 8.9 percent and gained 7.0 percent in 2011, a year characterised by financial market turmoil as a result of the European debt crisis. Before launching their macro fixed-income hedge fund, Carlsson and Norén had been in charge of Volvo's interest rate risk management. In an interview with HedgeNordic, they offer some details about their fund's strategy and discuss the recent performance of macro hedge funds, among other things.

HedgeNordic: *Can you begin by telling us more about your fund's strategy and objectives?*

Fredrik Carlsson and Martin Norén: The strategy was developed at Volvo Treasury where we identified the need to find a way to create steady returns, but not to risk the principal. It is a strategy with assets that can be liquidised fast in any type of market situation, while the conditions for making money increases with rising volatility. This is unique and in sharp contrast to most other strategies. Our target is to make 3 to 5 times the risk-free rate over time. We target investors looking to increase the performance of their risk-free assets regardless of the direction in the markets and with low correlation to other asset classes. To emphasise the low risk in the positions, we changed to daily liquidity from February 1st with investments and withdrawals on a T+1 basis.

HedgeNordic: *Both of you worked at Volvo Treasury before teaming up to launch your fund, what prompted you to enter the hedge fund industry with this strategy and how would you assess your journey so far?*

Fredrik Carlsson and Martin Norén: We had five very successful years together at Volvo. In 2007 we saw the tensions in the credit market coming. We identified the need for a fund without any credit risk but with the tools to make money in any market situation. That was the reason why we started Carlsson Norén Macro Fund. What we didn't know by then was that the volatility in the short end of the interest markets would collapse just a year after the inception of the fund.

HedgeNordic: *Could you comment on your recent performance? How are you positioned and what is your macro scenario?*

Fredrik Carlsson and Martin Norén: We welcome the recent uptick in volatility and believe there are good conditions for the fund to perform during 2018. For the moment we are much focused to see whether the pickup in inflation that most people expect will actually materialise. Will it be possible for inflation targeting central banks such as ECB and the Riksbank to normalise policy rates before the next cyclical downturn? We suspect that it will be a muted rise in rates due to the lack of inflation impulses in spite of the strong global growth. On the other hand, it will be very easy for us to change stance if this forecast is proven wrong.

HedgeNordic: *In your view, what are the factors that could turn the tide for global macro hedge funds in general?*

Fredrik Carlsson and Martin Norén: If central bankers abandon their self-proclaimed mandate to manage everything from stock market downturns to corporate bonds selloffs, the market economy as we learned in school might return. This is a prerequisite for global macro hedge funds to be able to forecast the developments in the market and make money. We are far from there now, but some hope could be put on the new Fed chairman Jerome Powell. Hopefully, the market forces can come back into play if central bankers stop violating their legal mandates. One can also hope for President Trump to implement some market-unfriendly policies that can create anomalies such as local inflation shocks. That is the type of market environment where alpha strategies eventually can prevail.

HedgeNordic: *Your fund delivered strong returns in uncertain times on several occasions, what is your secret sauce?*

Fredrik Carlsson and Martin Norén: When the risk-free rate is well below zero as it is in Sweden there are two ways of making money in the interest rate markets. You can either invest in speculative credit, and short volatility plays or as Carlsson Noren do, trade the movements in the markets. The disadvantage with the credit plays is the high correlation with other risky assets such as the stock market when there is a risk-off event. We think that the reason why there is demand for alternative asset classes such as Carlsson Noren Macro Fund is the ability to handle volatile markets and unexpected events.

HedgeNordic: *You have been managing Carlsson Norén Macro Fund together since 2008, how do you tackle differences of opinions over security selection and sector or country weightings?*

Fredrik Carlsson and Martin Norén: We have worked as a team for more than 15 years now, and we can only see advantages in our setup, that's been proven successful.

HedgeNordic: *On a final note, what makes your fund unique over other macro-oriented fixed-income hedge funds, what is your edge?*

Fredrik Carlsson and Martin Norén: Although the fund is allowed to hold investment-grade bonds, in fact since inception, it has held AAA-rated bonds only. As managers, we are very reluctant to go short volatility and speculate in the currency markets. On the contrary, we are proud to stick to our strategy even if it from time to time is dull and has difficulty to perform due to slow or central bank manipulated markets.