Low-Risk Exposure to FX Provides Uncorrelated Returns

Stockholm (HedgeNordic) – Although a number of systematic macro funds and trend-following CTAs from the NHX family invest in currencies, Jyske Invest FX Alpha is one of a handful of pure currency hedge funds in our index. The fund managed by Jyske Capital, one of Denmark's leading asset managers with assets under management of more than €22 billion, aims to generate consistent absolute returns by exploiting short-term imbalances in foreign exchange markets.

Though FX strategies are typically viewed as highly volatile, Jyske Invest FX Alpha represents a low-risk alternative for FX exposure. The hedge fund generated a compounded annual return of 2.4 percent since March 2011, experiencing a maximum drawdown of a negative 0.5 percent in the past seven years. In an interview with HedgeNordic, Christina Andersen and Jakob Amdi Frederiksen, the portfolio managers at the helm of FX Alpha, provide in-depth details of the strategy and the philosophy employed by the fund, as well as outline the fund's competitive advantage over peer currency funds.

HedgeNordic: How would you describe Jyske Invest FX Alpha in a nutshell?

Andersen and Frederiksen: FX Alpha is a low risk proprietary FX investment strategy with a focus on absolute return and low risk. The objective of the strategy is to combine investments in financial instruments to utilize short-term imbalances in FX-markets and create a positive return, independent of other market conditions. The strategy is characterized by low correlation with other asset classes and a long track record with stable positive returns. The objective for the fund is to create an annual return above CIBOR3 by at least 2%.

HedgeNordic: Please tell us about your team to get a broader picture of who runs Jyske Invest FX Alpha.

Andersen and Frederiksen: We are two lead portfolio managers fully dedicated to the strategy – both of us covering every aspect of the management of the portfolio. Christina Andersen has more than 15 years of experience with the FX and Money market. As a Portfolio Manager in Jyske Capital since 2007, she is covering all currency products in the department together with Jakob Amdi Frederiksen. Jakob joined the department in 2008 and has since 2010 worked as a Portfolio Manager at Jyske Capital. Christina was educated in Danske Bank in 1998, and Jakob owns a Degree in mathematics and economics from Aarhus University in 2005.

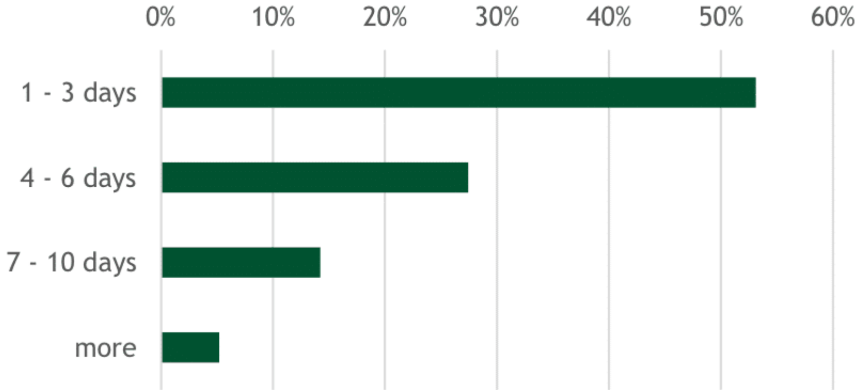
The strategy incepted in 2008, went through a natural development of the investment process the first years through 2010, with emphasis on tight Risk Management. The resulting Investment process is the foundation for the strategy that generates consistent risk-adjusted return through a diversified approach covering fundamental, economic performance, trend, flow, data releases and events.

We are part of the Investment Management team at Jyske Capital with 29 investment professionals, and as firm believers in teamwork across asset classes we are discussing invest ideas, topics and themes with the experts from other assets classes on a day-to-day basis.

HedgeNordic: Tell us about your investment philosophy and your strategy, do you aim to exploit short-term directional trends in currency markets or are you a longer-term-oriented player?

Andersen and Frederiksen: The philosophy is founded on a belief that there are lasting sources of return in the financial markets and that the return from these sources varies considerably over time. In addition, we believe that variations can be identified and that active management pays off relative to the risk assumed.

The strategy of FX Alpha is to utilise short-term imbalances in the FX-markets to create a consistent absolute return. The historical duration of positions appears in the chart below.



Source: Jyske Capital

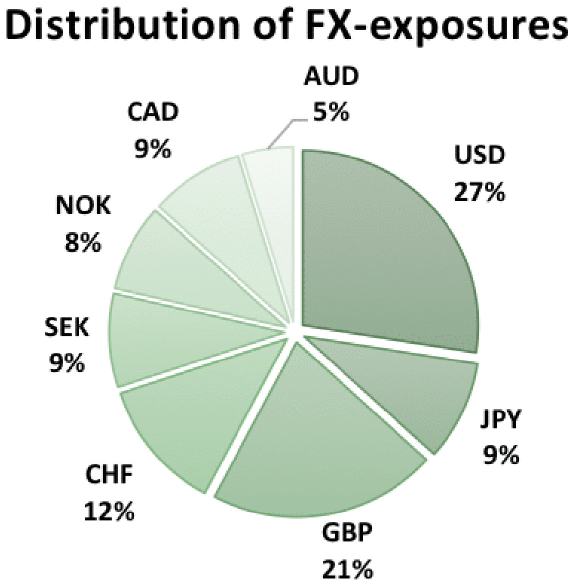
Through short term exposures in the FX-market, currencies which are considered undervalued are bought, and currencies considered overvalued are sold. When a position is entered and a risk is taken, a maximum accepted loss on the position (stop-loss level) and an expected profit (take-profit level) is established.

HedgeNordic: Can you provide some color on the qualitative or quantitative research you perform before taking positions in currency markets?

Andersen and Frederiksen: Due to the complex and diversified set of return drivers, we are always combining quantitative and qualitative elements with disciplined and consistent risk management before taking positions. We are utilizing a classic model-setup mixed with technical-analysis and selected independent factors, themes and fundamental dynamics. The quantitative setup and the experienced portfolio managers' ability to identify opportunities, optimize timing and maintain a strong risk management discipline, are the most important elements in achieving the goal of a stable and consistent return.

HedgeNordic: What are the currencies you trade? How do you decide on the allocation to each of these currencies or currency pairs?

Andersen and Frederiksen: The investment universe of the strategy is G10 currencies. As of January 2018, the distribution of positions appears on the chart below.



Source: Jyske Capital

The distribution of FX-exposures is a result of the investment process and the flow of news, key-figures and market-themes. There are no predefined limits for the distribution of trades but concentration-constraints induces a natural distribution throughout the investment universe of the fund. Daily assessments of the FX market, dialogue with counterparts combined with analysis of economic indicators, and certain event risks are main drivers behind positioning and exposures. Exposures are typically identified as either a relative or direct investment, dependent of the involved currencies. Disciplined dynamic risk management of every open trade is crucial in generating stable returns and minimizing drawdowns.

HedgeNordic: What competitive advantage does Jyske Invest FX Alpha have over other pure currency-investing hedge funds?

Andersen and Frederiksen: We believe that disciplined risk management is crucial in generating stable returns and minimizing drawdowns. Dynamic assessment of each trade and the underlying case, combined with stringent stop loss management are key characteristics of FX Alpha and important features that separates the dynamics in FX Alpha from more rules-based funds. We are very focused on a continuously fitting of size, stop-loss and take-profit of each trade, to the ever-changing landscape of information and sentiment in the underlying markets and economies.

FX Alpha is a 100% discretionary setup, ultimately based on the portfolio managers experience. This results in low correlation with other asset classes both in theory and practice. More systematically replicable trading strategies will, in our opinion, often have a higher correlation to other traditional asset classes.