Othania's Tiger Released into the Wild

Stockholm (HedgeNordic) – Othania Invest A/S, an alternative investment fund investing in exchange-traded funds, is not what most people might consider a typical hedge fund. Instead of running an equity long/short strategy or other hedge fund-like strategies, Othania Invest uses a risk-on and risk-off approach to allocate either 100 percent into U.S. equities or 100 percent into bonds via ETFs.

Vincent and Christian Steen Larsen *(pictured)*, two brothers who launched family-owned asset manager Othania in March 2016, explained the proprietary investment model powering Othania Invest, discussed its performance since inception and the forthcoming launch of the UCITS version of the original fund in an interview with HedgeNordic.

Othania Invest's Investment Model: Tiger

The strategy used by Othania Invest relies on a proprietary investment model dubbed "Tiger", which estimates the risk of being exposed to the U.S. equity market for the coming month and decides on the full allocation of capital either into U.S. equities or U.S. bonds. Should the model indicate low or acceptable levels of risk in the U.S. equity market for the upcoming month, Christian and Vincent Larsen allocate 100 percent of capital into exchange-traded funds offering exposure to the stock market. In the opposite case, the capital is allocated to ETFs that offer broad-based bond market exposure.

"The TIGER model estimates whether risk levels in the stock market are rising or not for the coming month using leading indicators on economic activity, interest rates, and stock market movements," Vincent Larsen explains. "The key characteristic of the strategy is the aggressive rotation," he adds. The two-member team running Othania Invest makes 12 investment decisions per year based on the model's predictions "by taking a clear stance on whether equity market exposure is a good or bad investment over a one-month horizon."

Hedge fund or not?

Because of the allocation between bonds and equities, some might think of Othania Invest as a typical balanced fund. The founders have a different stance on the subject. "Our aggressive risk-on/off approach to investing means we are never "balanced" in any way," says Christian Larsen. "We see our fund as a mix between a hedge fund and a balanced fund," he adds. "Since we make an all-in or all-out rotation, our model allows us to generate absolute returns in all environments – a resemblance to hedge funds. On the other side, we do not use leverage or short-selling like a typical hedge fund," says Christian. "Our current and potential investors see us as a hedge fund or an alternative fund."

The hedge fund industry has received its fair share of criticism for their hefty fees in recent years, but Othania Invest offers an investor-friendly fee structure. The fund charges an annual management fee of only 0.25 percent, one of the lowest management fees charged by any member of the Nordic Hedge Index (NHX) – second to PriorNilsson Idea. Othania Invest charges a performance fee of 15 percent on any return above a hurdle rate of five percent. "Our competitive edge comes from our unique and proprietary investment model that offers investors strong capital preservation and high returns combined with a low fee structure," says Vincent.

Track Record and Plans

Othania Invest delivered an average return of 11.4 percent per year since its inception at the end of March in 2016. Talking about the success of the strategy so far, Vincent Larsen says: “even though there have been a lot of political risks with Brexit, Trump taking office, national elections and the North Korea crises, to name just a few, the model’s focus on the underlying fundamentals in the economy has really payed off in terms of the right allocation at the right time.”

Although the fund’s focus on U.S. markets has not affected investor demand, some potential investors suggested a more global mandate. The success of the current strategy facilitated the launch of the UCITS version of Othania Invest with a global mandate. The UCITS fund will be launched in mid-October using the same “Tiger” investment model, coupled with a global mandate instead and an ESG/SRI overlay. The existing fund’s investor base comprises high-net-worth-individuals, as well as family offices and banks. “We expect our investor base to broaden to include more institutional investors once we reach a three-year track record in March 2019,” concludes Vincent. The imminent launch of the UCITS fund, meanwhile, aims to capture a much wider investor audience.