Asgard's Exposure to Crossover Credit Pays Off

Stockholm (HedgeNordic) – Danish hedge fund **Asgard Credit Fund** gained 19.8 percent in the first seven months of 2019 and currently ranks among this year's top ten best-performing members of the Nordic Hedge Index. The fund has achieved this feat by going further out of the credit quality spectrum.

"You get well compensated for going out the curve in the investment grade market," chief investment officer Daniel Pedersen *(pictured)* recently told Bloomberg. With €130.3 million in assets as of the end of July, Asgard Credit Fund has exposure to more than 200 corporates using corporate bonds and credit default swaps primarily in the lower end of the investment grade and the higher end of the high-yield spectrum. In this crossover segment, credit risk premia – returns for bearing corporate default risk in excess of realized default losses – are more readily available. The Danish fund, on average, leverages up to four times via credit default swaps to increase credit exposure, mainly focusing on North American and European credit markets.

According to Pedersen, the credit spread curves of US dollar-denominated BBB-rated corporate bonds are relatively steep at the moment, meaning investors can capitalize on existing uncertainty about the future by buying long-duration bonds. As a result, Asgard Credit Fund has bought supermarket chain Kroger's bonds maturing in 2029 at a spread of around 200 basis points. The fund also holds Bacardi bonds maturing in 2028, Hewlett Packard bonds due 2035 and Xerox bonds due 2039.

"There are some good names in retail," Pedersen told Bloomberg. "It's important to stay in the high-quality names," he emphasized. "The consumer is still doing quite well, also confirmed by the recent earnings reports coming out from Target, Walmart, Lowe's," Pedersen tells HedgeNordic. "The regulatory reform of 2017 means the employment rate of the prime age group is still going higher," he says, further adding that "this is going to support consumer spending going into next year." Pedersen reckons that a recession is "most likely still at least a few years away," saying that "growth rates are going to stay decent the next couple of years." The US economy "isn't yet at full employment even though that's what you read in the headlines."

Asgard Credit Fund's existing portfolio of short positions includes names such as Italian financial groups Unicredit and Intesa Sanpaolo, steel and mining company ArcelorMittal and miner and commodities trader Glencore. "We are not very concerned short term about these credits, they have after all improved their balance sheets, but we think in a selloff or a serious capital market crisis, these names are good examples of some credits that will underperform," Pedersen told Bloomberg.

Pedersen, however, is more concerned about Tesla, oil and gas drilling contractor Nabors Industries and similar credits with more liquidity concerns. "If Tesla and Nabors, for example, tighten from around 500-700 basis points currently to 300-400 basis points those are names we would most likely start to get short in," he said.

Commenting on the current state of financial markets, Pedersen tells HedgeNordic that "there is currently increased market volatility and uncertainty about a US-China deal." However, he emphasizes that "it is important to be aware that supply chains have already been reduced significantly in China." This process started about 4-5 years ago and accelerated in 2017 as a consequence of the US investigation of Chinese trading practices.

"As of mid-2019, Mexico is now a larger trading partner of the US, and we also see a significant increase in trade flow between Asia ex-China and the US," says

Pederson. US imports from China in the first half of the year were at the lowest level since the first half of 2016, whereas US imports from Mexico are now at the highest level seen so far. “Other countries are also benefitting from this transition in supply chains, including Vietnam, South Korea and India,” he says, emphasizing that “we are rapidly approaching the last chance for China to pull the brakes to limit the transitioning of supply chains away from China.” For these reasons, Asgard Credit Fund currently has very limited exposure to China, according to Pedersen.