

Illiquid Assets Sold in Liquid Wrappers

Stockholm (HedgeNordic) – Several dozen funds focused on Swedish and Nordic corporate bonds temporarily suspended the processing of subscription and redemption orders due to high volatility and liquidity constraints in corporate bond markets. “It is a record in my lifetime,” hedge fund manager Sean George (*pictured*) tells Realtid.se.

George, who serves as the chief investment officer of Gothenburg-based asset manager Strukturinvest Fondkommission and manages **Hamiltonian Global Credit Opportunities**, warned about illiquid assets being sold in liquid wrappers last year. “It is seldom that one wants to be wrong, but this is definitely one such instance when I want to have been wrong,” says George. “This has created a huge concern for people and companies in the country who had to see their assets locked up,” he adds. “Most of the fund companies still managed it nicely and were able to open again.”

Several Nordic hedge funds investing in corporate bonds had to suspend the trading in their funds as well. Stockholm-based asset manager Aktie-Ansvar suspended the trading in four of its hedge funds – Graal, Graal Aktiehedge, Graal Offensiv and Aktie-Ansvar Multistrategi – for a couple of days. Danske Invest Fixed Income Global Value had to suspend the processing of subscription, switch and redemptions orders in the fund too. Two Nykredit hedge funds – Nykredit KOBRA and Nykredit MIRA – were not spared either.

“Risk-taking in illiquid assets will change,” reckons George. “The managers probably realize that they had major miscalculations in the proportion of illiquid assets, but they do not want to say that outright,” he adds. “It is more difficult to value products with many illiquid assets,” which explains why so many funds have been gated recently. Following the recent events in the Swedish corporate bond market, George believes the Swedish fund market will face more regulation, either self-regulation or regulation imposed by Sweden’s financial supervisory authority, Finansinspektionen.

Funds face significantly more rules abroad than in Sweden, facing limits on what proportion of their portfolios can be invested in a particular group of bonds, facing requirements related to the geographic and sectoral spread, among others. “Many of these things are used when managing money globally, but not in Sweden,” George tells Realtid.se. The hedge fund manager reckons the industry will have to embrace more regulation.

The real issue involves the suspended trading in money market mutual funds, highlights George. “Several of the funds that have been closed had gradually shifted to owning a lot of high yield bonds. It was not supposed to be that way,” argues George. Money market funds represent an important source of financing for corporations and institutions. “Finansinspektionen may be allowed to do stress tests on funds in the same manner the regulator does on banks.”