Target Achieved Halfway Through the Year

Stockholm (HedgeNordic) – When orchestrating the launch of **SEB Eureka Fixed Income Relative Value** more than two years ago, Bo Michael Andersen set an explicit return target in the range of 4 to 8 percent per year net-of-fees. After two years of rubbing elbows with the lower-end of the target, the relative-value fund managed by a team of three out of SEB's Copenhagen office is up 7.2 percent year-to-date through mid-June with six months to the end of this year.

"We expect to deliver a return in the high-end or exceeding our long-term return target in 2020," Andersen tells HedgeNordic. "Our absolute return has been very good both in 2020 and the period since the launch of the fund in January 2018," he continues. SEB Eureka Fixed Income Relative Value delivered a net-of-fees return of 15.2 percent since its launch through the end of May this year, corresponding to an annualized return of about six percent. "At the same time, our realized volatility has been quite low, which has resulted in a very good Sharpe ratio for the fund." The annualized standard deviation of 2.3 percent, lower than that the volatility target of 4 to 8 percent, brought about an inception-to-date Sharpe ratio of 2.5.

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To achieve its return target, SEB Eureka relies on relative-value strategies to exploit inefficiencies in Scandinavian fixed-income markets. One strategy focuses on taking advantage of the yield pickup in covered bonds, while other strategies involve other relative-value spread trades in over-the-counter (OTC) derivatives, government bonds, among others. More importantly, fulfilling SEB Eureka's objective requires active management by the three-member team comprised of CIO Bo Michael Andersen and portfolio managers Tore Davidsen and Rasmus Dall-Hansen. "Our investment philosophy is built on the ambition of being a very active participant in the Scandinavian fixed income markets," Andersen previously told HedgeNordic.

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The team's active management has also contributed to this year's strong performance. "If the 2020 year-to-date performance should be ascribed to one overall factor, it would be active management," Andersen tells HedgeNordic. "We have been very active in the way we have managed the covered bond portfolio, not only managing exposures across maturities and countries, but also in terms of the absolute risk level," he continues. "Active management has also resulted in positive return contributions from other relative-value strategies that the fund engages in, especially in government bonds and interest rate derivatives."

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"Our investment strategy has demonstrated resilience in the very stressed markets seen in the first quarter," says Davidsen, who has been working alongside Andersen since the fund's launch in 2018. SEB Eureka is enjoying a string of nine consecutive months with positive returns. SEB Eureka "had significantly reduced our risk level in the fund and exposure to Scandinavian covered bonds between October 2019 and February 2020 as we felt pricing had become stretched," points out Davidsen. The coronavirus-triggered market volatility, however, "created a number of opportunities in Scandinavian government bond, covered bond, interest rate derivatives and XCCY markets that we were confident to buy into."

“When markets went into risk-off mode and covered bonds spreads widened significantly in March, we had room to increase the risk level in the fund,” says Dall-Hansen, who joined the portfolio management team in May of last year. “Following the initial spread widening in the covered bond market in March, issuance pressure in government as well as sovereigns, supranationals and agencies (SSAs) bonds, resulting from the COVID-19-related funding need, created new relative-value opportunities in those markets,” he continues.

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Commenting on the expectations for the remainder of the year, Andersen tells HedgeNordic that “we are on the cautious side even though we would expect financial markets to slowly “normalize”, accommodated by both fiscal and monetary policies around the world.” Andersen sees “a probability of a second wave scenario, both in terms of outbreaks as well as risk-off market moves.” The team running SEB Eureka “still expect to see periodical volatility in financial markets going forward, which is expected to create new relative-value opportunities in Scandinavian fixed-income markets.”