

# An Almost Impossible Feat to Copy

Stockholm (HedgeNordic) – Fifteen years after its launch at the beginning of 2005, **Danske Invest Hedge Fixed Income Strategies** has become one the largest and best-performing hedge funds in the Nordics. “I still remember when we started with DKK 50 million back in 2005 and how we struggled to get inflows the first couple of years,” Michael Petry (*pictured*), who has been part of the fund’s journey from the start, tells HedgeNordic.

Fast forward 15 years, Danske Bank Asset Management’s flagship hedge fund oversees DKK 8.0 billion or about €1.08 billion in assets under management, delivered an annualized return of 11.1 percent and enjoyed positive performance in 14 out of the past 15 years. The performance of Danske Invest Hedge Fixed Income Strategies has been “absolutely fantastic – outstanding – and almost impossible to copy,” according to Petry, who is Head of Hedge Funds at Danske Bank Asset Management. “Furthermore, we have not been taking new money into the fund for many years, simply to protect our existing clients’ investments,” he continues. “I think that says everything about the fund’s journey.”

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Danske Invest Hedge Fixed Income Strategies is a relative value fund “primarily active in government bonds, mortgage bonds, interest rate swaps and cross-currency swaps within the Scandinavian currencies.” Whereas the fund can invest across fixed-income markets in Scandinavia, Europe and the United States, the management team tends to make investments closer to home. “Scandinavia has been our focus through all the years,” says Petry, but “we also make global investments.” Looking back at the fund’s journey since inception, “I would estimate that 80-90 percent of our risk has been in Scandinavian fixed-income markets.”

## A Brief History

Michael Petry has been part of the team running Danske Invest Hedge Fixed Income Strategies since its inception in 2005. Kasper Ullegaard started the fund back in 2005 and lured Petry into joining the team. “Kasper Ullegaard asked me to join the team, which I will always be grateful to him for.” Petry has been in charge of managing Danske Bank’s flagship hedge fund since 2006 and is currently running the vehicle alongside Tom Rosenkrans, Carsten Cilieborg and Thomas Ryaa. Rosenkrans joined Petry in 2007, whereas Cilieborg and Ryaa joined in 2010 and 2015, respectively. “Without Tom, Carsten and Thomas, the fund would never have been able to achieve those results,” says Petry.



From left to right: Michael Petry, Carsten Cilieborg, Tom Rosenkrans and Thomas Ryaa.

"Since launch, we have had 14 out of 15 years with positive performance – and right now, it looks like 2020 will be another good year," Petry tells HedgeNordic. The only down year for Danske Invest Hedge Fixed Income Strategies in its 15-year history was 2008. "2008 was our first test," highlights Petry. At the beginning of September in 2008, the team was "very pleased" with the results. Whereas equity markets were broadly down by 20-25 percent for the year at the time, the fund was in positive territory. "The collapse of Lehman completely changed the situation and we ended with a negative return in 2008." The fund quickly recovered from its 2008 drawdown, generating an annualized return of 29 percent over the next five years. "Our drawdown was closed already in the spring of 2009," says Petry. "It took equity markets years to close their drawdown."

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### **Victim of its Own Success?**

Danske Invest Hedge Fixed Income Strategies has earned equity-like returns by investing in fixed-income markets, achieving an inception-to-date Sharpe ratio of 1.35. Whereas Petry "would love to" repeat the performance enjoyed over the past 15 years, the odds of achieving the same feat going forward are low. "I can tell you that the whole team would do everything to repeat the performance the next 10-15 years," emphasizes Petry. "But if you ask if it is realistic, the answer is a clear NO," according to Danske Bank's Head of Hedge Funds.

Danske Bank Asset Management's flagship hedge fund has a return target of "risk-free rate plus 3-5 percent," according to Petry. With the risk-free rate in negative territory at the moment, this return target circles around 3.5 percent per annum going forward. "I think that is a much more realistic return for the years to come," reckons Petry. While Danske Invest Hedge Fixed Income Strategies is not at risk of becoming a 'victim of its own success,' Petry suggests investors would be wise to temper expectations.

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"The problem with a return of 3.5 percent per annum is that our clients, and investors in general, have been used to much more," points out Petry. "We all need to face the realities," he continues. "No matter if you talk about fixed income, equities, alternatives or hedge funds, in my opinion, everyone should expect a much lower return in the years to come compared with the returns we have been used to historically."

### **Volatility is Good - But Not Too Much of It**

"Volatility is good" for Danske Invest Hedge Fixed Income Strategies. "But we do not like too much of it," emphasizes Michael Petry. "Volatility will normally give us a number of opportunities, which we historically have been good at taking advantage of." The financial crisis of 2008 has created many opportunities for the fund led by Petry, and so did the debt crisis of 2011-2012 and the related developments across fixed-income markets after the currency crises in the Swiss Franc (CHF) and the Danish Krone (DKK) in 2015. "After the financial crisis in 2008 there were so many of them we could hardly choose, many opportunities occurred again after the debt crisis in 2011/2012," says Petry. "The COVID-19 crisis here in 2020 will hopefully be another good example, but it is of course too early to tell," he continues. "Historically, we have seen opportunities come and go," but the recent and ongoing quantitative easing from central banks "is reducing the numbers significantly."

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In addition to Danske Invest Hedge Fixed Income Strategies, Copenhagen-based Danske Bank Asset Management manages an additional three fixed-income hedge funds. The bank's entire range of fixed-income hedge funds oversees about €2.3 billion in assets under management, up from roughly €1 billion at the beginning of 2014. "Fixed-income funds and fixed-income hedge funds are a core competence at Danske Bank and has been for a number of years," Petry tells HedgeNordic. "Talking about Danske Invest Hedge Fixed Income Strategies, I believe we have a very experienced team, we have been together for a very long period and we have an extremely strong investment process," he continues. "All that combined is an important explanation of the success we have experienced."

Pictures courtesy of Danske Bank Asset Management.