A Stellar Year for Fixed Income – Volatile for Credit

Stockholm (HedgeNordic) – Since launch in 2003 the Asgard Fixed Income strategy has amassed returns of more than 725% corresponding to an impressive compound annual growth rate (CAGR) or return of 13%. For the Investment Manager, Moma Advisors, which targets high risk-adjusted returns, the realized Sharpe Ratio close to 2 is equally satisfying.

2020 has been a volatile year with the draw-down during the COVID crisis in March followed by an environment, which was very profitable for the strategy. "Although 2020 on many levels was frustrating and challenging, the year also provided a good balance between volatility and stability. That has enabled us to reach a return of more than 15%, which is close to potential given the risk restrictions", says CIO Morten Mathiesen.

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"At the offset we had expectations of approximately 8% for the year, but the spike in volatility in March due to the covid-19 outbreak provided some welcome opportunities to re-adjust the portfolio for higher returns" according to Morten Mathiesen. Portfolio turnover in March and April was higher than normal as the manager took advantage of the dislocation in relative pricing.

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Although the main contributor to the return has been positions in Nordic covered bonds, other sources of return, such as cross-currency and other forms of basis, have also contributed well in 2020. These are relative value positions that do not depend on the absolute level of interest rates.

Expectations for 2021

After the stellar performance in 2020 the outlook for 2021 is more modest. "We have seen spread contractions in the Nordic covered bond markets throughout the year, and even though the funding situation is still favorable, we expect lower return and allocation coming from Nordic covered bonds", Mathiesen explains. However, this may of course change according to market volatility over the year. Changes in the shape and slope of the yield curve could also increase or reduce the potential return target due to the contribution of roll. Either a general market setback or a curve gradient change could widen out spreads and allow Moma to build trades that generate higher income.

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A lower-than-historical realized return expectation for the year to come should of course also be viewed in the context of lower expected returns in fixed income markets more generally, where $17 trillion of bonds now have negative yields in November 2020. Relative to conventional fixed income strategies, the advantage of the Asgard strategy is still intact. The ability to obtain leverage for the safest assets at competitive sub-LIBOR rates, and the flexibility to trade across multiple sub-sectors of the fixed income markets, provide more potential return drivers.

Subscriptions and Redemptions

Assets under management have only increased slightly in 2020 from EUR 809m to EUR 832m. A closer look at the number reveals a somewhat more turbulent picture, as the manager has been hit with redemptions of close to EUR 100m in 2020. "A few of our international investors have faced new regulatory hurdles in 2020 making it difficult for them to justify the investments in our funds. Fortunately, we have also seen inflows from various quarters, which in combination with higher NAV has resulted in a net increase in AUM in the year", says Birger Durhuus, CEO at Moma Advisors.

Swedish Share Class


Birger Durhuus, CEO at Moma Advisors

As expected, low and negative interest rates on deposits have forced investors in Scandinavia to look for alternatives. Moma Advisors has noticed an increased interest from Family offices and High Net Worth individuals in both Denmark in Sweden. "Due to popular demand we decided to launch a SEK share class in Asgard Fixed Income Risk Premia a few months ago and have already seen significant interest from Swedish investors to invest in the share class" the CEO continues. Performance for the SEK class should be very close to the EUR class, given the minimal interest rate difference between the two currencies; the USD class has outperformed the EUR class thanks to the USD having higher interest rates than the EUR.

ESG Integration and Green Bonds

Moma Advisors has spent considerable time this year exploring the best way to meet the growing demand amongst investors in relation to sustainability. Although the relevance of ESG considerations to investment decisions varies across asset classes and strategies, the investment manager is committed to integrate ESG factors. In this context, Moma Advisors has been active in purchasing green bonds for the fund. As of today, approximately 50% of NAV in the Asgard Fixed Income funds is invested in green bonds. This is likely to be a growing trend. “We have seen more issuance of green bonds in Denmark and Sweden, and we expect to see further growth of issues of mortgage and government bonds in the future”, says Durhuus.

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Termination of the Asgard Credit Fund

The Asgard Credit Fund was launched in 2016 and has been managed by a separate team of credit specialists within Moma Advisors. The fund was based on some of the same investment ideas and strategies as the fixed income funds, but applied to the asset class of global credit. Although the fund has delivered positive returns since launch, its volatility has been significantly higher and has resulted in a meager Sharpe Ratio. This, in combination with dwindling investor interest, led Moma Advisors to take the tough decision to wind-up the fund and return the cash to investors by the end of this year.

“It is never a positive experience to close a fund prematurely, but we are pleased that the unwinding of all positions has been done in a orderly manner, and that the fund actually increased more than 6% in value in the month where the positions were liquidated”, says Durhuus.

New Fund Launch in 2021

Asked about future product offerings, CEO Birger Durhuus replies, that “Moma Advisors has been working intensively during the past year on the construction of a new fund, that will offer investors exposure to global fixed income, global credit and various other related instruments”. The investment manager aims to launch the fund in Q1 next year. “We are really excited about this project which is a collaboration with another investment manager who brings a very different set of skills into the investment processes”, says Durhuus. At this stage Moma Advisors is not ready to disclose the identity of the investment partner.

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This article featured in HedgeNordic’s report Alternative Fixed Income Strategies.