Same, Same But Different

Stockholm (HedgeNordic) – From time to time, investors unavoidably face episodes of volatility on their investing journeys. Financial markets, market participants and ordinary people tend to dislike uncertainty. The existing and prospect investors of Oslo-based multi-strategy hedge fund **Polar Multi Asset** happen to dislike uncertainty and volatility just like everyone else.

After gaining over 20 percent in March alone but then giving up 22 percent during the summer, "both existing fund-investors and potential investors have expressed a desire for somewhat lower volatility in our fund," Kent Torbjørnsen, the CEO of Polar Asset Management, tells HedgeNordic. "Based on this feedback, we at Polar have made some changes during the autumn to attract more investors," he continues. "The result of these changes is our new fund, **Polar Value**."

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Kent Torbjørnsen joined forces with Ole Christian Presterud to launch Polar Multi Asset at the beginning of March this year, aiming to generate high uncorrelated returns by investing across several asset classes. Similar to Polar Multi Asset, the freshly-launched Polar Value "is not a fund with a fixed mandate for asset diversification, but a fund that has a free mandate to allocate capital on the back of our macro view, even 100 percent cash at times," according to Torbjørnsen. "This means that Polar Value is actually a continuation of Polar Multi Asset, and a renaming of Polar Multi Asset, but for legal reasons, we still had to register Polar Value as a new fund."

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Lower Risk Carveout from Polar Multi Asset

Despite rolling out a new fund with more restrictions and limitations, the strategy employed by Torbjørnsen and Presterud remains the same. "We look at the markets from a fundamental point of view, and then rely on traditional fundamental analysis of the financial markets to find the best investment object across asset classes," explains Presterud. "Once this analysis has been done, we use quantitative and technical analysis to find the best possible time for market exposure," he elaborates. "For this, we have in-house models developed through years of experience and testing in the markets."

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Although Torbjørnsen and Presterud continue to employ the same opportunistic macro-based approach, "Polar Value has limitations that will lead to somewhat lower volatility," says Torbjørnsen. "In addition, we will have a larger share of equities in the portfolio, typically 8-10 equities where our main focus will be Scandinavia," he adds. Polar Value maintains a dynamic portfolio that will contain a concentrated number of shares. The team, however, "can hedge the equity risk in periods where we have a negative market view, that is, without us necessarily selling the shares," says Torbjørnsen. "In certain situations, we have the flexibility to sell all or part of the equity portfolio."

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"Polar Asset Management continuously seeks to adapt to changing financial market conditions and bases its positioning on the firm's global view of economic data, geopolitical risks, and fiscal and monetary policies," emphasizes Torbjørnsen. The duo running Polar Value mainly invests in liquid instruments such as individual securities, indices and derivatives in equities, commodities, currencies, fixed income and interest rates. "Investing in highly liquid securities affords the firm the flexibility to react quickly and capitalize on market opportunities as they present themselves," points out Torbjørnsen.

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With the new fund, the team aims to offer investors "the highest return possible within a reasonable risk profile," according to Presterud. "That said, our goal is to provide positive returns in all market conditions," he adds. "We have chosen to use the NHX Composite as a benchmark for Polar Value, and our main goal over time is to deliver a considerably higher return than the NHX Composite."

Bearish Bet Against Equity Markets

Polar Multi Asset advanced about 24 percent from its launch in March through the end of May, but the multi-strategy vehicle gave up its gains during the summer after Presterud and Torbjørnsen turned bearish on equity markets. "We have received a lot of attention around our positioning in the direction of the stock market decline, and less attention around other positionings we have made in the same period," points out Torbjørnsen. "The rationale behind the positioning was that from a fundamental point of view we thought the stock markets, especially in the United States, were highly-priced," he continues. "In addition, we believed that the geopolitical situation could worsen, at the same time as we believed that the internal presidential race in the USA could cause noise throughout the autumn."

As a result, the original version of the strategy run by Polar Multi Asset declined 14.3 percent in August to cut from the 20 percent-advance enjoyed in March. The fund was up 6.4 percent since its inception through the end of October. "In hindsight, and sadly for us, we can see that we underestimated the effect of low interest rates and the sharp supply of liquidity in the markets," acknowledges Presterud. "This led to a disaster for our fund in August, and over the autumn, we have gradually adapted to the market situation. In isolation, this positioning ended with a negative return."

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The lower risk Polar Value advanced 7.1 percent in its first month of operations. "In Norway, there is little tradition for multi-strategy funds, and the few that are available typically have a long/short equity approach," says Torbjørnsen. "When starting Polar, we wanted to give investors availability to a fund using securities widely across assets. We do this by using our long experience from the professional parts of the international financial markets, to create return for our investors."