

Othania's One-Stop Product

Stockholm (HedgeNordic) – “Diversification is the only free lunch” in investing, says one quote attributed to Nobel Prize winner Harry Markowitz. In response to client demand, Danish boutique asset manager Othania has launched a fund of funds that represents a “one-stop” solution providing access to a wide range of asset classes via investments in hedge funds, alternative investment funds, and exchange-traded funds (ETFs).

“We launched Othania Bæredygtig Makro as a one-stop solution that aims to provide a stable high single-digit return with a bit lower standard deviation,” explains Vincent Larsen, who founded Othania with his younger brother Christian in 2016. Othania also runs two systematic funds that rely on a risk-on and risk-off approach to invest in equity and bond ETFs. Explaining the rationale behind the launch of the fund of funds, Vincent Larsen says that “during the years we met many clients interested in our funds who also sought a fund that had a broader approach and invested in a lot more asset classes.”

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One-Stop Diversification Product

According to Larsen, “investors wanted a structure that was easy to invest into, enabling access to a multi-strategy, multi-asset product without having to invest in many different individual asset managers.” **Othania Bæredygtig Makro**, therefore, seeks to invest in Othania’s own hedge funds, other hedge funds and alternative investment funds from the Nordics, as well as exchange-traded funds offering exposure to different asset classes across the globe. “The strategy will be managed through passive and actively-managed vehicles, including actively-managed ETFs,” explains Vincent Larsen. The ultimate goal is to create “a one-stop product that combines all thinkable asset classes into one.”

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Othania’s fund of funds currently maintains an allocation of 20 percent to its own funds, **Othania Invest** and its sister fund **Othania Etisk Formuevækst**. “That’s the allocation level our own funds would occupy in the portfolio for now,” says Larsen. “We also maintain a large allocation to equity ETFs that account for about half of the portfolio, a decision based on our view that equities will continue to perform well in the foreseeable future,” he continues. “We also have a high allocation to gold and other inflation-protected ETFs,” says Larsen. “Similar to some of the other hedge funds in the Nordics, we believe that the inflation theme could become relevant in the coming year or years.”

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Othania Bæredygtig Makro’s portfolio will house an ever-expanding range of asset classes. “We have

looked into a lot of different, uncorrelated asset classes that we would like to invest into, which could be passively-managed through ETFs or actively-managed through other managers,” says Vincent Larsen. “Now we have a couple of different asset classes in the portfolio, but we run a continuous process of adding more and more asset classes that are negatively correlated to each other,” he continues. “The idea is to get different strategies and asset classes that will perform no matter where the market goes.”

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Allocation Process

Unlike the purely systematic strategy powering the other two Othania funds, the allocation process in the recently-launched fund of funds will also incorporate the team’s qualitative assessments of the market environment, the risk-reward characteristics of each asset class and the underlying funds and fund managers. “The decision process will not be as systematic as in the other two hedge funds,” points out Larsen.

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The team’s allocation to various asset classes and investment vehicles broadly relies on a two-step process. “First of all, we look at the return potential and risk-return profile of asset classes,” explains Vincent Larsen. “Then we compile a list of managers active in the asset classes with attractive risk-return profiles and go through the classic 4 P’s of fund selection: People, Process, Performance, and Products.” Vincent Larsen and his team at Othania pay close attention to each underlying manager’s usage of leverage, fee structure, among other things. “If we onboard a manager into the fund, it will be with a long-term perspective. We expect a long-term, fruitful relationship of at least three to five years.”

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