SuperStrategies

Stockholm (HedgeNordic) – For more than a decade, Nordea's multi-asset investment team headed by Asbjørn Trolle Hansen has successfully isolated and captured return drivers across different asset classes. Solid risk-adjusted returns and strong downside protection helped turn their Alpha Solutions into the largest strategy in terms of assets in the Nordic hedge fund universe. Nordea's Alpha family – comprised of **Alpha 7 MA**, **Alpha 10 MA**, and **Alpha 15 MA** – collectively oversees more than €7 billion in assets, so let's meet and learn more about one of the largest players in our universe.

"The funds are multi-strategy, risk premia-based liquid alternative investment solutions," Asbjørn Trolle Hansen, Head of Multi Assets at Nordea, tells HedgeNordic. "This fund range uses a number of low correlated investment strategies to provide dynamic exposure to multiple return drivers within a universe consisting of a subset of mainly equities, fixed income and currencies," he elaborates. In pursuit of diversification to traditional asset classes, Nordea's multi-asset team is splitting up about 30 different risk premia strategies into six buckets or "SuperStrategies."

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"We harvest risk premia across six underlying SuperStrategies which operate independently as sub-portfolios; each being its own alternative asset class in terms of risk behavior," explains Hansen. "They include multiple different risk premia, we generally employ around five underlying risk premia strategies within each SuperStrategy," he continues. "As a result, the final portfolio shows a very high degree of diversification across the six SuperStrategies and each of them has shown a rather independent behavior to one another over the years."

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Four of the six SuperStrategies are built on the risk balancing principle, which involves a combination of both beta and anti-beta risk premia for "all- weather" behavior. These strategies are designed to perform well in both risk-on and risk-off market environments. The last two SuperStrategies are directional, comprising momentum and mean-reversion strategies that can capture risk-on and risk-off conditions. "The portfolio construction process is essentially a risk allocation approach, both within and across the SuperStrategies, and different risk and return estimates are used in this process," explains Hansen. "In that way, quantitative inputs are important to the portfolio construction but the risk allocation to the different return drivers is ultimately a qualitative process."

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"We have a dynamic allocation process to the different strategies dependent on how attractive they are seen," further elaborates Nordea's Head of Multi Assets. "This means that we are able to flexibly adjust our allocations if deemed necessary and appropriate, either for return generation or hedging." Nordea's multi-asset investment team leverages on 15 years of research to bundle traditional and alternative premia in these six SuperStrategies. "Our recipe is not so secret but rather one of diversification," emphasizes Hansen. "It was very good that we had these very special auto-diversifiers that we have been working on for so long."

Whereas the Nordea multi-asset team constantly works on developing and improving its range of strategies, “we have no intention to increase the number of strategies” reflected in the portfolios of Nordea’s Alpha fund family, according to Hansen. “We are typically working with 20-30, a number that has worked well for us over time,” he continues. “Recently the behavior of the strategies seems to be quite according to plan, so the research is pretty much following the same thorough trajectory as in the past where good improvements take time.”

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“The fund’s investment approach differs from most other traditional approaches to generate positive absolute returns,” emphasizes Hansen. “We are focused on combining both traditional risk premia with hedging and alternative risk premia across different asset classes,” he adds. “All of the risk premia used are either backed by extensive academic research and/or have been developed using proprietary tools for our risk premia investing.” Investors in Nordea’s Alpha family “get dynamic exposures allocated fundamentally to premia that are assessed positively.”

2020 in Focus

The three funds in Nordea’s Alpha family all share the same investment approach but exhibit different risk-return profiles. The flagship product in Nordea’s Alpha family, Alpha 10 MA, ended 2020 up close to eight percent, with the fund gaining 3.3 percent in March and 4.2 percent in April. Alpha 15 MA Fund, the most aggressive member of the family that targets higher returns and exhibits higher volatility, gained 12.7 percent last year, while Alpha 7 MA Fund returned 4.7 percent. Nordea’s entire Alpha family was part of a select group of funds that made money in both March and April last year.

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“For most of 2020, we have been appreciating the rather consistent return generation throughout a volatile year,” Hansen tells HedgeNordic. “The outcome was driven by the portfolio’s attractive asymmetric return behavior or our designed positive convexity,” he continues. “This was key to navigate the sharp regime changes in the market, with risky assets experiencing one of their worst drawdowns ever and all-time high volatility during the first part of the year before equity markets were rallying towards new records until year-end."

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Nordea's Alpha fund family was up in all four quarters of last year, with different strategies contributing to performance at different points in time. "We were quite active in our allocations through these phases because of changed expected return rather than for risk reasons," explains Hansen. "A nice result of effective tail hedging is, of course, that you have the opportunity to apply risk when the market is most dislocated." The contribution to performance from different strategies "will vary over time."

Inception-to-Date Journey

Nordea's Alpha 10 MA Fund has generated an annualized return of 2.8 percent since launching in October of 2009. Its recent journey has been even more enjoyable, with the flagship delivering 4.8 percent per annum over the past five years. The Alpha 15 MA Fund, meanwhile, has delivered an annualized return of 6.2 percent since launching in June of 2011 and has generated 7.9 percent per annum on average over the past five years. "Actually, our Alpha Strategies were started up end of 2006 in other wrappers," emphasizes Hansen. "So it has a long history by now. Looking back, it feels like a fantastic journey, mostly in terms of learning but also to see how some of our ambitions and aspirations have worked. So far, so good."

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"To give clients that value proposition of capital protection and alternative return generation, trying to bridge quite deep academic theory into a client result is satisfying for me and my Multi Asset colleagues," Nordea's Head of Multi Assets tells HedgeNordic. "We have had our tough times of lacking returns, like in 2010 where I felt everybody was performing better than us. But in hindsight, the long track record looks like something we could have hoped for when we set up the strategy almost 15 years ago."

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"From the beginning, the idea was always to provide alternative return generation with downside risk protection when the market deleverages," says Hansen. "Of course, in some periods this has worked better than others. However, even throughout the Financial Crisis, the European debt crises, the COVID-19 phase, and a couple of other deleveraging tests, we have remained around what we see as the standard deviation of returns and with both positive and negative outcomes."

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