Asgard soars with Nordic-focused bond strategy

Since an overhaul of its investment strategy in 2007, the performance of the decade-old Copenhagen-based Asgard Fixed Income Fund has been little short of spectacular

In Norse mythology, Asgard is the realm of the gods. Over the past few years, the performance of the Asgard Fixed Income Fund would appear to put it on a somewhat higher plane than many of its peers in the fixed-income space.

But the truth is rather more secular. Morten Mathiesen, CEO of investment adviser Moma Advisors, explains that over the years he has learnt what he is not good at – such as macro events, directional investments and things like trying to predict yield levels.

Instead he uses a proprietary model to forecast short-term expected returns on various bond markets, looking for relative value and spread trades to exploit the varying risk premia in fixed-income assets.

"The results that the model brings up are used in a portfolio optimisation model to maximise the fund's expected return, subject to various risk limits such as leverage levels." he explains.

The story of the Asgard fund began in 2003. But not much remains the same from how the fund looked a decade ago compared it to what it looks like now – apart from the fact that Mathiesen and his team are still managing it.

In the 10 years since Mathiesen set up the fund, Asgard has undergone a metamorphosis to focus on relative value rather than global macro – with a strategy that encompasses volatility trading, yield curve and event-driven investments.

As well as learning what he is not good at, Mathiesen has clearly also learned what he does do well – as proven by very strong performance numbers in recent years that are in line with the primary aim of generating consistently high long-term risk-adjusted returns.

This year Asgard has returned nearly 8% to the end of May. Since inception 10 years ago, the annualised return is almost 15% – and over the past five years the performance is startling, annualising at 25% since 2009.

The strategy focuses on relative-value fixed-income investment opportunities in European fixed-income markets with a Scandinavian bias. The fund trades and invests long and short in government, mortgage, covered and index-linked bonds with a minimum credit rating of Aa3 or equivalent, and both listed and OTC fixed-income derivatives.

Mathiesen has 13 years of experience as fund manager, risk manager, fixed-income analyst and as developer of software for portfolio optimisation. Before launching Asgard, he worked at several Nordic banks, starting at Jyske Bank in 1997.

Jesper Obeling Kring, senior portfolio manager, works alongside Mathiesen at Moma. Kring has eight years of experience in fixed-income management and has been a portfolio manager for the Asgard funds family since 2006, applying his expertise in the Scandinavian mortgage market and in fixed-income derivatives. He is also a specialist in money market and repo operations, and has worked with Mathiesen since 2005.

From launch until 2008 the Asgard Fixed Income Fund was managed by Nordic Asset Management – which was bought by one of the largest pension funds in Denmark, PFA. After two years another deal was set up that allowed Asgard to reappoint Mathiesen and his team as independent advisers.

The fund is no longer linked to PFA and instead is distributed by Copenhagen-based Plinius Capital. PFA continues to manage Midgard, another fixed income-focused fund that Mathiesen also launched and managed during his stint at PFA.

One year before joining forces with PFA, Mathiesen had restructured the investment strategy of Asgard – bringing about a transformation in performance which is rarely seen unless the fund manager or team is changed or replaced entirely, which was not the case for Asgard.

To take full advantage of the financial crisis and the resulting much-changed environment, the fund has since the beginning of 2008 mainly focused on picking the best risk premiums in short-term high-quality bond markets.

The relative safe haven of Nordic fixed-income markets, compared to most other developed markets and the rest of Europe and the US in particular, has been a rich boon for Asgard since the crisis.

Now the fund mainly invests in yield spreads and takes no or very limited risk on the general level of interest rates. Long interest-rate risk is normally hedged with derivatives or short positions in other bonds.

"We buy risk spreads and sell in derivatives and use various instruments depending on where we want to go short. If we have no opinion, we generally use swaps as well to exploit the spread between the Swedish krona or the Danish krone versus the euro," says Mathiesen.

"We focus on cherry-picking risk premiums and as a result are long in this sector. This also means we are slightly positively correlated to risky assets such as equity markets."

From inception until 2007, Asgard's performance had been fairly pedestrian – returning an average of 3.78% a year. As the crisis got under way, Mathiesen's recalibrated strategy started to pay off and the fund lost less than 4% in 2008 – in a year when comparable benchmark indices lost 25% or more.


Morten Mathiesen

"Our track record between 2003 and 2008 was dull," he remarks. "But in 2007 we began to see the signs of the crisis and we saw opportunities we had never seen before which led us to leave behind the old strategy of trying to predict yields and other rather unpredictable time-series."

Volatility has been very low over the past few years – usually at around 4-6% a year, except in 2008 when it was roughly 10%. Furthermore the hit rate of winning trades has been much higher than before – now at around 85-95%, compared to 60% with the old strategy.

Performance over the past four years has been stellar – returning 57.41% in 2009, 20.64% in 2010, 25.31% in 2011 and 34.12% in 2012. Mathiesen warns that returns are likely to be lower this year, but believes the strategy will still be able to add substantial value. "We expect the portfolio to return 10-12% with a volatility of 5-6% and a Sharpe ratio in excess of 2 – numbers that we could only dream of in 2006," he says.

The stormiest days of the financial crisis may be over, but Mathiesen believes that high risk premiums are here to stay. "Even if the situation normalises there are enough things to skew the market besides financial crises," he argues, pointing to issues such as capital requirements for banks which Asgard can continue to exploit.

And he is confident that the proprietary model that underpins the strategy will continue to work well even as market conditions change. "I don't worry too much about world events as I am not good at directional trading," he says. "We have a narrow strategy which we are good at, so it would be difficult to justify doing anything else, given our performance."

Until last year Asgard was closed, but it has recently re-opened to new investors – with the firm looking to take in assets from institutions, high-net-worth individuals and fund of fund allocators. Mathiesen believes the fund could easily double in size from its current level of €300 million (£257 million) in assets under management – and eventually scale up to €1 billion (£858 million).