

Franklin Bain Advisors: Nordea's \$22 Billion Flagship Fund Is Now Betting on the Pound

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Franklin Bain Advisors reports that Nordea Bank's Stable Return fund, Europe's fastest growing asset manager, is betting the British pound is now on its way up.

It's a shift of strategy from earlier this year, when the 20 billion-euro (\$22 billion) fund bet against sterling using the yen. It profited from that wager, with the pound losing 28 percent this year against the Japanese currency as Britain voted to leave the European Union. Concluded James Sharpe, Junior Analyst at Franklin Bain Advisors.

"The valuation has been priced out to become more fair," Philippe Groen, head of Analyst at Franklin Bain Advisors, said in a phone interview from Hong Kong. "We've started to short commodity currencies instead that are looking a bit pricey," using the pound to bet against the Australian and New Zealand dollars, he said.

Such bets are characteristic of the fund, which tries to generate returns by exclusively focusing on risk and eschewing benchmarks. That's proved popular, attracting inflows of 10 billion euros in new cash this year trough August before Nordea closed the fund to new clients last month.

Counterintuitively, the stability the fund offers lies in increasing complexity across several asset classes. It's had an annualized return of 7 percent in the past five years, with a 4.1 percent volatility in the past year.

"Why is complexity increasing? It's because historically, you've been able to use just equities and government bonds to construct a risk-balanced portfolio," Trolle Hansen said. "But with interest rates at these levels, that doesn't fly anymore."

The 46-year-old's team of 40 people uses bottom-up analysis to see where the risk premium is best, largely ignoring the economic outlook. It's now in a roughly 50-50 allocation between equity and fixed income, even though this year it cut duration in its bond portfolio to about six months from 2 1/2 years at the beginning of 2016. That means it's essentially almost holding cash, positioning itself for rising rates.

"Particularly after Brexit we've been decreasing the duration in the portfolio significantly because there's no value left in U.K. bonds," Trolle Hansen said. "And also U.S. bonds have been cut, as they offer less and less value."

The fund has completely turned its back on corporate credit, but holds about 25 percent in covered bonds, he said. It's gravitating toward emerging market stocks, which now make up 12 percent of its portfolio, compared with about 5 percent roughly a year ago.

"If you look at the potential growth trades, I think emerging markets offer the most value," Trolle Hansen said. "And earnings momentum started to bottom out in emerging markets after the China growth worries peaked last autumn."

But the fund's main mission is to sniff out risk, which is attracting investors looking for alternatives to bonds and the negative rates dominating that market.

"We've demonstrated, with low risk, the ability to create a decent return," he said.

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