

# NEWSLETTER DECEMBER 2013



**MIDGARD**  
FIXED INCOME FUND LIMITED

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Performance & NAV	AA	A	B
Monthly return	-0.16%	-0.16%	-0.21%
Return year-to-date	13.95%	13.95%	11.43%
NAV per share	234.77	115.70	112.88

*All statistics, unless otherwise stated, are for the AA share class.*

## MARKET UPDATE DECEMBER 2013

Midgard Fixed Income Fund yielded -0.16 per cent in December, which brings total performance for 2013 to 13.95 per cent.

With ECB on hold and slightly improved economic key figures put an upward pressure on rates and the year ended with a slightly negative tone in fixed income markets.

The Swedish covered bond market held up well in ASW terms and mostly traded sideways in December whereas we noticed a soft undertone in the Danish ditto, which explains the marginal negative result for the month. The Danish issuers had more or less completed their issuance for the remaining year in November and therefore left December quiet uneventful in terms of supply. Hence, the slight widening unfolded under low turnover.

The ongoing work with the Danish mortgage law modifications in terms of refinancing risk continued and the original bill seemed to be continuously diluted. Late November 5 year loans were exempted and media reports that 3 year loans also will be exempted. It is still to be seen if the current consultation could lead to an exemption of the explicit interest rate trigger level as well, but that would be a very welcome initiative.

Elsewhere in the regulatory sphere, focus was on the coming classification of covered bonds in terms of bank's emergency buffers of liquidity (LCR). The European Banking Authority (EBA) decided to overrule their internal liquidity analysis and recommended not including covered bonds in eligible level one assets. While it is only a recommendation and the final call is left with the EU Commission, this view can of course not be neglected. Countries like Sweden and Denmark with low public debt (and hence low amount of tier one assets in form of government bonds) have historically used covered bonds actively in their liquidity portfolio. If they are forced to take other measures, this will of course impact the pricing of covered bonds. However, lobbying has been started to persuade lawmakers of the disadvantages of the EBA recommendation and strong support from e.g. the Danish central bank should weigh somewhat in the discussion. In terms of timeline, the Commission will define the LCR rules mid-2014 and the gradual implementation will begin January 2015



Christian Riemann-Andersen  
Senior Portfolio Manager, Midgard

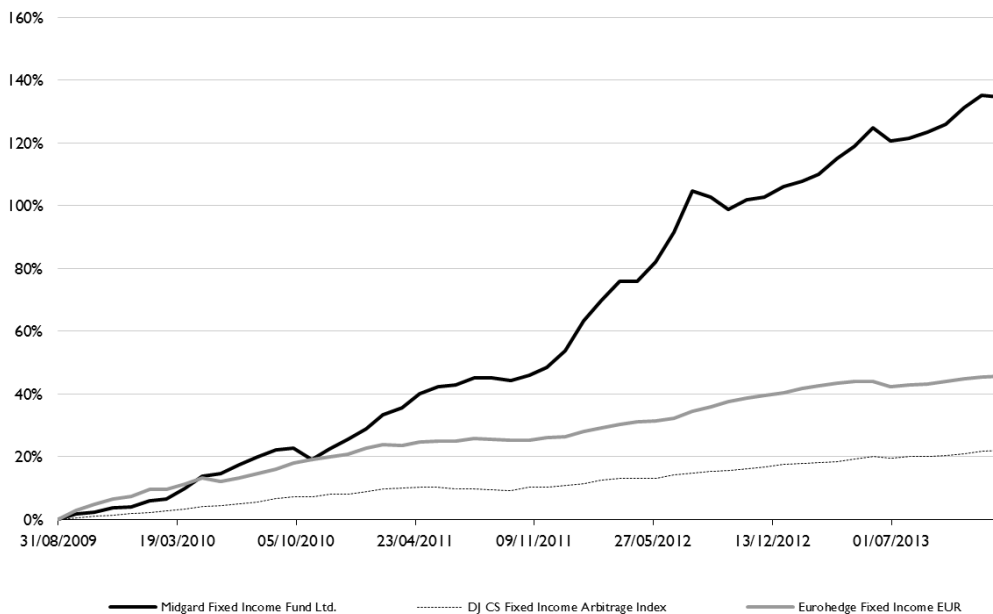
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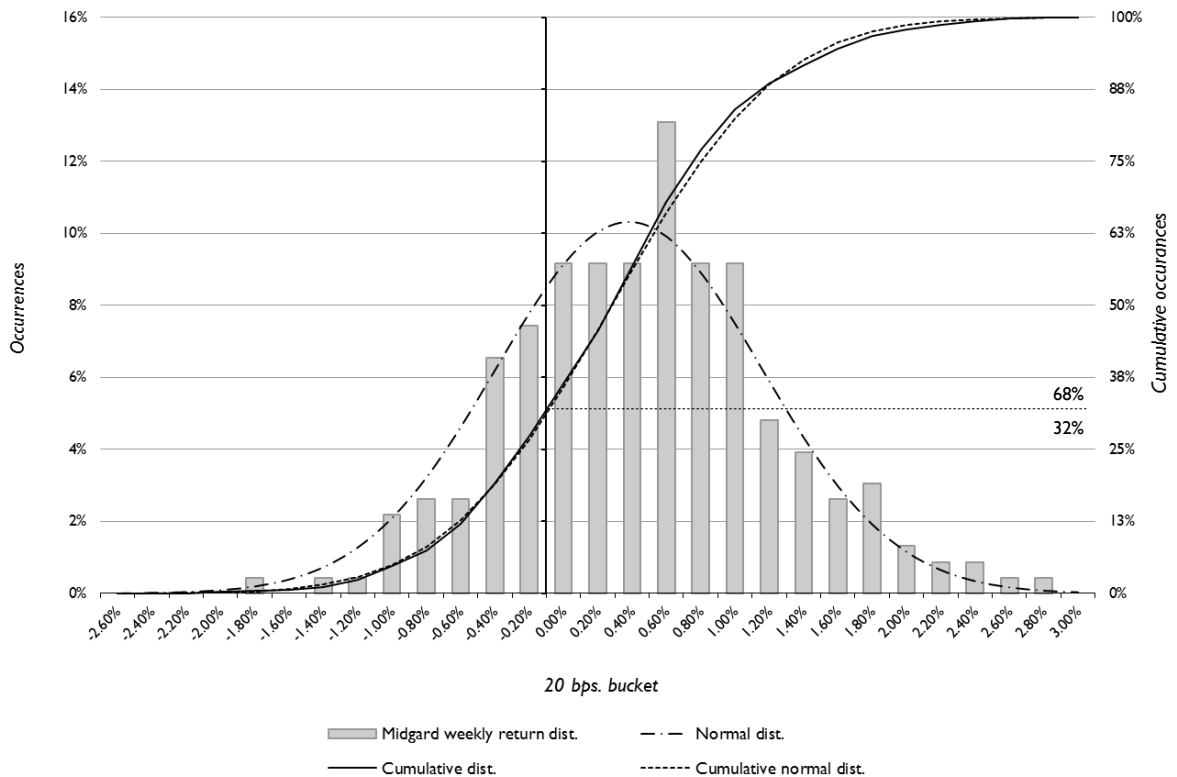
## HISTORICAL PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YoY
2009									1.66%	0.59%	1.32%	0.39%	4.01%
2010	1.98%	0.44%	3.23%	3.34%	0.91%	2.32%	2.16%	2.03%	0.31%	-2.98%	2.80%	2.56%	20.67%
2011	2.71%	3.40%	1.65%	3.32%	1.74%	0.30%	1.49%	0.18%	-0.75%	1.31%	1.77%	3.45%	22.50%
2012	6.20%	4.03%	3.56%	-0.01%	3.43%	5.25%	6.97%	-1.07%	-1.82%	1.47%	0.50%	1.54%	34.00%
2013	0.91%	1.01%	2.41%	1.81%	2.70%	-1.82%	0.36%	0.89%	1.14%	2.24%	1.71%	-0.16%	13.95%



Return	Midgard Fixed Income Fund Ltd.	EuroHedge Fixed Income Arbitrage Index	DJIA Fixed Income Arbitrage Index
Annualized	21.77%	4.71%	9.08%
Last 12 months	13.95%	3.87%	3.80%
Last 3 months	3.82%	1.33%	1.29%
Since inception	134.77%	22.08%	45.76%
Best month	6.97%	1.02%	2.77%
Worst month	-2.98%	-0.50%	-1.14%
Positive months	86.54%	90.38%	90.38%
Negative months	13.46%	9.62%	9.62%
Volatility	6.43%	1.21%	2.47%
Sharpe Ratio	3.30	3.44	3.45

## RETURN DISTRIBUTION



Moments	Midgard Fixed Income	EuroHedge Fixed	DJIA Fixed Income
	Fund Ltd.	Income Arbitrage Index	Arbitrage Index
Return	21.77%	4.71%	9.08%
Standard deviation	6.43%	1.21%	2.47%
Kurtosis	1.23	0.23	0.91
Skewness	0.29	-0.45	0.15

Correlation analysis	Midgard Fixed Income	EuroHedge Fixed	DJIA Fixed Income
	Fund Ltd.	Income Arbitrage Index	Arbitrage Index
Correlation coefficient	-	45.89%	18.81%
Beta	-	254.03%	51.83%
Alpha	-	9.40%	16.31%
R2	-	21.06%	3.54%
Autocorrelation	28.66%	7.93%	31.59%

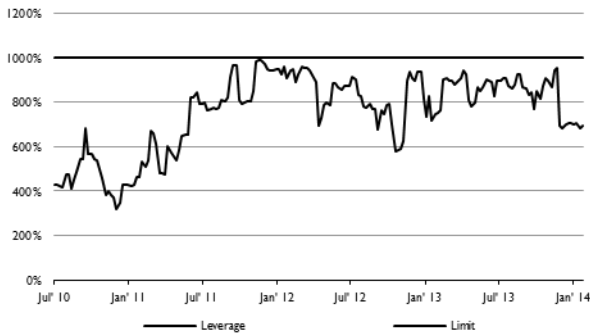
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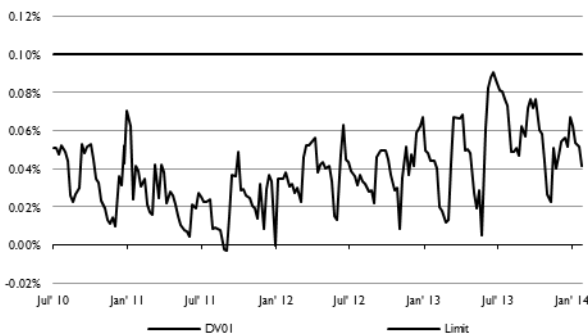
## RISK & LINE LIMITS

### LEVERAGE

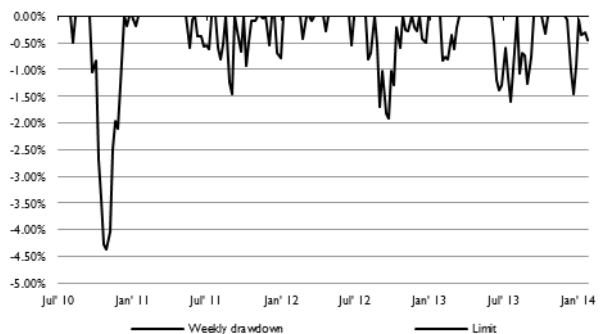


Risk	Midgard	Limit/limit
DV01	0.06%	± 0.10%
Leverage	6.89	Max. 10
VaR	0.70%	Max. 2 %
FX exposure	41.70%	Max. 100 %

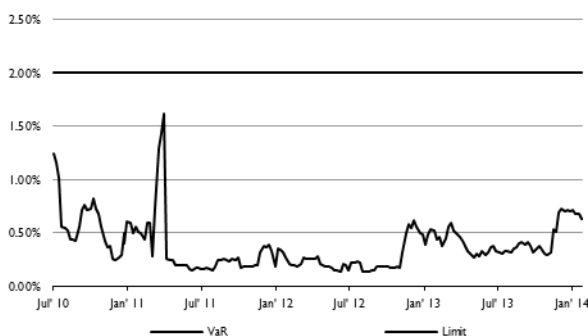
### DV01



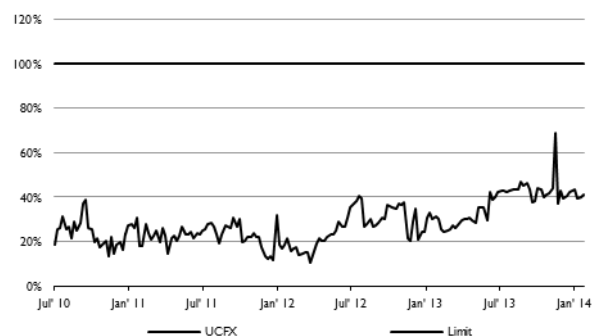
### WEEKLY DRAWDOWN



### VaR



### NON-COVERED FX EXPOSURE



## RISK FIGURES

Risk Figure	Weekly data		Note
	Since inception	1Y	
<i>Period</i>			
Portfolio return ( $r_p$ )	21.77%	13.95%	
Excess return ( $r_p - r_f$ )	21.24%	13.84%	
<i>36 month</i>			
Portfolio return ( $r_p$ )	23.21%	-	
Excess return ( $r_p - r_f$ )	22.71%	-	
Maximum drawdown since inception	4.38%	1.60%	
Maximum drawdown 36m	1.91%	-	*
Largest individual drawdown			
First	1.85%	1.60%	
Second	1.42%	1.45%	
Third	1.24%	1.38%	
Average	1.50%	1.48%	
Calmar Ratio	11.88	-	*
MAR Ratio	4.85	8.64	
Sterling ratio	14.14	9.45	
Downside risk	0.88%	1.07%	
Upside risk	1.33%	1.68%	
Loss standard deviation	6.65%	5.11%	
Gain standard deviation	4.89%	3.39%	
Mean absolute moment, downside	-24.02%	-21.54%	
Mean absolute moment, upside	39.94%	29.15%	
Omega ratio	1.51	1.57	
Volatility skewness	0.54	0.44	

\* Not applicable for 1-year returns

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## FIXED INCOME FUND LIMITED

Strategy AUM	EUR 530.99 million
Listing	Irish Stock Exchange
ISIN	KYG6125M1015
Bloomberg ID	MIDGFXI KY Equity
Investment Manager	PFA Asset Management Sundkrogsgade 4 2100 Copenhagen Denmark +45 39 17 50 00 <a href="http://www.pfaassetmanagement.dk">www.pfaassetmanagement.dk</a>
Administrator	GlobeOp Financial Services +1 345 945 5664
Prime Broker	Skandinaviska Enskilda Banken AB +45 33 36 85 07
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