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Mounting dispersion offers opportunities in volatility trades, says Advent

BY **HUGH LEASK**

Advent sharpens European focus with relative value UCITS strategy

The recent market turbulence offers opportunities for relative value-focused hedge fund managers to generate attractive returns from rising volatility and market dislocation, according to Advent Capital Management.

Odell Lambroza, a portfolio manager and chief investment strategist at the $9.2bn New York-based manager, believes the level of volatility across equity and credit markets will rise over the next few years – driven by several factors, including central banks ending quantitative easing, the beginning of the next US presidential election cycle, and the continued trade war between the US and China.

Spikes in volatility like those seen in February and October are likely to be a precursor to higher overall financial asset volatility in the coming years, Lambroza told *EuroHedge* in an interview this week.

"In the past, 8% moves like in October would have happened over longer time periods. But in today's environment, with a lot of money in ETFs, risk parity funds, and macro/systematic strategies, managers move in the same way. You are starting to see liquidity vacuums in the market, which relative value strategies tend to benefit from," he said.

The New York-based firm has been steadily building its European presence over the past year. It began running the $48m Advent Global Partners UCITS strategy in September 2017.

The relative value strategy – which trades a range of credit assets, convertible bonds and options – has generated a 2.2% return so far in 2018 and a 3.0% return over the last 12 months up to 31 October.

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The strategy focuses on capital structures of companies across the US, Europe and Asia.

"We want to find a selection of companies that we believe have idiosyncratic events that are not being priced by the market correctly," he added. "The relative value sub-class will gain assets, and within relative value we try to monetize idiosyncratic volatility – both equity and credit. We think we have a good shot at generating returns by trading through the capital structure."

Technology and healthcare are two sectors that currently offer increasing opportunities. Lambroza said tech offers a diverse range of businesses within the internet, software and hardware sectors, while healthcare has opportunities ranging from midcap biopharma companies ripe for takeovers to larger firms specialising in drug innovations. On the flipside, the strategy is more circumspect on often-opaque sectors, such as financials.

Observing the current market landscape, Lambroza pointed to the considerable dispersion across stock markets. "The volatility of individual equities is super-high now," he said, noting that certain stocks are up almost 80%, while others down 40%.

"This allows us to generate returns even if the index volatility remains low, but we think it will probably rise which adds more of a tailwind for us." ◘