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HEDGENORDIC

Industry Report 2013

The Nordic Hedge Fund Universe at a Glance

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Editor’s note

We are pleased to present to you the first edition of the HedgeNordic Industry Report, summarizing the major developments and events in the region during 2013.

The Nordic hedge fund universe stretches across virtually all trading styles and strategies acting like a micro-cosmos to the global hedge fund industry.

With 159 constituents to the Nordic Hedge Index, we are confident we capture a fair and near complete picture of the region’s managers. Although we saw a number of funds closing their doors during 2013, we could grow the number of funds reporting numbers to the HedgeNordic database by over 30%, from 121 at the end of 2012. We are continuously searching for and adding asset management companies and funds to the database to increase transparency to the regional industry and to be able to provide a representative benchmark.

Large parts of this report, especially in the first section, extract data and performance figures from the HedgeNordic database. The pages can be accessed via www.nhx.hedgenordic.com. Listing for managers and funds is free of any charges and viewing data requires no login or registration and is equally not tied to any costs.

This report aims to give a deeper look and understanding of the composition and dynamics of the Nordic hedge fund industry.

The paper looks at the Nordic hedge fund industry as a whole and attempts to compare it to wider, international indices. We analysed performances and risk adjusted performances in the respective sub-indices, and highlighted the movers and shakers in their segment as well as individual funds and managers that had a particular influence on the market.

> ***“We are dedicated to creating a single access point and gateway to the Nordic hedge fund universe.”***

In the second part, industry experts give us their view on their market segment and take a look at how hedge fund strategies operate within different asset classes, giving us a first hand insight into events that influenced markets and their trading style last year. Of course we were keen to also receive a lookout for 2014.

With Crescit, Nordkinn and Origo the industry saw exciting new launches during the year which we take a closer look at and introduce.

For us as company and business 2013 was full of highlights and milestones. The year saw the completion of our own M&A activity, integrating HedgeNordic and the Nordic Hedge Index to Nordic Business Media, the technical merge with HedgeFonder.nu, whose brand and domain served us through the first years of our business, the launch of the newly designed website, the kick off to our round table discussion series “Nordic Insights”, and most notably and memorably the hosting of the inaugural Nordic Hedge Award in April.

We experienced tremendous backing and support during the year(s) which we will never take for granted but clearly see as motivation and mandate to be dedicated in creating a single access point and gateway to the Nordic hedge fund universe.

With so many institutions and individuals to thank, I do want to highlight our partners to the Nordic Hedge Award. Next to most welcome financial support their endorsement and good spirit helped the event take off, which I am confident will be an enrichment to the regional industry: Stockholm School of Economics, Swedish House of Finance, IFL, Efficient Capital, Advent Software and Coeli Asset Management.

Enjoy the HedgeNordic Industry Report!

Kamran George Ghalitschi
CEO / Publisher HedgeNordic

Facts & Figures on Nordic Hedge Funds

11,8 %
NHX Equity - Best Strategy in 2013

108,2%
Highest Absolute Performer 2013 in NHX

5,24
Highest Sharpe Ratio of any Nordic HF

Content

Five Trends in Nordic Asset Management

Nordic asset managers are busy positioning themselves for the future. Struan Malcolm, Head of Nordic Sales at Northern Trust, identifies five key trends that are driving the asset management landscape in the Nordic region.

1. Distribution, distribution, distribution

Often the words heard from Nordic asset managers at the start of this year. It is no longer enough to rely on the Nordic investor base and some ad hoc international mandates. Success will depend upon the fund structures that Nordic managers decide to take them forward for the next five years. Now is the time to dry the ink on the business strategy and chart out the fund range, fund domiciles, distribution setup, and administration setup that will appeal to international investors. The U.K., Switzerland, Germany, Asia-Pacific region, and the U.S. are all of reported interest to Nordic asset managers.

2. Regulations: thoughts will turn from the compliance to the opportunity

The feeling from most CEOs and COOs is that the summit is in sight to comply with key regulations. Managers have plans in place to deal with the people, processes and systems that are needed to comply with regulations. Whilst a degree of uncertainty still remains and many investment managers still view regulation, such as the Alternative Investment Fund Management Directive (AIFMD), as a cost and compliance overhead, thoughts are beginning to move to where the opportunities lie post-implementation, both for them and their investors.

3. Outsourcing has truly arrived and is gathering pace

The Nordic asset management market continues to setup or finish off "offshoring" arrangements, for example using the Baltic States for IT functions. But the next phase of "outsourcing" is now gathering pace, with providers positioning themselves in anticipation of future demand. Fund managers dealing with a raft of regulatory demands see value in reducing their administrative burdens by outsourcing key tasks such as NAV production, risk and compliance, trade matching and settlement, to experienced asset servicers. The demands from e.g. prospective international investors seeking a separation of duties and a cost-efficient operational model that can stand the test of time will continue to drive this trend among asset managers.

4. Increased Corporate Activity

Margin compression caused by downward pressures on fees and an upward trend in operational costs is prompting small to mid-sized Nordic asset managers to review their corporate options. But merging isn't easy. Different business models and systems infrastructures can take the shine off a rosy idea to merge.

5. Aggregator models to see growth

The answer for some asset managers may be to find an aggregator. Aggregator asset managers are drawing in boutique asset management houses enabling them to retain their independence whilst providing a distribution platform. The technology now exists to provide centralised and integrated front-to-back infrastructure. But investors would be wise to scrutinise just how cost effective the business model is.

Struan Malcolm
Head of Nordic Sales – Northern Trust

The Nordic Hedge Index

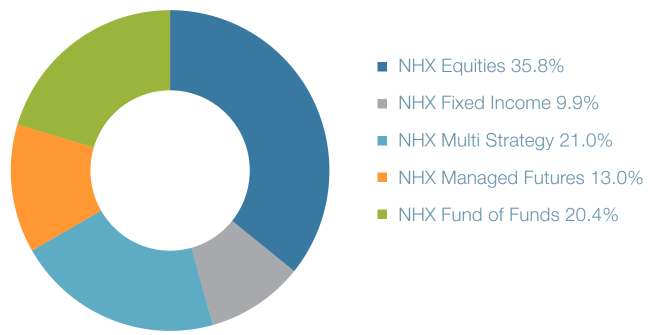
The Nordic Hedge Index (NHX) is an equal weighted hedge fund index derived from the performance of Nordic hedge fund managers and advisors.

Index Universe

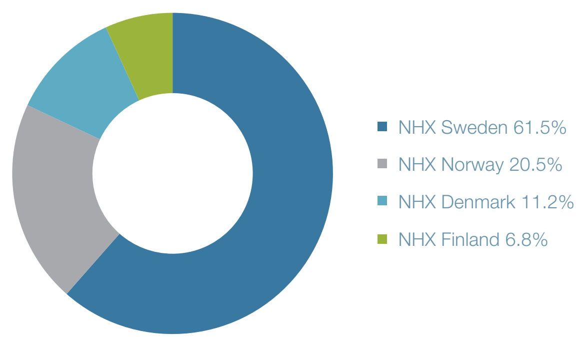
The objective of the Nordic Hedge Index and the HedgeNordic database is to serve as a 'single access point' and a gateway to the Nordic hedge fund industry.

The Nordic Hedge Fund Index is based on performance as reported by hedge fund managers domiciled in the Nordic region. To be admitted to the NHX, funds must fall into the universe of Nordic hedge fund managers. Either, the fund or the fund manager or the investment advisor is domiciled in (at least) one of the Nordic countries, or the investment theme of the fund is clearly Nordic or there are other strong and convincing ties to Nordic region. The Nordic countries are: Finland, Sweden, Norway, Denmark and Iceland.

Strategy Breakdown of NHX Constituents



Country Breakdown of NHX Constituents



Index Computation Methodology

The Nordic Hedge Fund Index is an equal weighted index. The Index value is calculated from the arithmetic mean of monthly returns from all constituents in the index.

Arithmetic Mean: (a1+ ...+aN)/N

The inception date of the Nordic Hedge Fund Index was January 1st, 2005 and the initial index value was 100.

Classification Structure

HedgeNordic has determined its classification structure based on the instruments traded by the fund manager. Hedge funds are classified into one of these 5 categories:

- Equity Strategies (equity and equity derivatives)
- Fixed Income Strategies (fixed income and derivatives)
- Multi Strategy / diversified Strategies (a fund is classified as MultiStrategy if less than 80% of the fund's activities comes from one particular classification category)
- Managed Futures/CTA's (listed financial and commodity futures and foreign exchange, usually a systematic, model driven approach)
- Fund of Hedge funds (funds that invest in other hedge funds, regardless of fee structure)

Determination of the category is initially done by the fund manager when submitting the fund(s) for index inclusion. HedgeNordic will review the OM / PPM and marketing material to verify that the chosen classification category is consistent with the overall classification structure. We are aware that the nature and size of the Nordic hedge fund universe as well as the definition of the categories and funds trading style may not always allow a fully satisfactory classification.

NHX in Focus

2013 posted solid gains for the global hedge fund industry with the HFRX Composite returning 6.7% and Nordic Hedge Index NHX returned 7,4%.

Nordic based managers performed in line with the broader index with the NHX Composite up 7.4% following a period of outperformance each consecutive year since 2007. All sub-strategies ended the year in positive territory. The industry saw positive net flows and an increased interest in absolute return strategies which may further support the industry in 2014.

In a global perspective the returns was driven by equity and event driven managers who were able to capture the strong gains in the developed world's equity markets. The bullish equity sentiment further supported fundamental relative value investing and increased corporate activities was captured by event driven managers that profited from M&A deals and special situations.

Benign conditions in credit market supported credit focused investment strategies. Turbulence in FX markets and the uncertainty of the timing of tapering activities impacted relative value managers and macro managers. The absence of major trends and short term trend reversals caused yet again Managed Futures managers to post negative returns. Similar results were found among Nordic managers with the exception of CTA managers that outperformed its global peers with 2,7% and ended the year with a gain of 0.9% despite the challenging market conditions for CTA strategies. The reason for this might be due to size. Nordic managers are smaller and can more effectively trade and access all markets including smaller commodities markets.

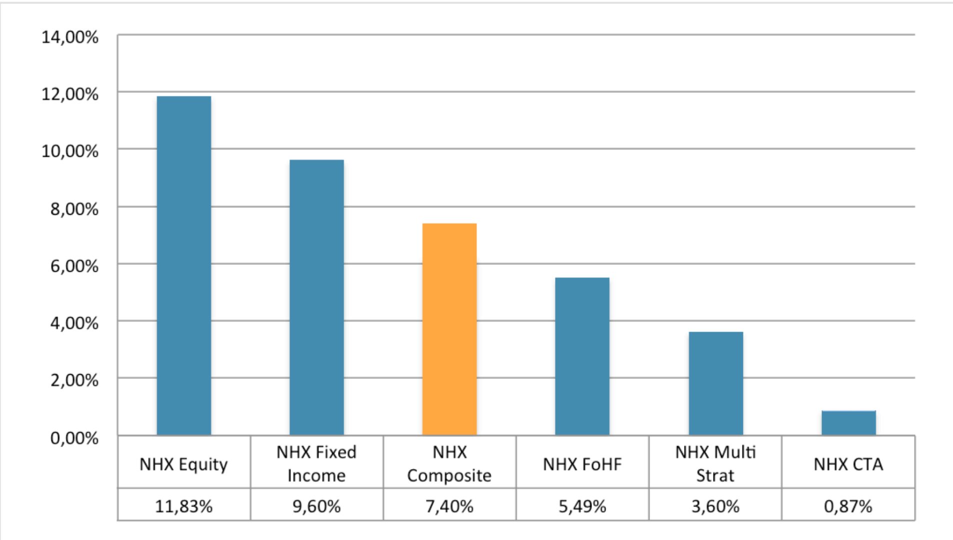
The investment horizon could also be a factor which may differ between larger global managers and Nordic based managers. The sub strategy fixed income was the second best performing strategy showing strong returns. Fixed income has been the best performing strategy every year since the end of the financial crisis.

Successfully taking advantage of the recovery in and the strong market conditions for credit and investors search for yield is probably one of the main drivers of the returns.

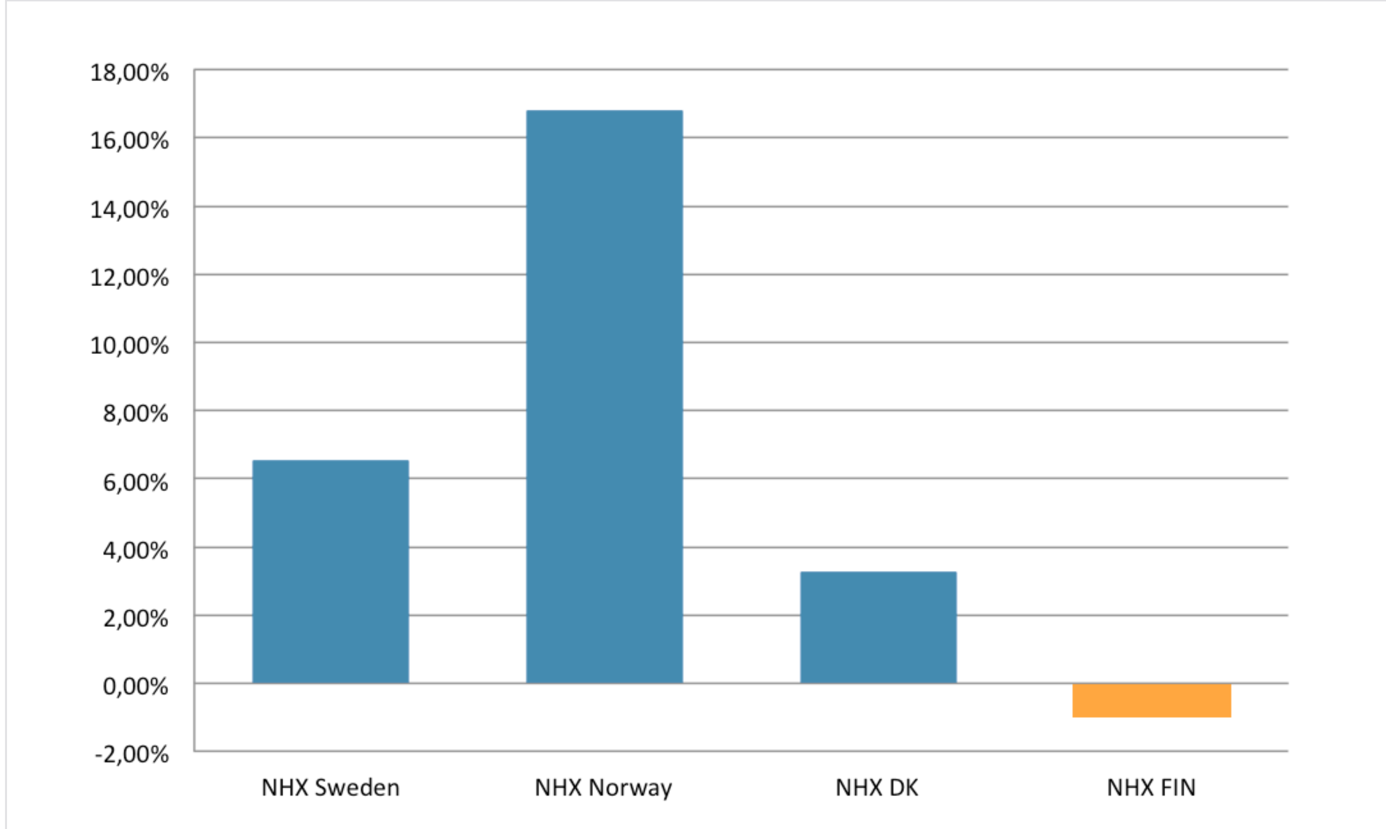
The strong run up in equities during 2013 is reflected in the strategy breakdown of NHX subindices. NHX equities returned 11,83%, nearly doubling the results of the NHX composite index. Nordic hedge funds with fixed income strategies, recorded a solid fifth year of returns in the declining interest rate environment. Nordic fund of hedge funds and multi-strategy hedge funds lagged the composite index while NHX CTA just managed to creep into positive territory with strong tail winds from equity markets in December.

A deeper look into the breakdown and results of NHX sub-indices can be read on the following pages. Norway clearly leads the tables in a country breakdown of NHX constituents, profiting from returns of 108% from Grand Haven Capital and strong results from Pareto and Sectors Zen and Sigma funds. Swedish managers, the by far largest group in the index, closed the books on 2013 in line with NHX composite. NHX Denmark which traditionally has an overweight in fixed income strategies returned 3,26% for the year. CTA-heavy NHX Finland was the only region to end in negative territory.

2013 Performance by Strategy



2013 Performances NHX Country Breakdown



Long term comparison: HFRX vs NHX

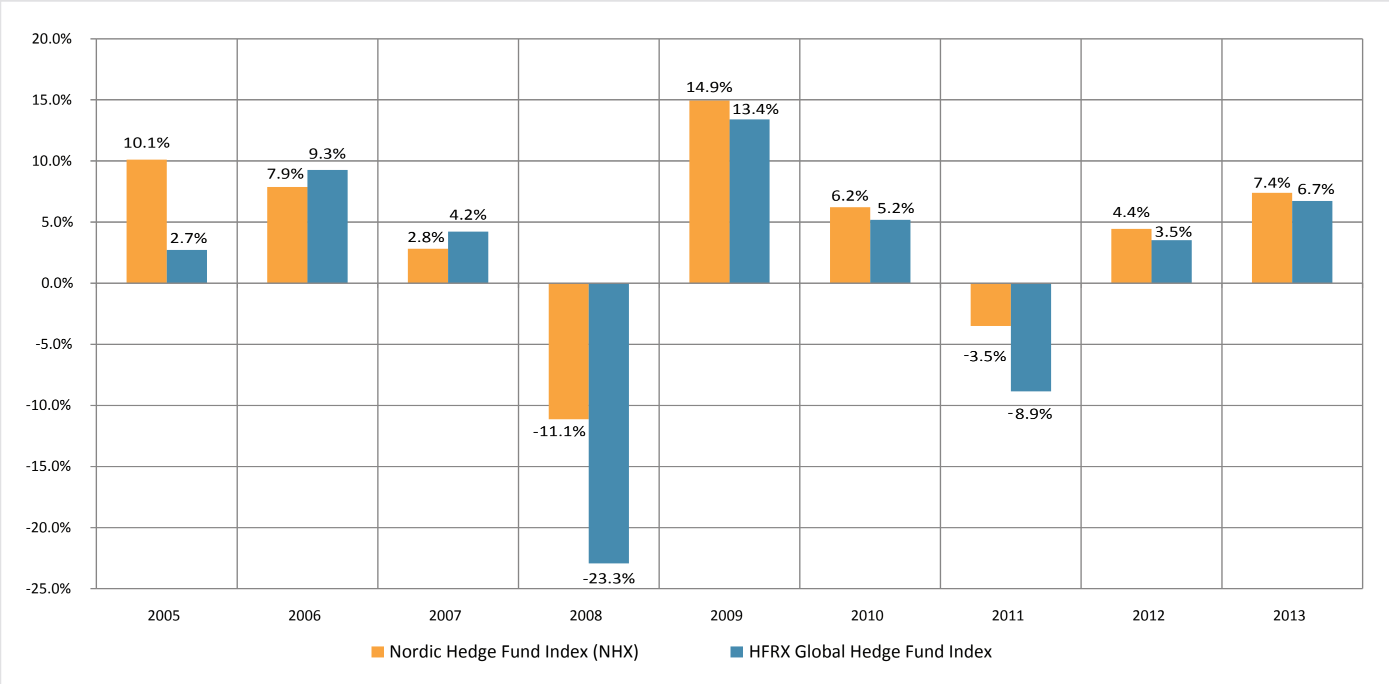
In 2013, Nordic hedge fund managers performed in line with the broader liquid hedge fund index, represented by the HFRX composite index. What is striking is the relative strong performance of Nordic managers in a longer perspective. When analysing the Nordic managers, represented by the NHX index, with the HFRX index the NHX has consistently outperformed the HFRX each consecutive year since 2007. It demonstrates good downside protection which has translated into a positive long term compounding of almost 9.5% since the beginning of 2008. In light of that the equity markets just reached new highs, it is in relative terms good long term performance but would have also been a valuable addition in a well-diversified portfolio, given the bond like volatility and modest correlation characteristics of the NHX index. A key component to successful long term investing is how you play defence in addition to offense.

NHX outperformance versus the HFRX is especially visible during bear markets as we saw during the financial crisis of 2008 and during the European peripheral debt crisis of 2011 which created elevated volatility in the European equity and credit markets. The reason for the outperformance may be due to the composition of the index. Relative value and event driven strategy strategies were hit particularly hard during the financial crisis and as strategy it is not part of the NHX index. These strategies suffered not only from having the wrong market view but also from forced deleveraging, shorting ban on financial stocks, extreme levels of market and implied volatility and interbank rates reaching panic levels. These strategies are in general less liquid. This situation was to lesser extent impacting the Nordic markets given the healthier state of the banking sector. Diversification might also have been a factor due to the inclusion of multi-strategy and fund of hedge funds in the index. They both have a share of roughly 20% of the index.

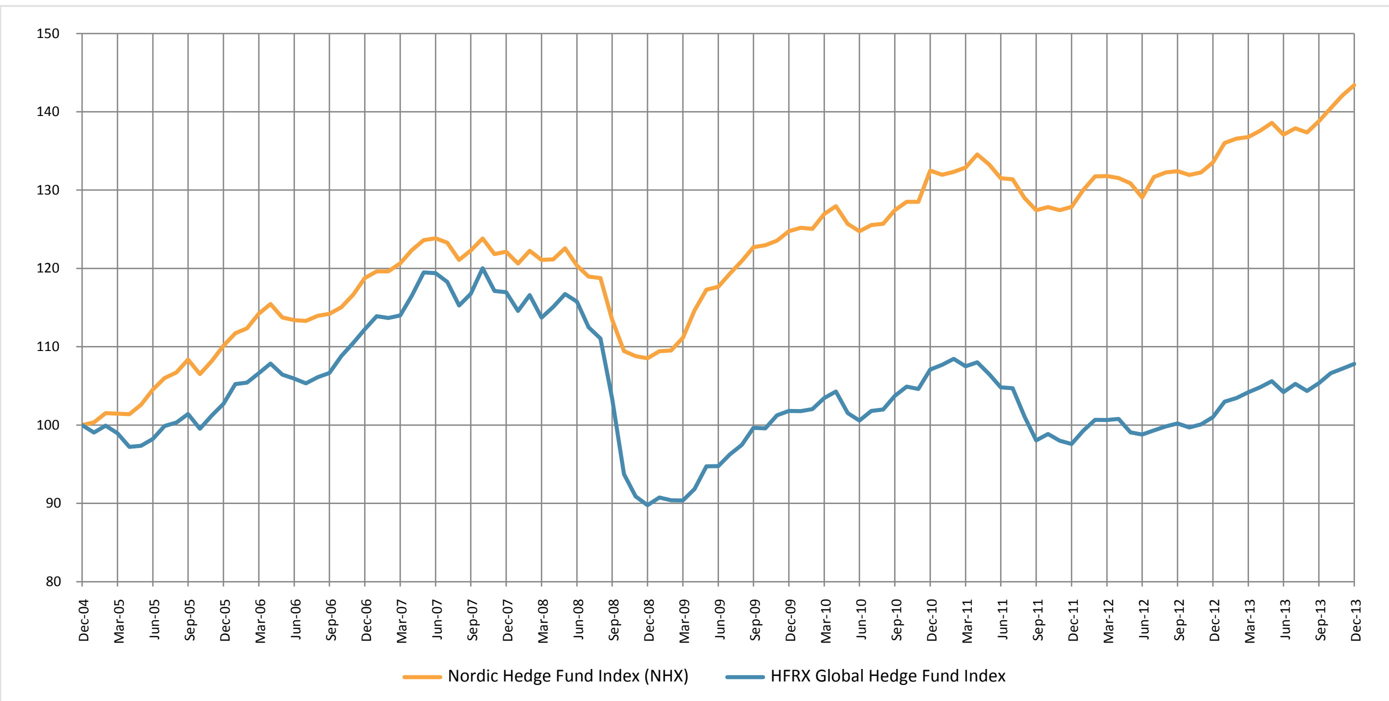
In general the Nordic managers are conducting more liquid strategies and operates in the local markets which was less impacted by the effects of the financial crisis and may have been a factor in more efficiently managing risk. Managers in the global index did suffer probably also due to crowding and being further out on the liquidity curve in search of returns. But in addition, several Nordic based managers showed exceptional skill in successfully managing the storm which contributed to the relative outperformance. The debt crisis of 2011 impacted the financial markets of continental Europe more severe than the Nordic markets which was probably one of the main factors of the deviation in returns. Fees is also a contributor to the long term outperformance. Nordic managers is not always using the standard 2% fixed fee, several are charging less than that and the use of a hurdle rate is more common than among the global peers. Many of the Nordic managers have strong alpha creation skills with deep knowledge of the local markets and a proven track record of managing risk in "stormy weather". History shows it make sense to diversify to and include Nordic managers when allocating to absolute return strategies.

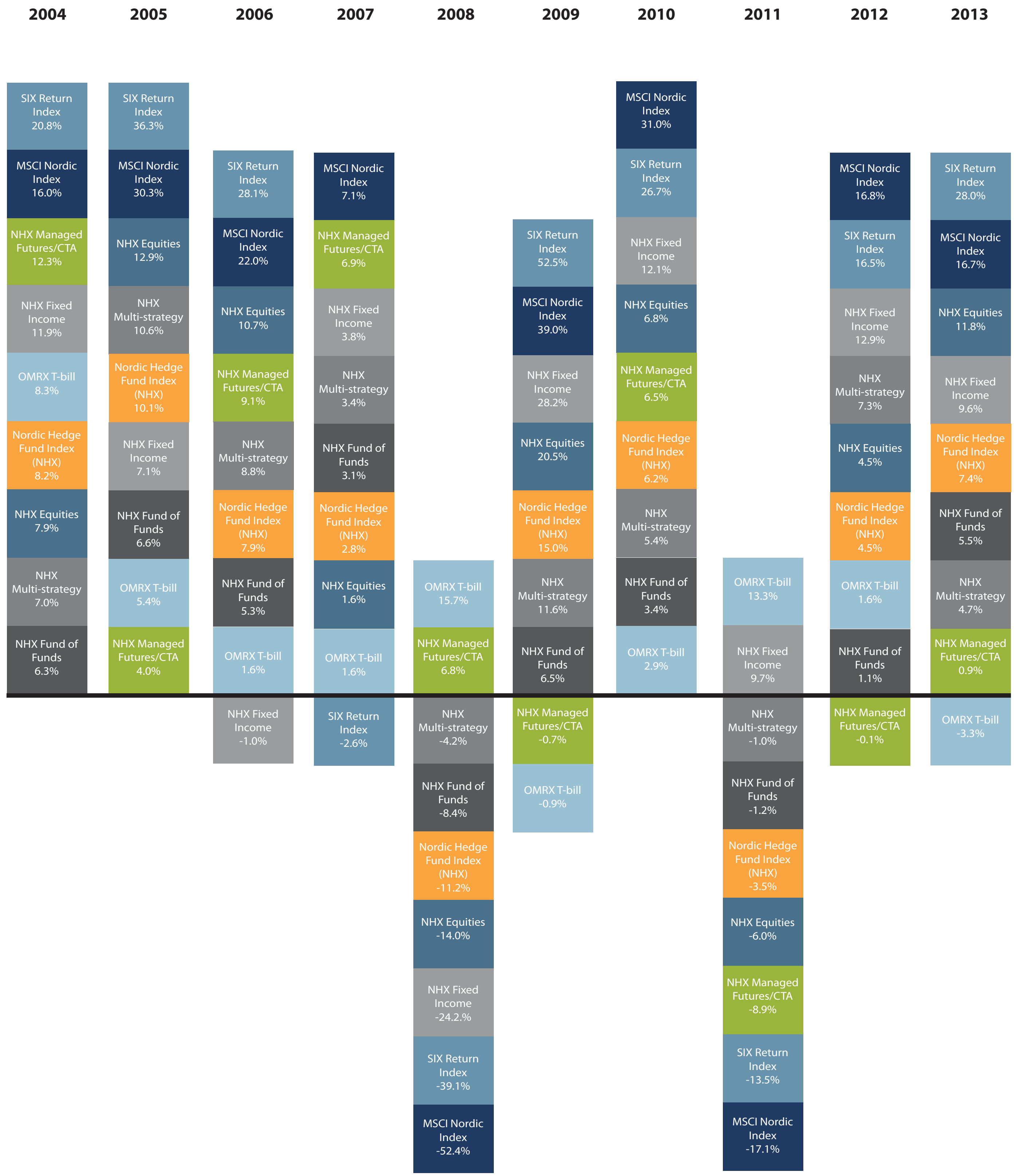
Thomas Bergström

NHX vs. HFRX (year on year)



NHX vs. HFRX







Solid year for Nordic Fund of Hedge Funds

Building on the gains seen in hedge funds throughout 2013, Nordic FoHFs posted solid returns for the year with the NHX FoFs Index gaining 5,5%. Only two constituents out of the 23 names that are represented in the index ended 2013 in the red.

The largest of the underlying funds, Brummer Multi-Strategy (BMS), had its best year since 2009 with a gain of 9.4% powered by exceptionally strong returns for the technology focused equity strategy Manticore posting a massive year-to-date number of +40%. BMS numbers were also supported by a strong finish for the Managed Futures strategy Lynx (+12%), the credit strategy observatory (+7.2%) and the most recently added macro fund Canosa (+9.4%). The equity focused Archipel was the only BMS-fund ending the year in the red.

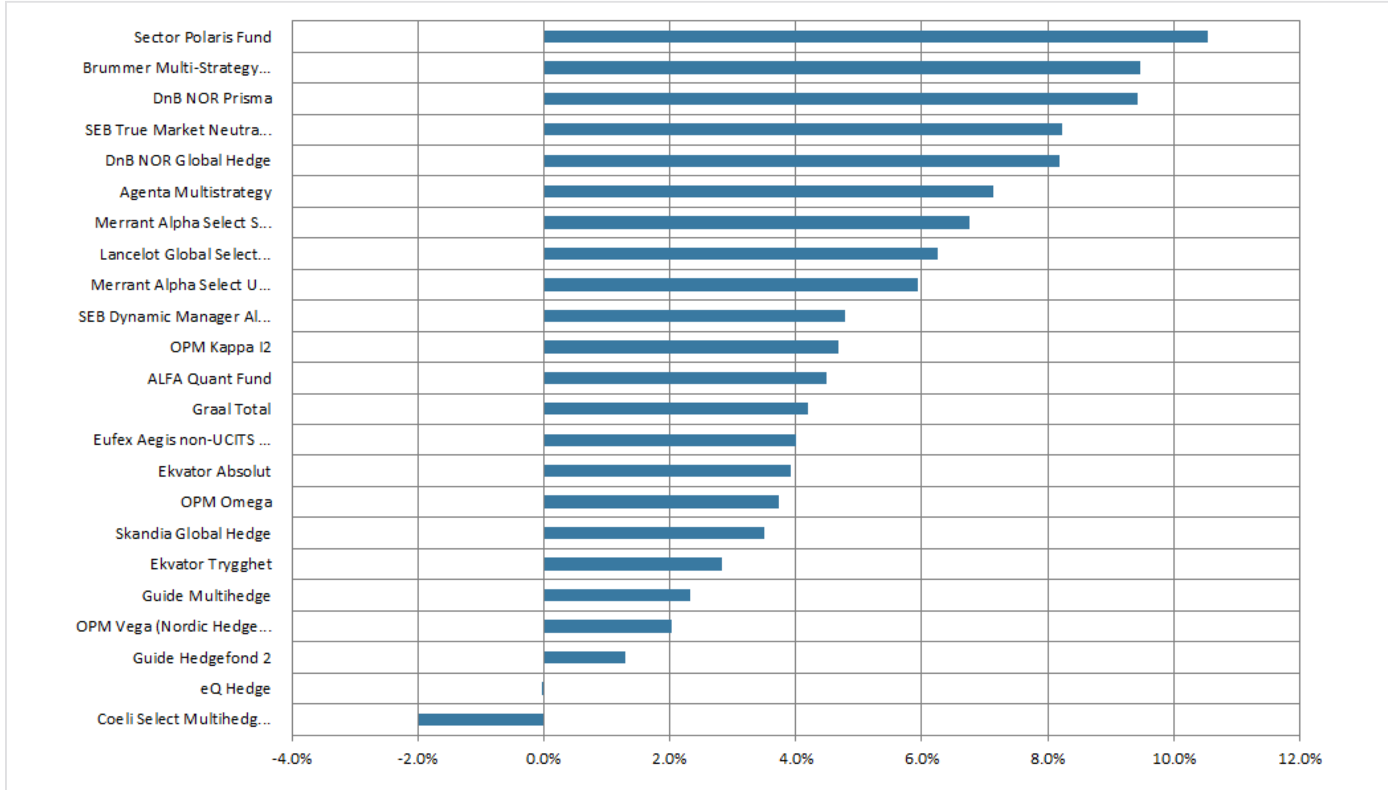
Volatility levels for the NHX FoFs universe remained muted with an average annualised volatility of 3.8%. Looking at long term-risk adjusted returns for the different funds in the index, the market neutral Merrant Alpha Select funds dominate with Sharpe Ratios for the SEK and USD share-classes of 4.1 and 3.5 respectively. Merrants fund manager Ulf Sedig says in a comment to HedgeNordic:

"All underlying strategies contributed with positive Alpha in 2013, with high consistency in the returns. Merrant Alpha Select gained 6,7%, whereof most of the Alpha was generated by Equity Long/Short and Event Driven strategies. The aggregated volatility remained low in our fund and ended 1,8% for the year, slightly above our average to volatility of 1,6% since launch. The market environment for fixed income managers has become more challenging, as FED started tapering its stimulative quantitative easing policy in 2013, which indicates that the long trend of falling interests are over. In 2013 our relative value fixed income managers performed below our expectations, and thus we have reduced our exposure to this category of managers. For 2014 we have increased our exposure to market neutral equity strategies."

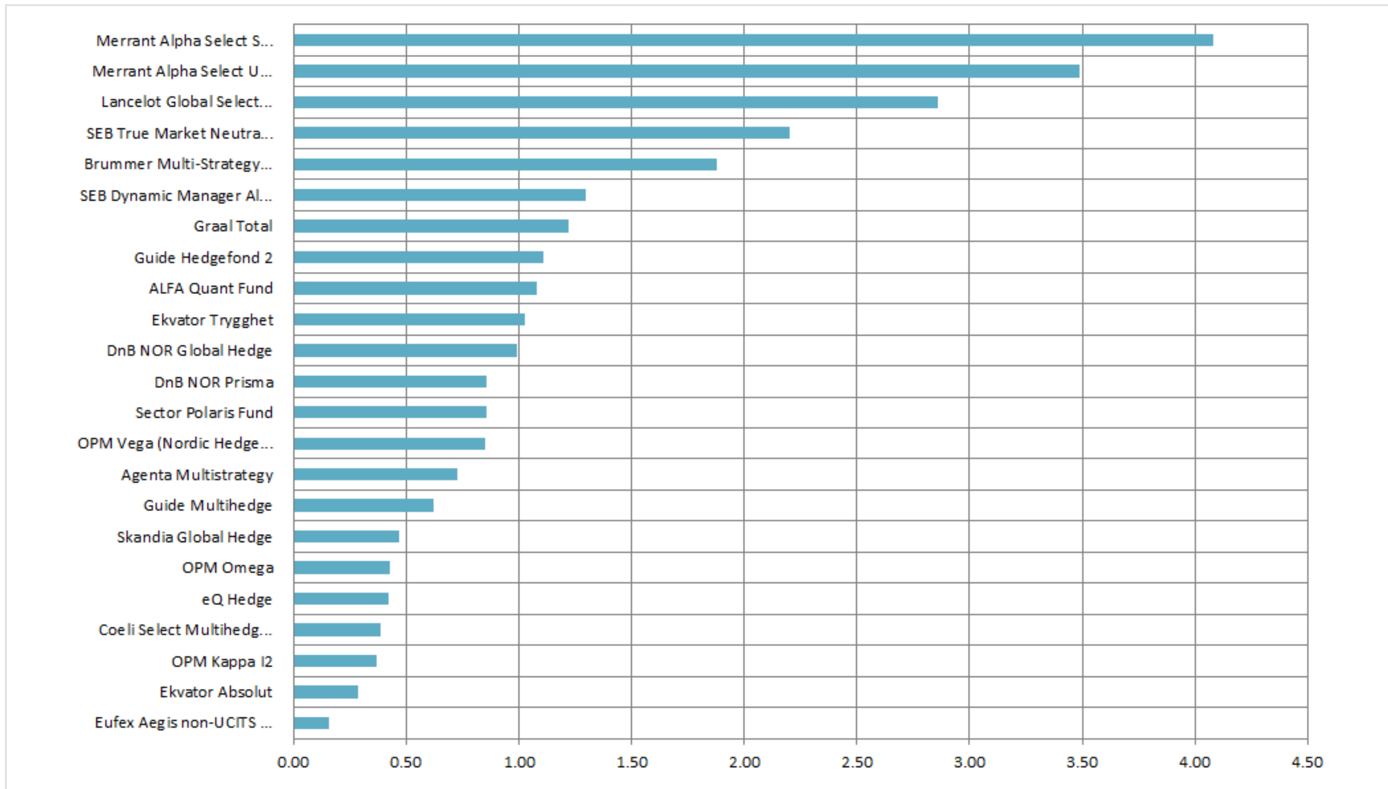
The newly launched Lancelot Global Select ended its first full year of trading with a gain of 6.3%. In a comment to HedgeNordic, Lancelot's Magnus Jahnke summarises the year:

"We started the year with limited risk in the portfolio and have gradually added risk during the year, though the portfolio is still very well balanced. The main contributing strategy has been equity long/short, where BlackRock European Hedge Fund (+26%) and Criterion Horizon (+23%) have been the strongest performers. The biggest drag on performance has been our defensive global macro fund that ended the year in negative territory. Our exposure to emerging/frontier markets has not contributes as much as planned but we think that we will find good value in these markets going forward even though it will be a bumpy ride. Going into 2014 we hold a well balanced portfolio with a concentrated number of underlying managers and strategies. We will continue our work to find skilful managers that can deliver superior uncorrelated returns."

Top/Bottom performers (ranked by absolute return) of NHX Fund of Hedge Funds in 2013



Top/Bottom performers (ranked by Sharpe Ratio) of NHX Fund of Hedge Funds in 2013



Equity hedge funds enjoy best year since 2009

Building on the gains seen in global stock markets during 2013, Nordic equity hedge funds posted solid returns for the year. NHX Equity Index gained 11,8% thereby recording its best year since 2009.

2013 turned out to be a good year for equity markets with Nordic equities, as represented by the OMX Nordic 40 Index, gaining 16.4%. The equity rally was mirrored in global benchmark indices where the MSCI global index delivered 19.6%. Technology and healthcare shares had a particularly good run with the Nasdaq Composite Index surging 38% and the MSCI Healthcare Index adding 32.8%.

Building on these gains, Nordic equity focused hedge funds made a broad based rally, particularly those focused on sub-sectors such as technology and healthcare. The tech-focused Brummer Manticore gained 40% while the long/short biotech focused Rhenman Healthcare gained more than 50%. In a comment to last year's performance, the portfolio manager Henrik Rhenman says:

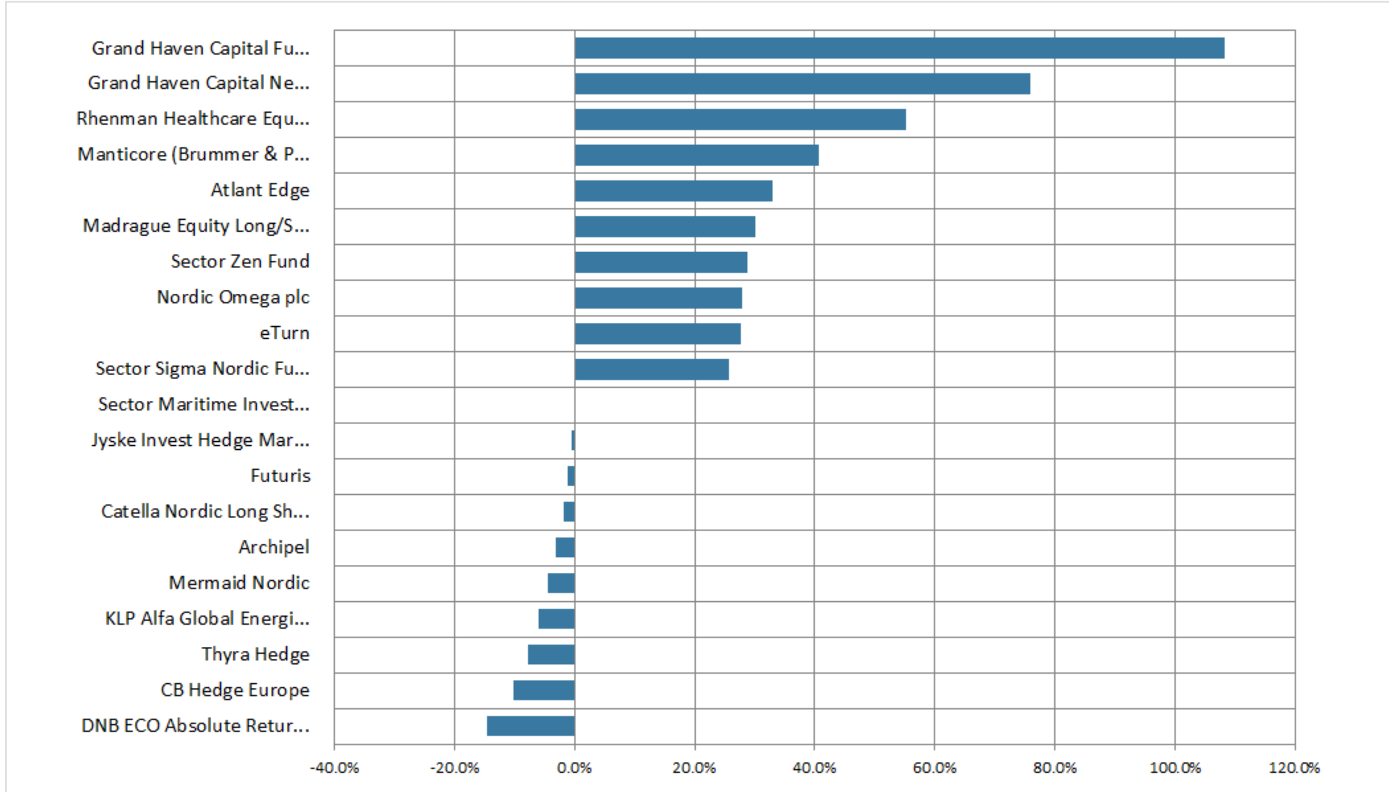
”In 2013 biotechnology showed very strong performance, driven by a large number of good scientific news. The fund had large exposure to this sub-sector during the year, partly thanks to very valuable input from our Scientific Advisory Board.”

The best performing manager (in absolute terms were) was Swiss-based, Norwegian co-managed, Grand Haven Capital with one of their programs gaining in excess of 108% on the year. In a recent interview with HedgeNordic, the portfolio manager Dr. Gregory Kenausis said in comment on the strong performance in 2013:

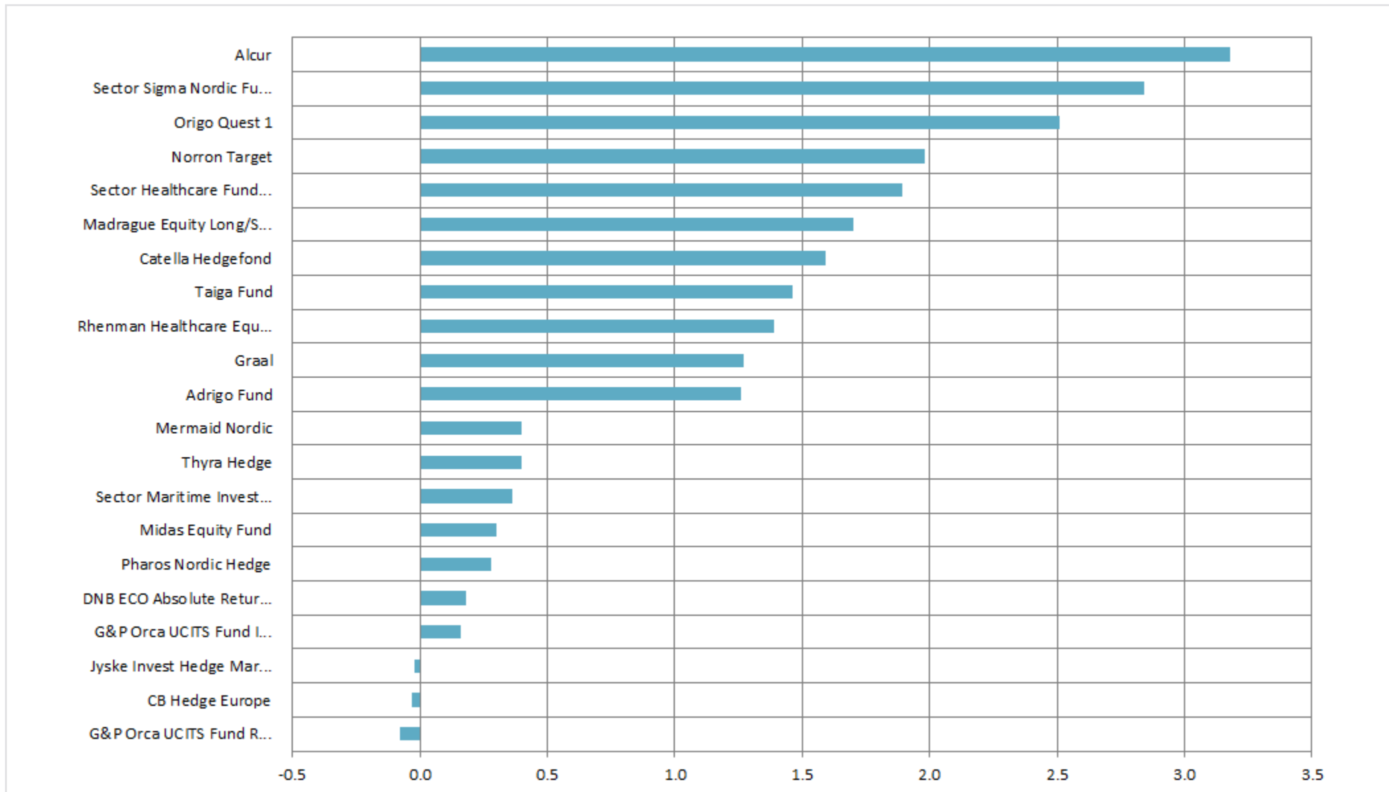
”Our strategy is to buy deep value, out of favour, Northern European small- and mid-cap stocks and to hold them until they return to fair value. We have about 10 core positions that make up about two thirds of the portfolio value. We did nothing unusual throughout the year, and have held most of the same positions throughout. The biggest contributors to the outperformance by far were the core positions, while the short book generated some alpha and our VIX-based hedging lowered the volatility.”

In risk-adjusted terms, Swedish-based Alcur has delivered the strongest numbers over time, closely followed by the Norwegian Sector Sigma Nordic Fund.

Top/Bottom performers (ranked by absolute return) of NHX Equity Funds in 2013



Top/Bottom performers (ranked by Sharpe Ratio) of NHX Equity Funds in 2013





NHX Fixed Income gains for 5th consecutive year

In what has been a ”super cycle” of declining global interest rates, Nordic fixed income managers have made impressive gains over the last five years.

In 2013, the HedgeNordic Fixed Income index gained 9,6%, posting its fifth consecutive year of positive reurns. The universe is heavily dominated by Danish funds with a relative value focus. Out of the 16 constituents, 8 originate from Denmark.

The top performers in 2013 were the Nykredit Mira Hedge Fund (+23,8%), Danske Invest Hedged Fixed Income Strategies (+18,8%) and the Asgard Fixed Income Fund (+16,0%).

The strong performance of the Danske Invest fund was also recognized internationally as the manager received the EuroHedge Award in the fixed income category. In a comment to the performance in 2013, Danske Invest’s Michael Petry says:

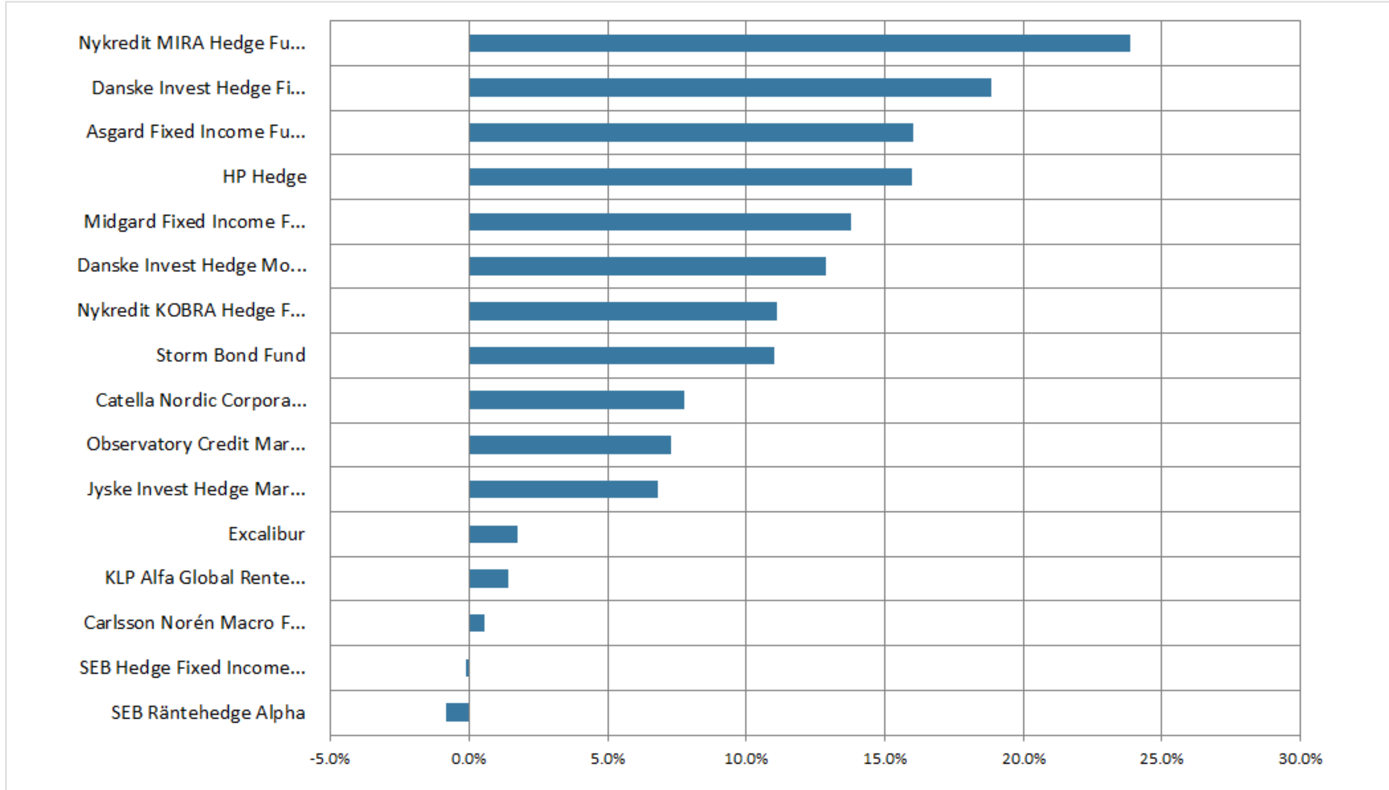
“2013 was another good year for us. After very nice returns in 2009, 2010, 2011 and 2012 it was fantastic to have another good year in 2013. It doesn’t get easier in 2014, but we are still optimistic and our best estimate is a result in 2014 between 5% and 10% for Danske Invest Hedge Fixed Income Strategies. If everything goes as well as in 2013 it could be even higher.”

The Nykredit KOBRA hedge fund (see p 28/29 for a two page article about the manager Nykredit and the KOBRA strategy) has by far exceeded competitors on a risk adjusted basis and has realised a Sharpe Ratio of above 5. Commenting on the long term impressive return profile of the fund Kenny Friis Gade, Chief Portfolio Manager at Nykredit says:

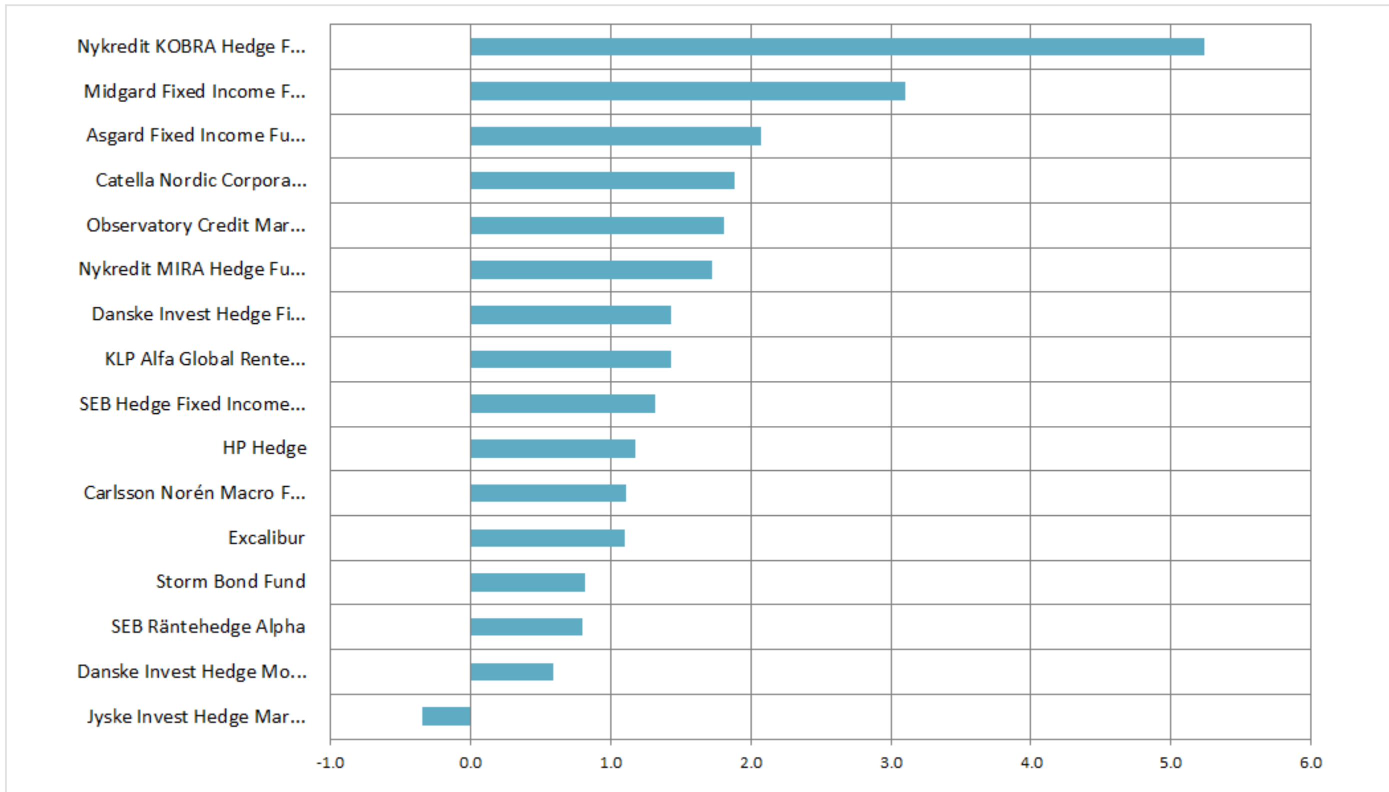
”We have been very disciplined regarding the risk/reward profile of our bets and the short end of the Nordic covered bond markets have delivered ample opportunities during the last years. We are content to provide lower returns on an absolute basis compared to peers as long as the risk-adjusted returns are attractive. This is the very essence of the KOBRA strategy”.

> *“The Nordic covered bond markets have delivered ample opportunities during the last years”*

Top/Bottom performers (ranked by absolute return) of NHX Fixed Income Funds in 2013



Top/Bottom performers (ranked by Sharpe Ratio) of NHX Fixed Income Funds in 2013



NHX Multi-Strat upbeat, power funds drop

Nordic multi-strategy funds ended the year on a positive note powered by gains in Brummer & Partners newly added funds Carve and Canosa.

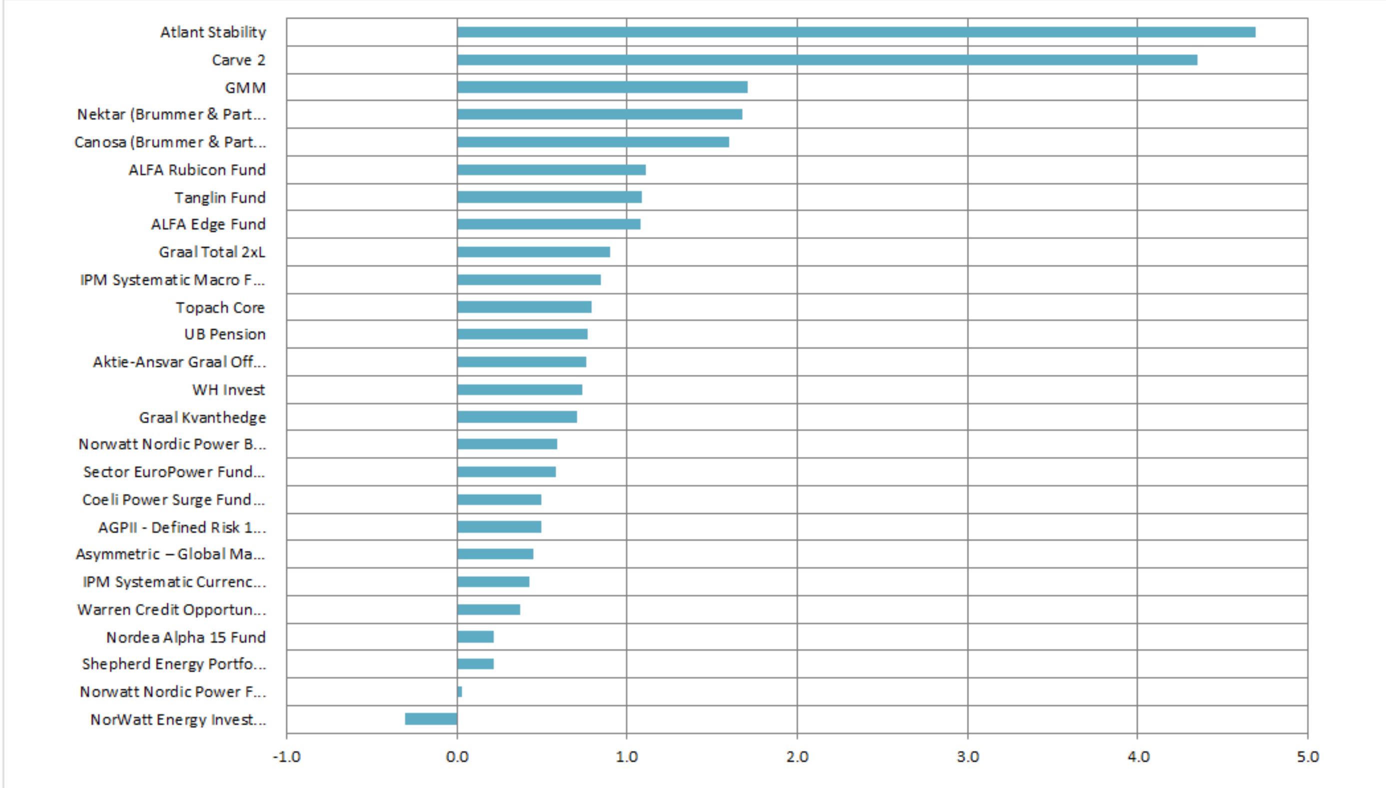
Nordic multi-strategy funds recorded broad based gains during 2013, however, individual managers' returns showed great dispersion with power funds being among the losers for the year.

The newly launched equity/credit strategy Brummer Carve was among the top performers as the fund recorded a gain of 14.2% during its first full year of trading. Another newly launched Brummer strategy, the London based global macro fund Canosa, added 9.3% despite only having traded from May and onwards. In their review for 2013, Canosa highlights short USD rates, short Turkey and long Australian rates as the key performance drivers for the year.

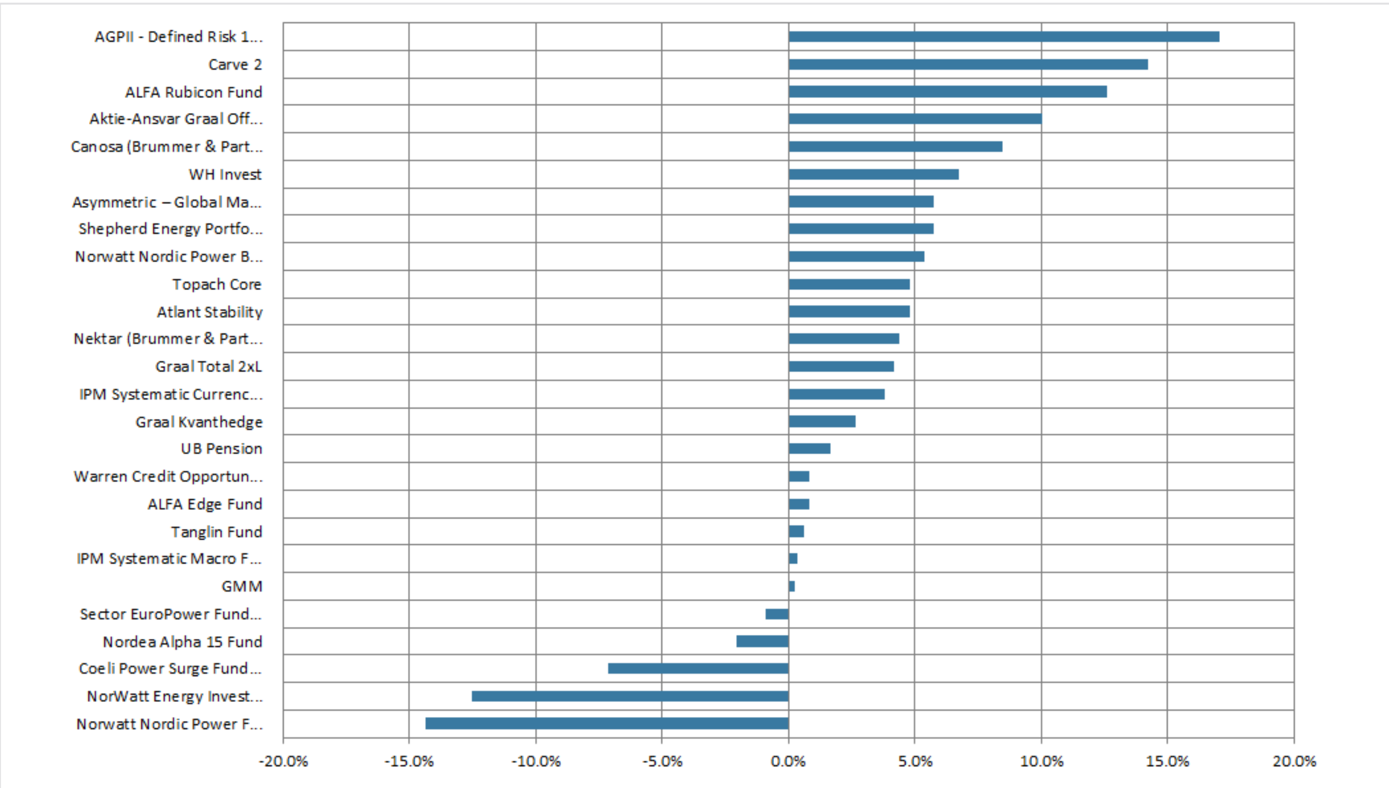
Energy related funds were highly dispersed with the Alfa Rubicon Fund showing strength by adding 12.6%. In the power sector, Norwatt Nordic Power Fund (-14.3%), Norwatt Energy Invest (-12.5%) and Coeli Power Surge (-7.1%) all posted losses for the year.

Looking at long term Sharpe Ratios among the multi-strategy funds, Atlant Stability is the top performer, closely followed by Carve and the FX manager GMM.

Top/Bottom performers (ranked by Sharpe Ratio) of NHX Multi-Strategy Fundss in 2013



Top/Bottom performers (ranked by absolute return) of NHX Multi-Strategy Funds in 2013



Nordic CTAs end 2013 with strong quarter

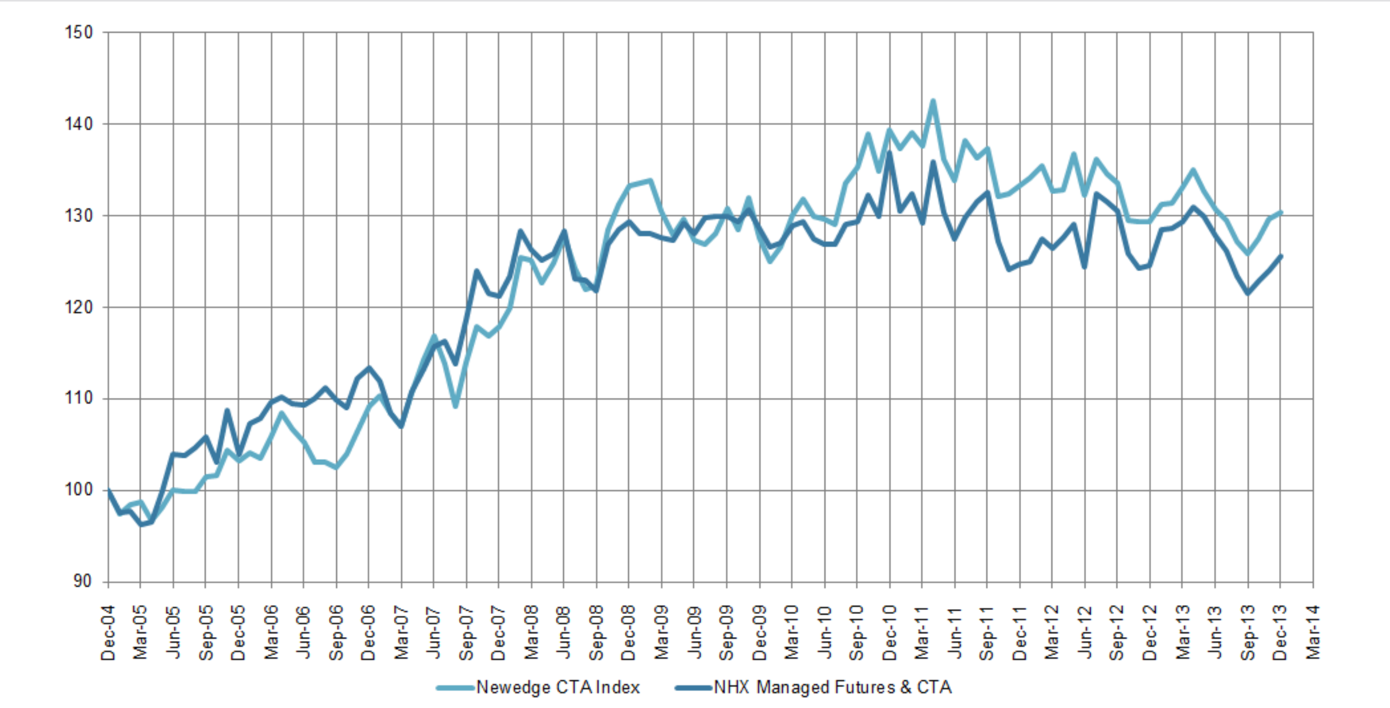
Having spent most of the year in negative to unchanged territory, Nordic CTAs recorded a broad-based rally in the last quarter of 2013. Long positions in stock indices were the single largest contributor to the strong performance.

2013 proved to be another tricky year for Nordic quant-strategies, so called CTAs. Having recorded a strong first quarter, managers gave back accumulated gains or turned sharply negative for the year during the second quarter. However, a strong fourth quarter saved many managers from showing another lackluster year as trend following trading systems managed to pick up on the back of a strong equity rally by year-end.

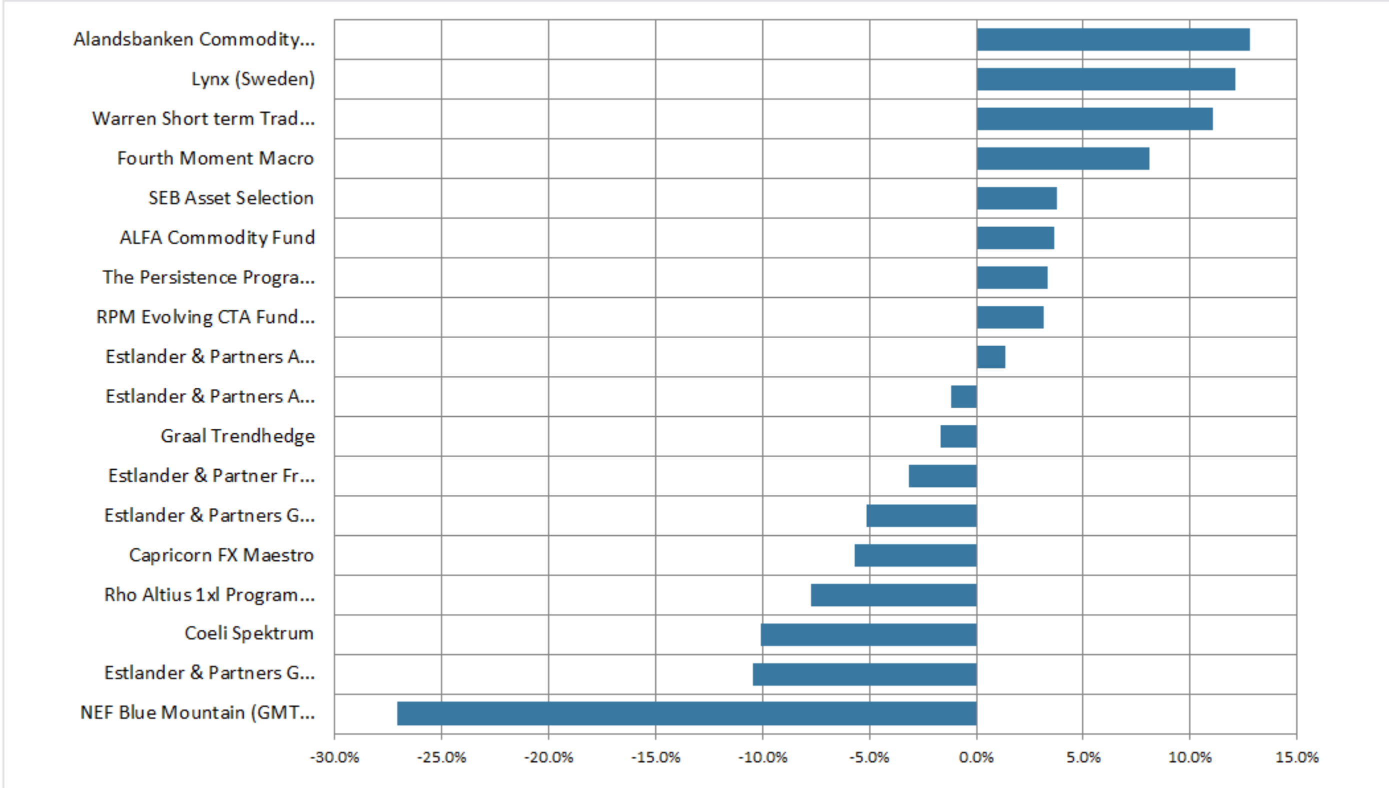
Since inception of the Nordic Hedge Fund Index, the NHX Managed Futures has slightly underperformed the Newedge CTA Index which is one of the leading benchmarks for the Managed Futures Industry (see below chart). Upper chart on page 21 highlights the performance for the CTA programs that are included in the Nordic Hedge Fund Index. As can be seen from the chart, there was a great dispersion in individual managers' absolute returns during the year with the best fund, Ålandsbanken Commodity Fund, gaining 12.8% while the worst performing fund, NEF Blue Mountain lost 27%. Among the larger CTA players in the Nordics, Lynx had a solid year in 2013 gaining 12.1%.

A comparison of the Sharpe Ratios of Nordic CTAs, (lower chart on page 21) shows that Warren Capital has, on a risk-adjusted basis, performed exceptionally well over time compared to its Nordic peers. The Warren Short-Term program has a realised Sharpe Ratio of above 3 while the Warren Fourth moment Macro Fund has a Sharpe of 1.9.

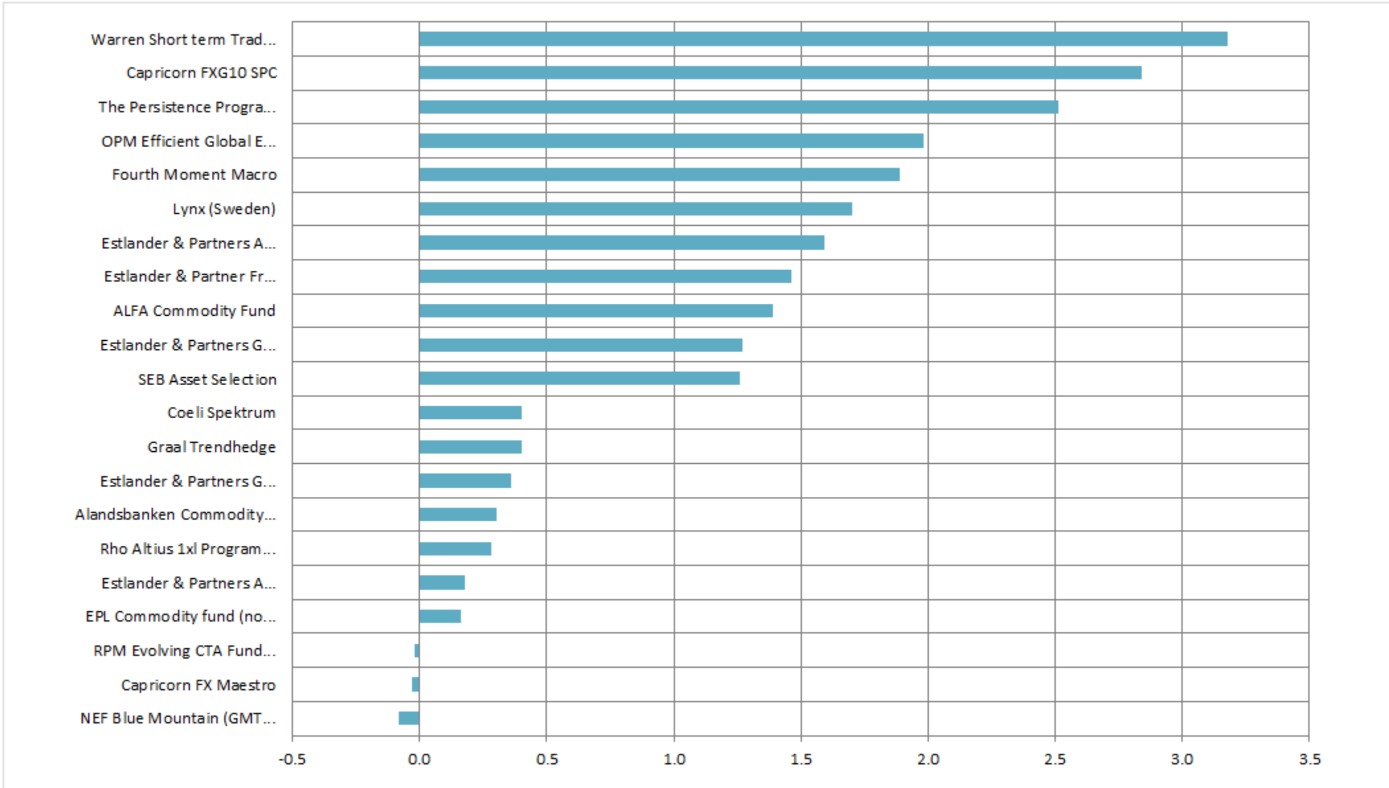
Long term performance of Nordic CTAs compared to the Newedge CTA Index



Top/Bottom performers (ranked by absolute return) of NHX CTA/Managed Futures Funds in 2013



Top/Bottom performers (ranked by Sharpe Ratio) of NHX CTA Managed FuturesFunds in 2013



Asset Growth in Nordic Hedge Funds

With the newly created asset growth index, NHX AGI, HedgeNordic developed an instrument to measure the developement of assets under managemen with Nordic hedge fund managers.

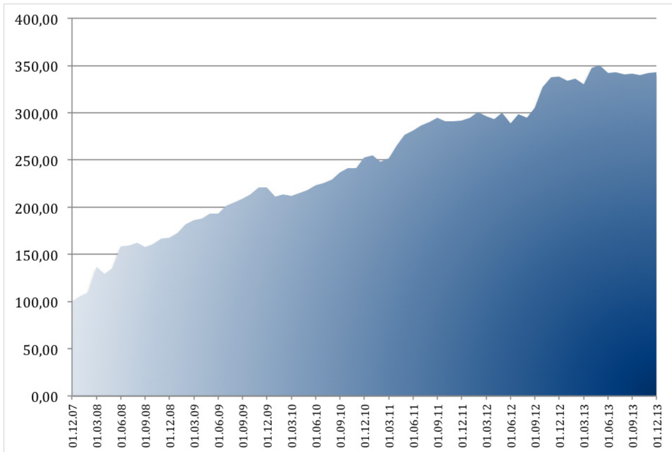
The index started on December 1st, 2007 at and index value of 100. On this date, each of the index constituents NAV is set to be 100 and any growth or decline is measured from this pre-defined point. The index value of 100 reflects the equal weighted arithmetic mean of all the 17 constituents of the index. Thus, a net increase of 1% of assets of a fund with 1 BUSD AuM would be offset completely by a decrease of 1% of assets in a 50 MUSD fund. Attempts creating an index based on actual assets under management showed no meaningful results due to the structure of the Nordic hedge fund universe. The vast majority of small funds would be over powered by a handful of very large players, even in a global context, typical from within the Brummer & Partners family of funds.

The new index admittedly has some imperfections we want to be addressing, starting with limitations in available data. Next to survivorship bias, the current calculation model does not reflect changes in AuM due to performance of the underlying funds and fails to capture net in and outflows. As addressed above, the equal weighting chosen also bears its pros and cons.

When composing the index we aimed at including funds of different size, maturity and trading style and aimed for a similar geographical weighting as in the NHX. HedgeNordic Asset Growth Index reflects compound and aggregated asset growth of the following Nordic hedge funds:

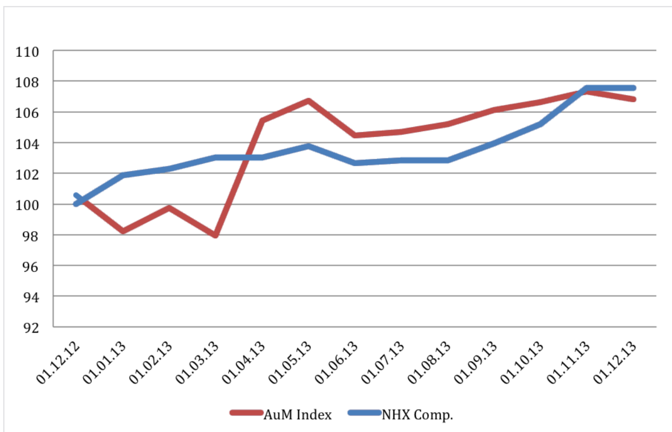
NHX AGI Constituents	
Brummmer & Partners Lynx	Tanglin Fund
Brummmer & Partners Nektar	Danske Invest Hedge Fixed Income
Brummmer & Partners Zenit	Estlander & Partners Alpha Trend
Brummmer & Partners Multi Strategy	SEB Asset Selection
PriorNilsson Idea	Catella Hedgefond
SEB Hedge Fixed Income	IPM Systematic Macro Fund
KLP Alfa Global Rente	SEB Hedge Fixed Income
Estlander & Partner (entire fund range)	Nordea Alpha 15
Asgard Fixed Income Fund	

NHX Asset Growth Index (NHX AGI)



Assets under management for the sample group showed significant volatility during the year. Fixing December 31st 2012 as base with 100, the top asset gatherer could more than double assets (201,2) while one fund lost over half its AuM (48,9). In the twelve month period from December 31 2012 to December 31 2013, asset growth of the mean fund in the sample increased asset by 6,8%, remarkably in line with the net performance of NHX composite for the year.

AuM Index vs NHX 2013



Know Your Playground

Why the Nordic Equity Market is so Well Suited for an Absolute Return Focused Fund with an Equity Long / Short Strategy.

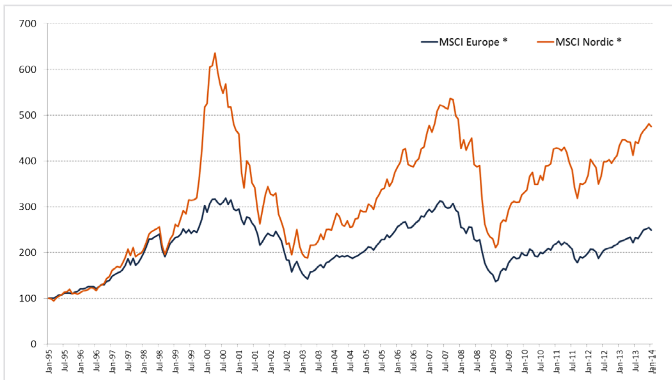
"If you had to be reborn anywhere in the world as a person with average talents and income, you would want to be a Viking. The Nordics cluster at the top of league tables of everything from economic competitiveness to social health to happiness" is how The Economist put it a year ago in a Special Report entitled "The Next Supermodel", dated February 2, 2013. The renowned magazine went further, suggesting that the Nordic model offers a blueprint for how to reform the public sector, with a political system far more efficient and responsive in times of crises versus most European counterparts, as well as intent on combining social welfare goals with a framework for securing competitive capitalism.

As examples, the article points to Denmark that has a system of "flexicurity" that makes it easier for employers to sack people but provides support and training for the unemployed, and Finland which organizes venture-capital networks.

The superlatives above may not be unfamiliar to any investor who has received a sales pitch to invest in a Nordic-focused long only equity fund. In fact, Nordic long-only fund prospectuses all cite The Global Competitiveness Report, listing up how the Nordic countries rank among the top in; competitiveness; stabile regulatory environments; low political risk; high level of education; high degree of technological innovation; low corruption; high degree of trust and transparency, to name a few. And of course, they highlight the large exposure Nordic companies -that by and large are export-oriented - have to the global markets.

We agree with the long only guys that the Nordic equity market is an attractive place to be – in the long run. Value creation as reflected in the long-term performance of the MSCI Nordic Index has far outstripped compounded returns in both European and global equities. Since 1995 the Nordic MSCI Index has outperformed the MSCI Europe Index by a factor of 2, while measured all the way back to 1971 the MSCI Nordic Index has outperformed the MSCI World Index by an impressive factor of 4,3.

Figure 1. The Nordics outperform in the long run, but be aware of the draw-downs

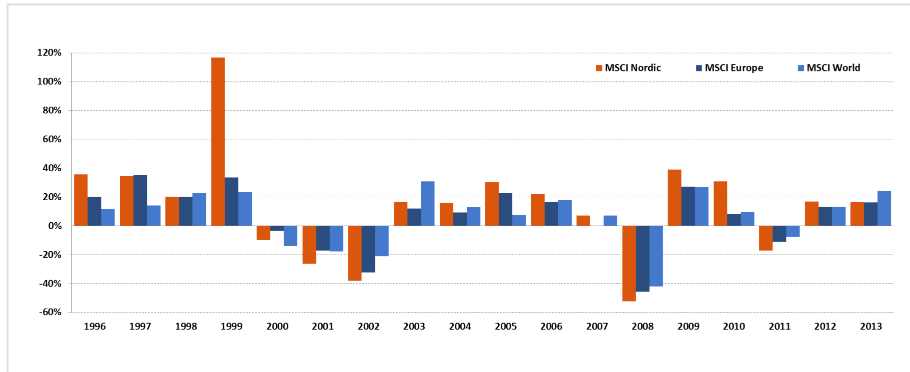


Source: Bloomberg, MSCI Nordic vs. MSCI Europe, total return, rebased in EUR

However, the Nordics are far more volatile compared to other developed markets, and investors are at risk of losing serious money (and patience) along the way in the rather violent and large draw-downs if past history is any guide. The composition of listed companies in the Nordic universe offers a rational explanation for a volatile market, with roughly 50% of total market capitalization of USD 1.5 trillion classified within cyclical sectors as opposed to the remaining 50% in non-cyclical sectors. Another possible explanation for the volatility in the Nordic equity market (perhaps perceived from the outside as "esoteric" despite its high rankings in competitiveness), with large swings in expected annual returns over the course of a global business cycle, is that volatility is amplified by large foreign ownership changes in Nordic equities.

Foreign investors tend to adjust their allocation to the Nordic markets, individually or on a regional basis, rather aggressively and opportunistically across sectors, in concert with the changing outlook for global growth. For instance, the foreign ownership ratio in the Finnish stock market increased from around 36% in 1996 to nearly 75% at peak in 2000, driven by frenzy in the tech and telecom sector, before crashing to an intermediate low of 49% in 2004. In Denmark, the foreign ownership share of the stock market has grown from 24% in 2005 to 44% at end of 2013, mainly driven by investment in the market's large cluster of pharmaceutical and life science related companies. Foreigners are a large swing factor in the Nordic markets and exaggerate movements in stock prices on the upside and to the downside.

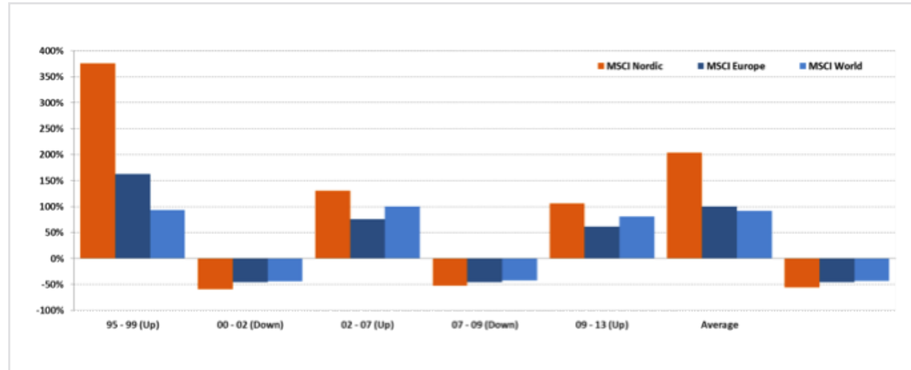
Figure 2. The Nordic equity market consistently over-shoots on the upside and under-shoots on the downside



Source: Bloomberg, annual total return %

The effect of these volatile swings can be seen in the chart above. Since 1996 the Nordic equity market has shown a near consistent pattern of outperforming in positive years, while underperforming in negative ones. This pattern holds especially true vs. Europe, where Europe has outperformed the MSCI Nordic in only one year during the last 17 years in positive years, while the MSCI Nordic has underperformed in every single down year over the last 17 years. Furthermore, the movements from bottom to peak and back to the bottom of the markets are larger in the Nordic equity market, as can be seen in the chart below. Average total return in Nordic market from bottom to peak has far exceeded that of Europe, while falling harder from peak to bottom again. This backdrop provides an excellent investment environment for an active, long-short equity mandate such as the Sector Sigma Nordic Fund. Through risk management, with targeted volatility well below the historical average for the Nordic equity market, the Fund aims to capture the Nordics record of superior long-term value creation while reducing the variability of the Fund's returns.

Figure 3. Total return from bottom through to peak, and from peak through to bottom



Source: Bloomberg

The Fund's investment strategy is anchored in a thematic approach based on identifying structural trends and assessing their financial impact on individual sectors and companies within our Nordic universe. We define a structural trend as period of time, or an underlying development, that is not tied to the business cycle or the prevailing market phase, but most often overrides it. Value creation, as well as value destruction, is more apparent in the wake of a structural trend, and offers both more profitable and less risky investment opportunities. A few examples of our thematic approach - as applied over the past year in our investment choices - are discussed below.

Thematic approach to investing

At the beginning of last year, our analysis convinced us that Western oil majors would be forced to significantly reduce multi-year, double-digit growth in spending for exploration and production (E&P). Although a non-consensual view at the time, we established and have held net short positions on companies within the oil services sector since then. In the meantime, most oil majors have announced plans for large E&P spending cuts, highlighting a focus on capital discipline and ROACE (i.e. return on average capital employed). The oil majors' focus on capital discipline commences with plans for "no-growth" budgets for E&P spending beginning in 2014, and extending over a period of several years after that. Although oil services companies' share prices in our Nordic universe have massively underperformed the broader market over the past year, we think it is too early to go "bottom-fishing" in the sector. Oil services companies, especially with exposure to offshore E&P activity, will soon be faced with idled capacity, competitive pricing pressures, and bloated SG&A costs. Earnings estimates within the sector will most likely be reduced further, perhaps significantly, and news flow will continue to be decidedly negative. Valuations have come down, but do not reflect the structural nature of the trend, i.e. the risk of a prolonged downturn due to the Western oil majors' newly refocused long-term commitment to increasing ROACE.

Among the individual Nordic equity markets, Norway is the most cyclical, and the country's economic fortunes rest primarily on activity in the oil and gas sector. With "capital discipline" the current watchword for Western oil producers, including Statoil, and without the prospects for a sudden and sharp increase in the price of oil, investment and employment in the domestic oil and gas sector is set to decline. A weakening of the Norwegian economy has been signaled throughout the past year, with a depreciation of the Norwegian krone (NOK) against the EURO of 13% in 2013. With muted expectations for the price of oil, resulting in a projected decline in oil and gas-related investments from a peak of NOK 224 billion in 2014 to around NOK 200 billion annually beginning in 2015, the whole Norwegian economy will likely see negative ripple effects.

As a consequence, our investment focus on the long side in Norway is focused solely on export-oriented companies with a large NOK cost base. Norway emerged virtually unscathed from the effects of the 2008 financial crisis, and exceptionally low interest rates (thanks to global central banks' ZIRP policy – i.e. Zero Interest Rate Policy) have boosted household wages and spending, residential and commercial real estate prices, and public sector largesse to unsustainable levels. Structurally, Norway appears set for an economic downturn.

Another structural theme in our investment approach is tied to the advent of a new consuming class in Emerging Markets (EM) economies. In our Nordic investment universe we have consistently pursued a strategy of seeking out long exposure to the global consumer, and more specifically to the EM consumer. Underlying growth in consumerism in EM economies is structural, fairly stable and predictable. Furthermore, with a larger share of EM growth attributable to consumption by a rapidly increasing pool of middle class consumers, the structural aspect of this consumption is that it mirrors Western patterns. As an example of how we have been playing this structural theme of the emerging EM consumer we have invested in a Nordic company, unknown by name to most, that is in the business of making the paper cup you get when you buy a coffee at for instance Starbucks. This company saw their business growth in emerging markets accelerating to an annual rate of 14% in the last quarter of 2013, benefiting from two megatrends; increased packaging of daily consumer goods (food and hygiene products) due to growth in modern retailing and the rapid growth of fast food and coffee chain outlets. As the company put it "the foodservice playground is shifting towards emerging markets". To further put this into perspective; as of the end of 2013 there were 34,480 McDonalds in the world, 24% of these were in emerging markets.

"It is hard to explain to naïve data-driven people that risk is in the future, not in the past." (Nassim Taleb)

There were 20,891 Starbucks coffee shops, 17.5% of these were in emerging markets. Making paper cups for Starbucks may not be glamorous, but millions of middle class consumers in the emerging markets also want to hang out at a Starbucks coffee shop! If weaker than projected Chinese growth in 2014 occurs, or in EM economies in general, it most likely will happen because of less investment in capital formation, which is commodity-intensive. Lower EM growth will most likely continue to be more negative for resource-oriented companies in our Nordic universe, who have exposure to commodities prices and investment in commodities extraction, than for non-resource-oriented companies.

To sum up, the Nordic equity market is especially well-suited for an active, long-short equity mandate such as the Sector Sigma Nordic Fund. With risk management targeting volatility well below the historical average for the Nordic equity market, the Fund aims to capture the Nordics' record of superior long-term value creation while reducing the variability of the Fund's returns. Market timing is not a science, nor volatility a constant. Risk, however, is always present.

Jannik Arvesen, Bjørn Tore Urdal
Sector Asset Management

The Danish Mortgage Covered Bond Market

The market for Danish mortgage covered bonds is more than four times as large as the government bond market and with over 2000 mortgage covered bonds traded on the stock exchange, the Danish mortgage covered bond market is the second largest in Europe, only surpassed by Germany.

Principally, there are 3 types of mortgage covered bonds: adjustable rate mortgages (ARMs – very similar to e.g. Swedish Bostäder), fixed rate mortgages (predominantly 30Y callable – i.e. embedded optionality) and floating rate mortgages (with or without cap).

The Danish mortgage system is unique due to its one-to-one relationship between a loan and the bonds issued by the mortgage bank to fund the loan. There are many advantages to this principle, not least that systemic risk is low and, arguably, Danish borrowers have the cheapest mortgage financing in the world. This principle is unique in the world. The robust 200 year old Danish mortgage system never had a mortgage institute default and investors have always received their principal and interest.

Since 2003, borrowers have been allowed to take a mortgage with no principal payments for 10 years. These Interest only (IOs) can be fixed rate or variable rate. An IO can be refinanced by a new IO, extending the principal free period beyond 10 years.

Rating agencies have pointed to the high degree of short-dated ARM-financing and the excessive use of IO loans as a threat to the stability of the Danish mortgage market and economy. This has led mortgage institutes to severely price differentiate between borrowers that refinance for longer periods and pay down principal on the mortgage and those who do not. Danish legislators are in the process of renewing the law governing short-dated refinancing combined with a soon-expected set of guidelines.

Both initiatives are expected to limit the extent of short-dated refinancing. On top of this, EBA has set forth their recommendations regarding classifications of covered bonds

“The proven liquidity of Danish mortgage bonds is an important factor.”

in terms of the BASEL III framework (CRD IV) coming into effect gradually over the next 5-7 years. Currently, Danish covered bonds are recommended as Level-II assets, but forces are trying to alter this recommendation before being put into legislation this summer. There seems to be some vital arguments for a special treatment considering the size of the Danish government bond market compared to the size of the Danish financial institutions demanding a large amount of Level-I assets to comply with BASEL III. The proven liquidity of the Danish mortgage covered bonds is an important factor. Certainly, the mortgage markets across Europe are in for legal curve balls, but it is of outmost essence to be on top of that game!

The Fixed Income Team at Nykredit Asset Management: Henrik Jørgensen, Head of Fixed Income/Tormod Hagen, Senior Portfolio Manager/Nicolai Rasmussen, Senior Portfolio Manager/Kenny Friis Gade, Chief Portfolio Manager/Carsten Lundtoft, Portfolio Manager (left to right)

Investing in the Danish Mortgage Market

Several Danish mortgage covered bonds contain various option elements and in a relative value strategy it is of outmost importance to value these options correctly. One needs to take borrower behaviour into account, and also market elements such as actual preliminary prepayments and issuance, opening and closing of series on tap, introductions of new refinancing opportunities, and the development of the term structure and its volatility. The continuous expansion of legislative framework after 2008 has been a game changer, creating opportunities for relative value strategies. Nykredit Asset Management has been a long-term investor in this market.

Since many of the Danish liquid and solid bonds are so complicated, it is to be expected that one can obtain systematic excess returns for a constant interest rate risk by precise and ongoing analysis of the bonds, and by constantly attempting to improve the analysis precision. “At Nykredit Asset Management we try to do this by combining quantitative improvements of existing mortgage covered bonds models with a qualitative assessment of when and how issuance and prepayment patterns appear to deviate from history. In this investment process we keep portfolio interest rate risk relatively constant. The target is to obtain excess returns of 0.25-0.50% per annum with an information ratio of 0.5. Delivering attractive, risk-adjusted returns are at the core of our strategy.”, says Kenny Friis Gade, Chief Portfolio Manager at Nykredit Asset Management.

Investing with Limited Duration Risk - Hedge Funds

A disciplined and proven approach to long-only investing in the Danish mortgage market comes with the same caveat as most other long-only investments in bonds: traditional bond investment involves a substantial interest rate risk. With falling yields for the last 20 years interest rate risk has been profitable. However, it is no necessity that bond positions should be accompanied by interest rate risk. “Our relative value approach has been distilled into two distinct hedging strategies –KOBRA and MIRA.

KOBRA is a strategy based on duration hedged positions in the short end of the yield curve, whereas MIRA is a strategy based on duration hedged positions all across the yield curve. Both strategies are absolute return strategies. The maximum maturity of 5 years of positions in KOBRA provides some robustness against crisis scenarios.”, says Kenny Friis Gade, Chief Portfolio Manager at Nykredit Asset Management.

Improbable events can occur in financial markets which also means that mortgage markets can come under severe pressure. A lesson from the financial crisis in 2008 was that the mortgage market (e.g. the Danish, Swedish and German – all AAA markets) were amongst the first to normalize. Investors were “under water” shorter time on their mortgage investments – also in leveraged strategies - compared to other asset classes.

In this period, covered bond markets across Europe have enjoyed high risk-adjusted returns. Due to legislation in favour of covered bonds compared to senior bondholders and the stability of the investor base characterizing Nordic covered bond markets it is straightforward to expect a rosy future for the asset class, but as always it is important to stay informed and alert, as flows are ever-changing and legislators never sleep!

Kamran Ghalitschi

The Nordic Corporate Bond Market

2013 was a year with a lot of positive momentum and very limited negative surprises for the Nordic corporate bond market with default rates remaining below historical averages during the year.

Corporate bonds have in general performed well in 2012 and 2013. Going into 2014 we still see value in the corporate bond space, especially in relation to traditional fixed income alternatives such as T-bonds and T-bills, which are at historic lows. However, spreads have contracted significantly during 2013 so we do not expect massive capital gains going forward. Central bankers across the globe will most likely hold interest rates low for the foreseeable future. That being the case, funds that are allocated to fixed income will continue seek excess return within the corporate bond space.

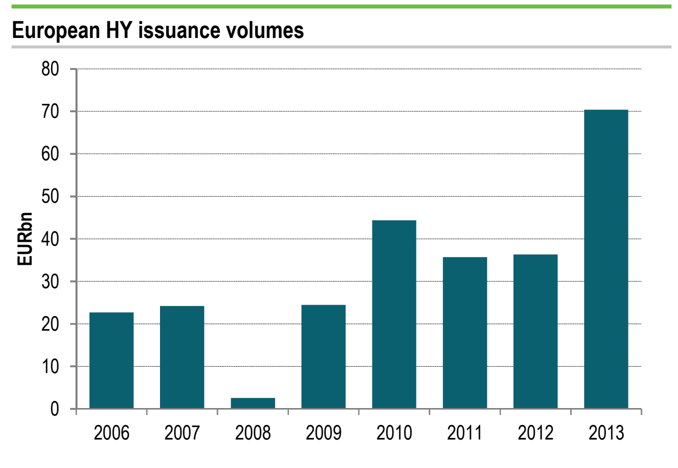
The Nordic market continued to benefit from safe-haven status due to its relatively favorable macro backdrop. The Norwegian bond market in particular gained of attention due to a lot of high-quality oil services and oil production issues in the primary market. In Sweden we saw several well-received deals, such as ICA, Cloetta and SAS, which all traded up significantly in the secondary market. Denmark and Finland were quiet. We still see good value in the BB segment overall in the Scandinavian markets.

"The supply of Nordic investment-grade bonds is scarce and comes with tight pricing"

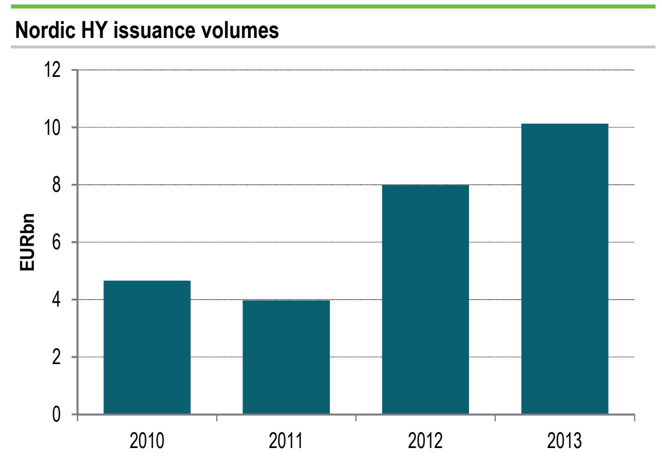
2013 was a year with a lot of positive momentum and very limited negative surprises for the Nordic corporate bond market, default rates remained below historical averages during the year. The search for yield continued to compress spreads and generate returns for most investors, while traditional bond funds struggled in a rising interest environment. Both the primary and the secondary markets were very active, with both the buy side and the sell side expanding at the same time.

We saw a lot of new names come to the market as corporates sought to broaden their financial sources away from banks and to lock in favourable low-cost funding. A few individual names got into trouble, such as Northland Resources in Sweden, Talvivaara in Finland and Noreco in Norway, with sharp corrections in prices as a result.

The supply of Nordic investment-grade bonds is scarce and comes with tight pricing. In addition, banks' inventory levels are historically low. On the high-yield side, we are seeing fairly good activity, with new issuers coming to the market. All in all, there is certainly room for improvement within secondary trading since liquidity is poor and pricing is intransparent. The alternative fund structure allows us to hedge interest-rate risk and credit risk.



Source: S&P Capital IQ/SEB



Source: SEB. Includes bonds issued under Nordic law.

Last year, rates on Swedish 10-year government bonds increased by almost one percent. That move made it very difficult for traditional bond funds with longer duration to perform. By hedging duration risk through the futures and options market, the fund also performed during months with rising rates.

"Investors should invest selectively and stay cautious"

In addition, a large chunk of the fund was invested in floating rate notes, which over time adapt to rising interest rates. Being short duration certainly helped us to deliver performance in 2013 and, even though we are not ultra short anymore, we expect the flexible mandate to also help us through volatile rates going forward.

Credit risk is hedged through the credit default swap market. With corporate valuations moving higher, and credit spreads drifting tighter away from fundamentals, investors should be prepared for setbacks.

The overall trend of ever more issuers coming to the corporate bond market continues. Since the financial crisis and the implementation of new capital requirement rules, banks have been more conservative in their lending to companies. We see some signs that banks are getting more aggressive with their balance sheets again, we expect companies to continue diversifying their funding sources and issuing bonds.

Another strong trend is the shrinking importance of public ratings. Over the last years unrated companies have been selling record amounts of bonds. This is expected to continue as fixed-income investors get more sophisticated and broaden their mandates.

With tighter pricing and softer covenant packages, we are getting closer to the next step in the credit cycle. Investors should invest selectively and stay cautious as companies become more aggressive, with increased balance-sheet leverage.

Fredrik Tauson
Magnus Nilsson
Portfolio Managers for Catella Nordic Corporate Bond Flex

Lower Correlations for Commodities

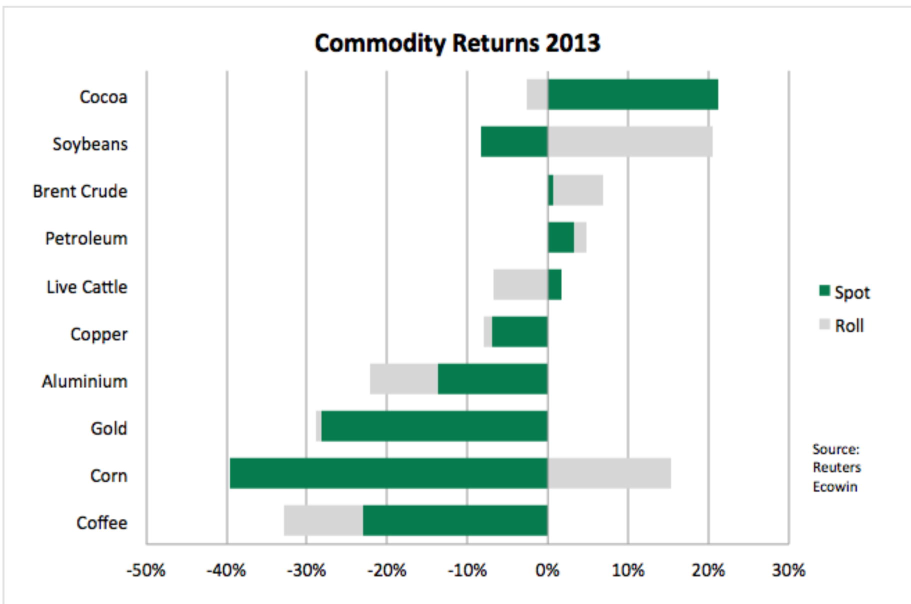
In 2013 the correlation between commodities and equities was the lowest since the financial crisis. Going forward each supply-demand balance will be important.

2013 was another fairly dull year for both long-only investments in commodities and hedge funds with exposure in the commodity markets. The major commodity indices (long-only, futures-based and fully collateralized) closed the year down between one and ten percent. Commodity hedge funds are a very inhomogeneous group, but an indication of their performance is provided by the Newedge Commodity Trading Index.

The index fell by 1.3% in 2013, which was the third consecutive year of negative returns. The sub-index that does not include equity strategies fell by 4.2%.

Momentum strategies recovered after a poor 2012. Morningstar's momentum based long-short strategy rose, for example, by more than five percent. The positive return of these strategies originates from the divergence between different commodities. Curve strategies, that is, holding long and short positions in the same commodity but different delivery times, also showed positive albeit weak returns during the year. For example, outperformed the Dow Jones UBS Commodity Index with 3-month forward rolling the Dow Jones UBS Commodity Index which hold the nearby futures about one percent. Also some carry strategies worked decently well in 2013. The constituents of the Goldman Sachs Commodity Index, GSCI, which dominantly traded in contango had an average return of minus ten percent, while those with backwardation had an average return of minus one percent.

In the chart the spot price return in 2013 (the change between the first contracts last December 2012 and 2013) and the cumulative rolling return for a subset of the constituents of the GSCI is plotted. The variation between the various commodities is significant. Precious metals and some grains exhibited the weakest returns, while most energy commodities closed the year in positive territory.



The correlation with equities fell gradually during 2013. For the whole year, the correlation between GSCI and the U.S. large cap index S&P500 was 0.35 on weekly data, which was the lowest since 2007.

The correlation between commodities and equities is thereby almost back to the level seen before the financial crisis. That has strengthened the case for being long commodities, as they serves both as real assets but also as diversifiers to traditional assets such as equities and real estate. Moreover, the improved diversifying quality lowers the expected return required to motivate a holding in a balanced portfolio.

Outlook for Commodities in 2014

The environment from 2013 should in general be expected to extend into 2014. Thereby, the correlation to other asset classes should remain low or even continue to decline in 2014. Also the pairwise correlation within the commodity space should stay low. Taken together, this implies that each individual commodity should trade on its own supply-and-demand fundamentals.

Oil and oil derivatives (e.g., heating oil and gasoline) should continue to adjust to the redrawn map of global oil supply. Continued onshore production increases in North America and rising demand from China and other emerging markets will put strains on the refining and distribution system. A key political question will be the US export ban on oil dating back to the 1970s. The hedging pressure in oil seems to be significant and the futures trade predominantly in backwardation. Meanwhile, the uncertainty stemming from geopolitical risk in the Middle East and North Africa will continue to be a wild card.

Grains and oilseeds will as usual be weather-driven markets. These markets start off the year with decent stock levels, possibly except for soybean meal. Most prices have already come down significantly from the elevated levels over the past three years. However, there is still more downside in a historic perspective.

Softs and meats will likely continue to show great diversity. Meat and livestock prices are high and could follow feedstock prices lower while many soft commodities already have seen large price declines.

Base metals are particularly dependent on China's and other emerging markets' demand growth and hence sensitive to their development. There are however major differences in the supply-demand balance between the oversupplied aluminium and nickel markets versus the tighter copper and lead markets. Precious metals, which were the great underperformers in 2013, are still in the hands of speculators as well as the physical demand from India and China. The physical demand can partly be explained by their fragile and immature financial systems. Despite outflows from ETFs in 2013, gold is by far the most widely held commodity investment. Flows from ETF investors could turn either direction in 2014.

"The correlation between commodities and equities is thereby almost back to the level seen before the financial crisis."

In summary, there will probably be lots of opportunities for the commodity investor who can identify the sentiment, the hedging pressures as well as early detect major shifts in the supply-demand balances, caused by weather, geopolitics or distribution hiccups.

Anders Blomqvist
– Portfolio Manager, Ålandsbanken

Managed Futures Performance & Volatility

Over the past several months Estlander & Partners Ltd has been evaluating the post crisis results of Managed Futures, particularly trend following, relative to decades long results in global macro trading.

Such analyses are core to our approach to quantitative research where we are always re-evaluating our theses for validation and to garner new insights we may not have considered previously. We also wanted to better consider what can be expected for the strategy in the future, given various potential environments. We feel this is particularly relevant given the persistent non-market forces (e.g. central bank activity) influencing capital and commodity markets over the past several years. Here we share with you our approach and some preliminary observations that leverages both our CTA and option market making heritage. In addition, in the summary of this brief note, we offer some thoughts related to performance of the recent past and towards the future environment for trend following.

This report is a primer for research that may be presented in more detailed findings through direct discussions with our investors. We encourage you to contact us with questions and comments.

Methodology

In order to extend our analysis over decades, we use a theoretical long straddle portfolio (the Estlander & Partners Straddle Index, "ESI") as a proxy for trend following. This ESI is evaluated since 1950, measuring results of the strategy over full and multiple economic cycles. This is the perspective we have embraced in our proprietary investing and one that we believe is relevant for investors when making allocation decisions.

Our proxy portfolio is constructed as a portfolio of at the money, twelve month straddles for up to sixty two markets representing a traditional trend following portfolio. Straddles are added to the portfolio monthly and priced using one hundred day realized volatility.

Note that in contrast to trend following's positive absolute return profile, an actual straddle portfolio priced in real-market terms would be unprofitable because implied volatility trades at a premium to realized volatility, transaction costs, etc. Nonetheless, the theoretical long straddle portfolio, analyzed using realized volatilities, properly reflects the experience of a long volatility investment for our purposes.

To demonstrate that our straddle portfolio represents a fair proxy for the CTA sector, we compare accumulated values of our proxy portfolio to the Newedge CTA index (Figure 1). Note these two "portfolios" exhibit approximately 0.80 correlation.

Newedge CTA Index and the ESI

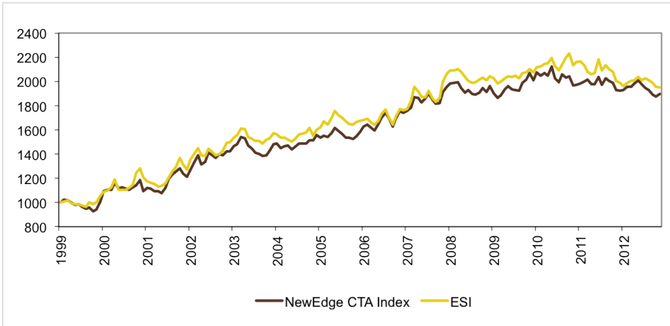


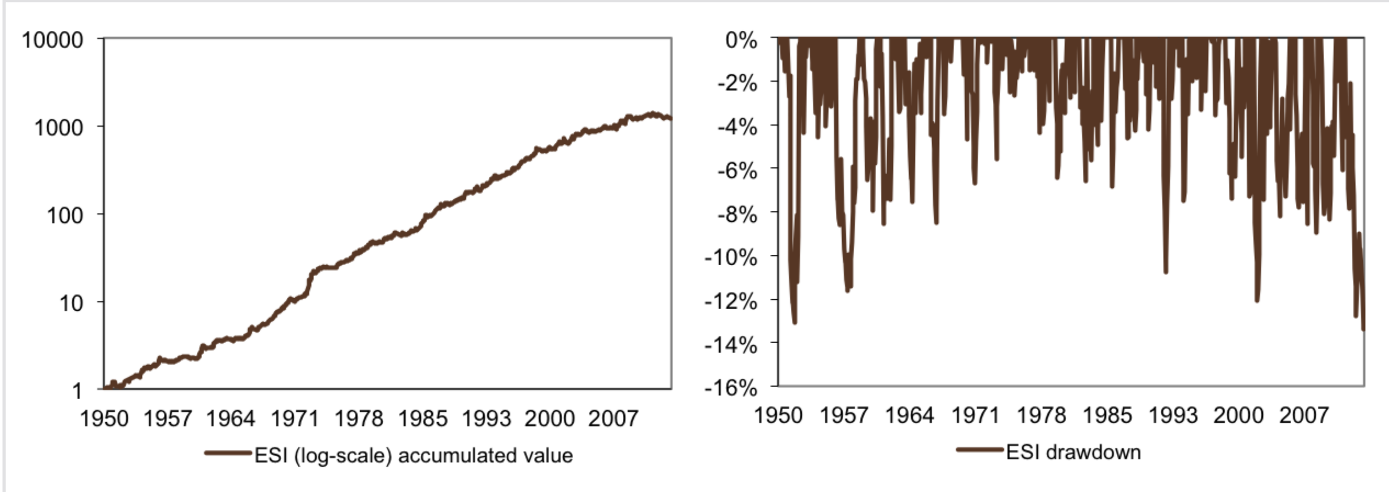
Figure 1. The straddle portfolio (ESI) includes 2% management and 20% performance fees. Portfolios are normalized to equivalent volatility. Time period 1999-2013. Source Bloomberg and Estlander & Partners.

Observations

Here we look at the performance of the straddle portfolio since 1950 to garner a sense of return, volatility, and cyclicality of a long volatility investment in the global macro markets. Although it is clear that the ESI has generated considerable accumulated returns over the years, as has trend following, performance has flattened out more recently (Figure 2) and the portfolio is in a historically large drawdown (Figure 3), again, similar to trend following.

Next we focus on the impact from changing volatility, as defined here by the ratio of realized quarterly volatility divided by realized volatility in the quarter one year prior.

ESI Performance and Drawdown since 1950



Figures 2 and 3. The straddle portfolio (ESI) includes 2% management and 20% performance fees. Instruments added as data becomes available. Data period 1950-2013. Source: Estlander & Partners.

Figure 4 shows that there is a correlation of approximately 0.6 between changes in volatility and performance of the ESI. In addition, since 1950, both bond markets and the U.S. Dollar have a measurably smaller relationship to the long volatility performance profile of ESI.

Correlation between the ESI and Change in Volatility, Bond Returns and the U.S. Dollar

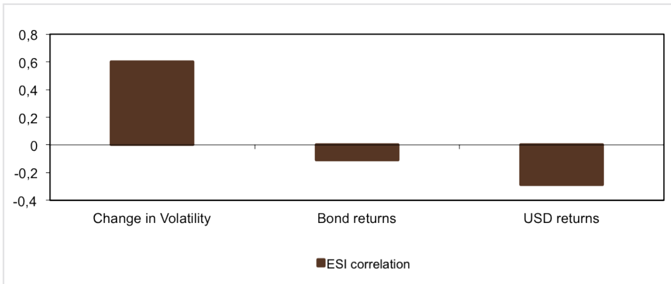


Figure 4. Correlation between the ESI and select return drivers. Time period 1950-2013. Source: Estlander & Partners.

In figure 5 we look at correlations since 2000 and see that the change in volatility retains its strong relationship to the ESI. Noteworthy is the change in correlation between bond returns and the ESI when comparing the full history to this more recent period. The correlation more recently has moved positive, though still below that of the change in volatility.

Also in figure 5 we see that for the NewEdge CTA Index, bonds have been a slightly more dominant factor than both the changes in volatility and the U.S. Dollar. In addition to the pronounced decline in interest rates over this time period, this may also demonstrate the considerable increase in fixed income exposure observed from the largest managers in the space. Figure 5 also includes Estlander & Partners' Alpha Trend and Freedom programs where in both caces the change in volatility remains the more dominant factor.

Correlation between CTA Returns and Change in Volatility, Bond Returns and the U.S. Dollar

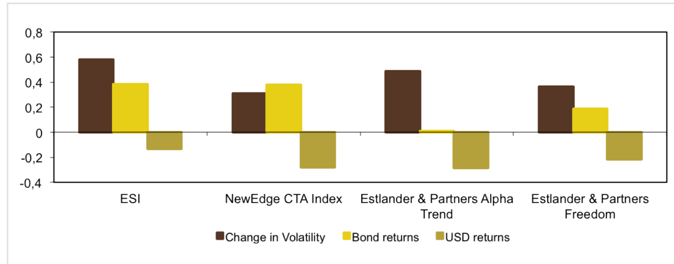


Figure 5. Correlation between CTA returns and select return drivers. Time period 2000-2013. Source: Estlander & Partners and Bloomberg.

Perhaps most dramatically, when we look at the recent negative performance of our straddle portfolio (Figures 2 and 3) it seems apparent that the losses coincide with the dramatic decrease in volatility since the historically high volatility in 2008. (Figure 6)

Average 3 month Volatility 1950-2013

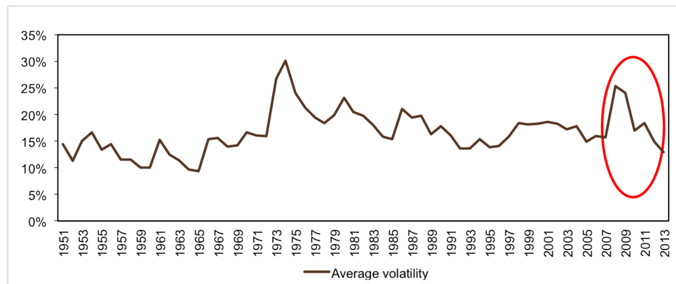


Figure 6. Average global 3 month volatility for the period 1950-2013. Source: Estlander & Partners.

Summary

Our research continues, though we thought the work we have done to date provides some constructive insights, including:

An intuitive explanation why so much of the capital invested in CTAs following 2008 has underperformed expectations and long term averages in trend following performance. These flows were "purchasing" volatility at some of the most expensive levels in decades. Volatility has since collapsed, penalizing the long volatility exposure and resulting in losses for trend following investments.

At historically low volatility currently, investors again should re-evaluate the opportunity of trend following. Though rising volatility appears optimal for trend strategies, stable volatility has also produced profitable opportunities historically.

To the extent that central bank policy can explain the collapse of volatility, their motivation post crisis has been to support economies and limit the downside of asset prices. Such policy does not preclude volatility in the form of asset inflation.

The recent equity market rally and exhaustion of many successful relative value trades deepens the need for true diversification within most portfolios today. Estlander & Partners, through its systematic macro strategies, including trend following, has historically provided traditional and alternative investment portfolios with some of the most important return attribution and diversification since the formative years of hedge fund investing. Our portfolios continue to provide ready access to the broad commodity sector, liquid exposure to diversified financial markets, and disciplined, objective risk taking.

We will continue to keep you apprised of our research efforts. We invite you to contact us for a more detailed discussion about these and additional findings in the interim.

Jesper Nyberg – *Partner, Portfolio Manager*
Estlander & Partners

Hedge Funds set for another solid year in 2014

In what is described as an economy that is transitioning from liquidity to growth where inflation remains muted, Lyxor Asset Management sees good potential for another solid year for Hedge Fund returns, particularly for strategies seeking to exploit relative value opportunities.

A normalization of risk premiums coupled with prospects for global growth to expand at a moderate pace is at the heart of Lyxor's positive economic outlook for 2014. The trading opportunities are expected to resemble those pre 2007 rather than post 2008 where risk-on/risk-off was the most important factor to trade profitably.

Lyxor notes that risk premiums currently suggest that markets are no longer focused on tail risks and foresees a trading environment in 2014 characterized by corrections rather than lengthy risk-off periods. The fact that dispersion across assets continues to increase further suggests that markets will be driven by idiosyncratic factors rather than systemic risks.

"The environment for hedge funds to generate relative value returns is more attractive than it has been in many years and 2014 should be a bright year for the industry" says Jeanne Asseraf-Bitton head of Global Cross Asset Research at Lyxor.

On the back of their constructive view, Lyxor sees equities as being a continued strong driver of hedge fund returns, however, the asset manager says that a repeat of the strong performance of last year is unlikely and that focus should be on stock selection and relative value strategies.

"Our favourite segment of the L/S equity universe is the Variable Bias managers who can generate returns from stock, style and sector picking on the long and short sides" says Jean-Baptiste Berthon, Senior Strategist at Lyxor Asset Management

Strategies like merger arbitrage and special situations funds, which play idiosyncratic opportunities in the corporate sector, are also favored. In merger arbitrage Lyxor sees receding macro risks and rising asset prices as a trigger for companies to spend the cash accumulated on their balance sheets. In special situation, funds that can enact change through activism related to capital structure and business strategy are appealing.

Lyxor sees a growing number of themes and arbitrages to play for macro funds, in particular: dispersion among central banks, dispersion in growth recovery patterns, dispersion intra EM, and DM vs EM.

Jeanne Asseraf-Bitton, Head of Global Cross Asset Research at Lyxor

In the Credit space Lyxor states that opportunities for bottom-up selection are limited both on the long and short sides while they prefer funds focused on Structured Credit. Among the least favored strategies, Lyxor mentions CTA funds. They see a reduced set of mean reversion opportunities compared to last year, as well as a lack of persistent trends and directional market moves for the present. Short-term strategies, within the CTAs space, will be the first place to look when reengaging in the strategy according to Lyxor.

In commenting on potential risk factors to the positive outlook for hedge funds in 2014, Jean Baptiste Berthon says;

"In total return, a worst case scenario would be a major derailing of global growth anticipations, resulting for instance from a hard landing in China. Relative to other asset classes, very bull and directional markets – a pure beta play – would not be favorable to hedge funds."

Jonathan Furelid

The Warren Way...

„Becoming a behemoth like Lynx and the Wintons of the world excludes you from being nimble and therefor from a number of trades that we find attractive.“

In year turning out to be challenging for Managed Futures, the NHX CTA sub index just managed to creep into positive territory, largely picking up some tailwind from trends in equity markets. Norways Warren Capitals two CTAs outpaced the index, clocking in the better side of 8% return for Fourth Moment Macro and over 11% for Warren Short Term Trading, with a remarkable Sharpe Ratio of 4,2. „To be honest we are a little bit overwhelmed by the risk adjusted returns being this good. We have always been strong believers in evaluating returns according to risk and would love to tell you that this level of Sharpe is what you can expect us to deliver for the next decade. However this is too high a bar.“, Peter Warren told HedgeNordic in an interview. „1,5 to 2 would be a great range over time for our Sharpe Ratio.“

Peter Warren was actually disappointed with 2013 results. More time was spent on R&D, such as a direct interface between trading models and the execution system as well as work on signal generation and execution platform. „The more justifiable reason for being disappointed was that we experienced a larger average drawdown per trade compared to 2012. It took quite forensic investigation to uncover the reason for this. It was so embarrassing simple that I will refrain from telling you what it was. Needless to say it has been corrected.“ Peter Warren says.

Both funds were awarded at the 2012 Nordic Hedge Awards, Warren Short Term Trading as best Nordic CTA and even taking second prize in the overall category as „Best Nordic Hedge Fund."

Tom Rosenkrans, Michael Petry, Jens Caroe Valloe Christiansen and Carsten Cilieborg.

Danske win at EuroHedge

Nordic managers performance again were recognized at this years EuroHedge Awards resulting in several nominations. Funds from the Nordic region nominated for the Awards that were handed out on January 23rd in London for 2013 results were:

Specialist Equity: Nordic Alpha, Rhenman Healthcare Equity Long/Short

BEST EUROPEAN Equity: Madrague Equity L/S

Equity Market Neutral and Quantative Strategies: Sector Healthcare

Fixed Income: Asgard Fixed Income, DanskeInvest Hedge Fixed Income Strategies, Brummer & Partners Nektar, Midgard Fixed Income

Managed Futures, Commodities & Currency: Brummer & Partners Lynx

Multi Strategy: Brummer & Partners Carve

UCITS Fund: Catella Nordic Corporate Bond

New Fund of the year (Macro, Fixed Income & Relative Value): Brummer & Partners Carve

The only manager to win in their category was the Danish team from Danske Capital around Michael Petry for Danske Invest Hedge Fixed Income Strategies. The team (pictured from left: Michael Petry, Tom Rosenkrans, Jens Caroe Valloe Christiansen and Carsten Cilieborg) took first prize in the category „Fixed Income“.

New Launch: Origo Quest 1

The Nordic financial markets are often compared to a smaller version of the global economy, with all industry segments being present.

Nordic markets are well structured and transparent. Market liquidity, financial standards and capitalization as well as a sound legal environment make the region a perfect playing field for funds focusing on small cap equities.

Companies in the small-cap market are often responsible for breakthroughs in their sector, for developing ‘game-changing’ technologies, or are simply pioneers and risk-takers prepared to run with a new idea.

Small cap companies can also be forgotten treasures, anything from a beaten-down stock whose strong fundamentals have been overseen or a tiny, off-the-radar firm. All this can make them real value plays.

Portfolio managers focusing on small caps often point to having an advantage as larger institutions frequently do not follow small companies and research available on them is scarce. The doors are therefor open to have an information advantage or edge in understanding the businesses, knowing the management and environment for specialists, often smaller companies themselves.

Origo Capital AB is a Swedish asset manager focusing on this segment of the market. The company was set up by Stefan Roos and Staffan Östlin with backing of BTAB, the Bengtsson family, who grew to fame and fortune in the media industry. Preferred investments are in mature companies with strong balance sheets and good free cash flow. Origo has a long term value approach with a targeted holding period of three to five years.

Origo exploits another advantage of being a small cap investor by being a very active shareholder. The team regularly communicates with companies management, giving advice and guidance, sometimes lobbying with other shareholders. A part of this business can also be to advise other, more passive, shareholders and even represent them with their voting rights. „It can be that we as a group may represent 10% or more of outstanding shares.“ Stefan Roos says. „When you are representing an investor that size, boards listen to what you have to say.“

Origo Quest 1, Origos first fund, launched in February 2013 focusing on Nordic small caps in a concentrated portfolio.

Stefan Roos

Staffan Östlin

Though they have made no use of it yet, the managers mandate is quite open, allowing to enter into short positions or use of other instruments, such as corporate bonds.

The funds overall long term risk target is between corporate bonds and listed Nordic small caps. „We will only enter into a position if we can see a fifteen per cent IRR“

Such an example is Danish NKT, which may be best known for its industrial vacuum cleaner brand Nilfisk. NKT has three main business arms, of which Nilfisk is the most promising and profitable. A spin off or split up has been a driver in the shares investment case. NKT was the first investment for Origo quest and today is the largest holding in the portfolio. „NKT has been a value trap for many years“, Stefan says, „few would have dared to take this position into their portfolios as a first“. The portfolio managers see tripple opportunities with NKT in restructuring, consolidation and growth.

Staffan Östlin tells us there are no ambitions to seek investment opportunities outside of the Nordics. „We think the Nordics is a very attractive investment market as it combines closeness to management with world-class companies. In IMF´s Global Competitiveness Report 2011 Denmark, Sweden and Finland are ranked top 10. Relative GDP-growth, innovation, ethics and a stable banking sector are some of the factors that IMF highlights.„

Kamran Ghalitschi

New fund launch: Crescit

Having spent their careers managing the Skanska pension foundations, Jonas Granholm and Gustav Lundeborg decided to team upwith the former Skanska CFO Hans Biörck, to open up shop and launch a hedge fund.

The new venture was announced in January and in April the fund ”Crescit” commenced trading with an impressive starting capital of 800 MSEK in assets under management. As of September of last year the portfolio managers Jonas Granholm and Gustav Lundeborg had the assets allocated to the markets and Crescit started building on its track record being fully invested.

Crescits trading strategy may best be described as a multi-strategy approach relying on three key return drivers: derivatives on equity indices, fixed income instruments and trend following models. The portfolio managers sell deep out of the money puts, typically around 30% under current market levels and collect the option premiums. The cash generated is in return partially used to buy out of the money calls to participate in upward movements on equity markets. The fund applies this option strategy on equity indices in Europe, America and Asia. Options are sold and bought on an ongoing basis which gives the fund open positions at various market levels. Only a fraction of assets under management is required in margin for Crescits option strategy.

The remainder is invested in a diversified bond portfolio and Managed Futures Funds, which are intended to be as collateral and diversifiers to Crescits portfolio. ”The CTA component will give the portfolio protection on the downside when equity markets dip and can also act as a performance contributor in all different market scenarios”, Gustav Lundeborg tells us. Managed Futures have struggled to meet up to their long term historic returns, but have proven to be in a position to act as protection in times of stressed equity markets, such as after the 9-11 terrorist attacks in New York and Washington and the unfolding financial crisis in 2008, following the collapse of the US Sub-Prime bond market and Lehman Brothers default. CTA are one of the very few trading strategies that are able to extract Crisis Alpha in turbulent market conditions. The firms holdings in Managed Futures include Brummer & Partners fund Lynx and RPM – Risk and Portfolio Management, both of which are domiciled in Sweden, just a couple of minutes walking distance from Crescits Stockholm office.

> ***“The CTA component will give the portfolio protection on the downside when equity markets dip”***

”We aim to have a strong correlation to equities in times when equities do well but a low to negative correlation in times of market distress” says Jonas Granholm, CEO of Crescit Asset Management.

Gustav Lundeborg, Partner and Fund Manager (sitting) and Jonas Granholm, CEO and Fund Manager - Crescit Asset Management

While the trading strategy is designed and optimized to generate returns and keeping losses at low levels in most market conditions, the most favourable trading environment is a steady upward movement of equity indices. Such a scnario sees the sold puts expire, allowing Crescit to keep the entire premiums while at the same time positioning the fund to take profits from the long calls or other portfolio components. ”Sharp spikes in equities to the upside should help gain additional returns for investors”, Gustav Lundeborg tells us.

> ***“The fund can be seen as an equity equivalent in an institutional portfolio”***

The funds goal is to achieve a smoother return profile and a better risk-adjusted return compared to a direct equity investment. ”The fund can be seen as an equity equivalent in an institutional portfolio”, Granholm tells HedgeNordic. The investment horizon is relatively long with a holding period of 18 months for each individual derivative position.

Crescit is registered as a Swedish on shore special fund and is open to daily subscriptions and redemptions. The asset manager only makes the fund available to sophisticated investors with a minimum initial subscription amount of ten million SEK (approx. 1,15 Million Euro) and charges a management fee of 1% and a 20% performance fee with a high water mark. Targeted annual performance is around 8% with low volatility to put the fund at a Sharpe Ratio of around 1,5.

All administrative tasks, such as legal and compliance have been out sourced, back and mid office and fund administration have been out sourced. The managers want to fully focus on the markets and further developing the trading model. Crescit announced the firm will be taking on a new junior trader, Ruzica Gajic at the end of March.

Crescit has received substantial backing from several Swedish multi-national corporations - former employer Skanska not being one of them - and institutional investors from the Nordics and beyond. In February 2014 Crescit already had over one billion SEK (approx. 115 million Euro) in assets under management, joining a rare and exclusive club of Swedish hedge fund managers of that size.

Kamran Ghalitschi

Ronny Eriksson, Erik Eidolf, Alexander Melsom, Björn Roger Wilhelmsen (back from left)
Ludvig Uddeholt, Anders Haller, Dr Tom Farmen (front from left)

New Launch: Nordkinn

Nordkinn Asset Management is one of the recent Nordic hedge fund launches and so far they make it almost seem as if the talk of difficulties in starting a hedge fund, the difficulty in raising assets and attracting institutional clients is just malicious rumours.

The firm was founded in 2012 by seven partners drawn from Nordic blue-chip institutions, including Ericsson Treasury and Norway's Central Bank and Sovereign wealth fund (NBIM).

So far the team has an undisclosed number of institutional investors comprised of pension funds, insurance companies as well fund of hedge funds investing in Nordkinn's Fixed Income Macro Fund, an absolute return fund launched in July 2013. Apart from Eriksson and Haller from Ericsson Group, the partners include Alexander Melsom and Dr Tom Farmen (from Norges Bank/NBIM), Björn Roger Wilhelmsen and Ludvig Uddeholt (from Swedbank First Securities) and Erik Eidolf (from Harcourt FoHF advisory firm).

Eidolf, CEO, believes that part of Nordkinn's success is that the fund has been created by keeping the investor's viewpoint in mind, providing features such as white-box transparency, high level of underlying liquidity, transparent cost structure, modern onshore legal structure, and institutional set-up with robust risk management tools.

He also believes that over-capitalising the company itself allows the team to build the business long term, which helps to gain the trust of institutional investors from start. "We are pleased with the growing confidence entrusted to us by our existing investors, both through additional assets as well as through a growing number of investors. A key part of our customer relations is to strive for well-informed investors through openness and transparency, and it is in our interest to continue with this approach," he added.

> *"A key part of our customer relations is to strive for well-informed investors through openness and transparency"*

The Nordic capital markets is the main reference base for the Nordkinn investment team. Eidolf explains that by utilising a broad range of financial instruments to exploit desirable risks, neutralise undesirable risks and combining directional and non-directional positions, the fund aims to maximise stable risk-adjusted absolute returns in all market environments.

Eidolf, who has been involved in the hedge fund industry since 1998, also pointed out that one of the main competitive advantages of Nordkinn is the combined experience of the partners, five of which have managed substantial institutional portfolios, in the size range of SEK55-100bn, successfully over decades.

Another advantage is geography. He said the team benefits from its specialised fixed income expertise and local presence when identifying flows as well as market mispricing and although the fixed income markets are the primary focus, the investment team is also able to diversify risks through positions across the currency, equity and commodity markets.

Further benefits are the team's unusual investment routines, including a "game plan and tagging concept" inspired from theories within Behavioural Finance, to keep the investment managers focused and disciplined. Eidolf said the purpose of the game plan is to ensure discipline, focus and transparency in the investment process as the investment managers are committed to act in accordance with pre-defined routines.

In addition to providing a real-time management system for the hard stop-loss levels, the game plan sets the framework for each investment and includes items such as the rationale behind the position, the expected contribution to the overall portfolio, the expected holding period, expected return, add/reduce levels and so on. The content of the game plan is stored in a shared database together with all positions and provides the investment team with the ability for continuous and thorough self-assessment.

To further optimise risk/return and to actively control downside risks, Nordkinn has appointed one partner with sole focus on Risk Allocations dedicated to the company's comprehensive risk management, who possesses pre-trade veto rights in all investment decisions. On the success, Eidolf emphasises that Nordkinn is not an asset gatherer but has a long-term view and aims to build its business by keeping a close eye on, for instance, capacity. "We want to ensure that we grow at a speed where our investment philosophy is not compromised and does not result in style-drift or other unintentional issues," he said.

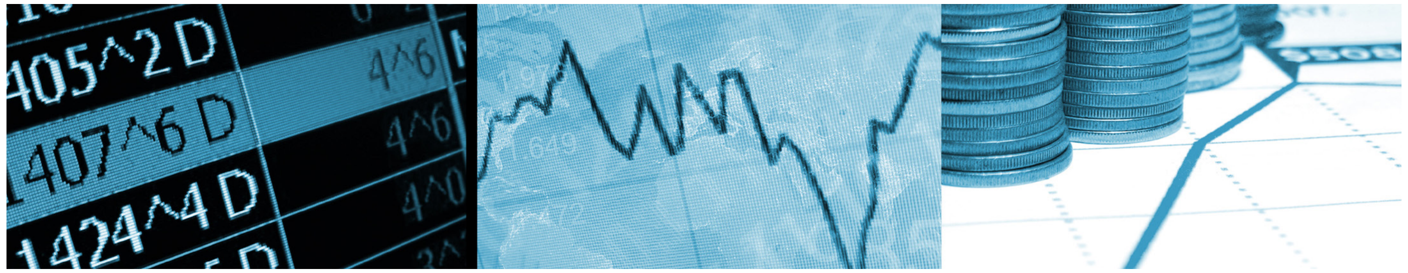
> *"Whilst our investment team has successfully managed larger portfolios in the past, we want to ensure prudent growth while building the fund"*

He is convinced that Nordkinn can comfortably grow to at least Euro1bn without negatively impacting positions or style. "Whilst our investment team has successfully managed larger portfolios in the past, we want to ensure prudent growth while building the fund," he noted.

Eidolf said that the current market environment is very interesting. "Even if we have respect for the challenge to achieve a stable absolute return given the low interest rate environment, our view is that the volatility and market movements we have witnessed during 2013 and so far this year, is set to continue. In such an environment there are plenty of investment opportunities for our team to explore.

For instance, we see an increasingly diverging macro-economic landscape within the global economies, combined with central banks facing individual challenges. This creates movements within our markets which we seek and have the necessary tool-box for, to exploit.

Pirkko Juntunen



Patrick Brummer and Klaus Jännti on 2013

Brummer & Partners' aggregate return, as reflected in the Brummer Multi-Strategy (BMS) fund, was 9.4 per cent in 2013, which is above the fund's average annual return since inception of 8.1 per cent.

Since its inception, BMS' return has exceeded the risk-free rate by an average of 6.0 percentage points. The return relative to the level of risk taken, known as the Sharpe Ratio, was exceptionally good, at 2.1 1). Once again, our asset management activities had a low correlation with markets and most of the return was due to the fund managers' ability to generate gains regardless of the general direction of markets.

Fund Management Teams

Work on evaluating and meeting new, prospective fund management teams continued. We evaluated a number of teams during the year. Brummer & Partners is well positioned in an industry were the barriers to entry for those looking to set up new hedge funds have been raised gradually over the past few years. This development is driven by increased demands from investors, legislators and regulators, and primarily affects compliance, risk control and portfolio valuation functions.

The asset management environment we offer is attractive to skilled fund management teams, who appreciate our experience and solid infrastructure coupled with a business model that centres on entrepreneurship and a commonality of interest. To be eligible to join Brummer & Partners, a new fund management team must show that it can help to improve BMS. This is achieved if we add new funds that are expected to have a good risk-adjusted return and a low correlation with the Group's existing funds. It is also an advantage if the new team contributes to the Group's pool of expertise through its orientation, geographic focus or asset management style.

In May 2013 Canosa, a new global macro fund, was added. The fund made a positive contribution to performance, gaining 9.4 per cent since its inception on 1 May. During the same period BMS' investment in the Benros fund, which had not lived up to expectations, was liquidated. The Carve fund is a global equity and credit hedge fund that was launched in November 2012 and successfully completed its first full year of operations with a gain of around 14 per cent. The fund has attracted considerable interest among investors and started operating with initial assets under management of SEK 4.4 billion, making it one of the largest hedge launches in Europe in 2012.

The Insurance Company

In pensions Brummer & Partners is active in Sweden, where the Group has an insurance company. Brummer & Partners' pensions offering is based on Brummer Multi-Strategy, which, thanks to its good expected risk-adjusted return and low correlation with markets, makes it suitable

Patrik Brummer, Chairman of the Board
Brummer & Partners AB

for long-term pension savings and as an alternative to a pension plan with a traditional life assurer. The strategy is to take a position in the Swedish pension market by systematically engaging with employers that put a premium on asset management and want to ensure transparency and efficient management of their employees' occupational pension plans.

In 2013 we were actively engaged in driving issues of current concern in the industry, such as the issue of commissions and the right to transfer savings from one provider to another, where we are working to promote the introduction of new regulations aimed at creating a better functioning market. We believe it is vitally important to ensure that Sweden too establishes a pensions market where savers are able to choose their asset manager and where advice is governed by the quality of the asset management services rather than by high brokerage commissions, as today.

Investors

At year-end 2013 the Group had SEK 112 billion (USD 17.5 bn) in assets under management, an increase from SEK 100 billion at year-end 2012. Over the period assets under management in Brummer Multi-Strategy grew from SEK 32 billion to SEK 42 billion. Our client base is growing among private individuals as well as institutions, and demand for our services continues to increase among institutional investors. During the year we developed our multi-strategy offering by adding new funds and currency classes. In particular, a new fund called Brummer Multi-Strategy Utdelande ("Distributing") was introduced, which distributes a portion of the increase in value (3–5 per cent) to the investors each year.

A Commitment to Mathematics

Brummer & Partners has since a number of years had a strong commitment to Swedish mathematics. This allows us to combine social benefits with self-interest, as we have a need for mathematicians as an asset management firm. The intention behind our commitment to mathematics is to make a concrete contribution, and we have found two excellent projects that we have chosen to support: the School Mathematics Competition and the Klein Days.

The School Mathematics Competition, which is arranged by the Swedish Mathematics Society, is an important tool for identifying the very best mathematics talent at Swedish secondary schools. This year close to 1,000 pupils from across the country were given the chance to test their ability, of whom 29 qualified for the finals at the Royal Institute of Technology in Stockholm.

The finalists will now receive tuition from university mathematicians and compete for a place in the Swedish team at the International Mathematics Olympiad in Cape Town this summer. Particular praise is due to the winner of the 2013 Brummer & Partners Prize, Johan Sannemo, whom we are delighted to send on an inspirational trip to Cambridge in spring. We wish him all the best in the future.

Klaus Jäntti, Managing Director
Brummer & Partners AB

Teachers have a difficult and socially important role to play, and it is in everyone's interest to ensure that they are given opportunities to hone their skills and develop their teaching. Brummer & Partners has therefore developed its commitment to mathematics into a project aimed directly at mathematics teachers by funding the Klein Days.

The Klein Days are a much appreciated and unique meeting place where secondary school teachers and university lecturers can study mathematics and work together to develop maths lessons for Swedish secondary schools.

We thank our investors for their confidence and now look forward with the same clear focus as before – at actively managing your capital with the aim of achieving a unique and competitive risk-adjusted return.

1) Measured by weekly data. The Sharpe Ratio is a measure of a portfolio's risk-adjusted return and is calculated as the return over and above the risk-free rate relative to the risk in the investment defined as the standard deviation. A high Sharpe Ratio is thus an indicator of a sound balance between return and risk.

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Hedge Funds in Nordic Family Offices

The Nordic region has a fair few family offices and also world-class hedge funds but since the financial crisis these investors are becoming pickier as are their global peers.

The Nordic family offices interviewed all agree that there is an institutionalisation of the hedge fund industry but also of their own businesses. Family offices are increasingly cost conscious, albeit more prepared than pension funds to stretch their budgets for conviction based investing.

They are all keen on lower fees, transparency and alignment of interest, translating into outperformance. They see hedge funds as a tool to complement traditional assets classes and in that they lower risk and correlation. While they all use or follow Nordic managers they tend not to have that as a main focus on their investments or manager selection, unless a specific strategy warrants this.

Generally there has been a move away from fund of hedge funds as the layers of fees and less control of your investments combined with disappointing performance deterring many since the crisis. Another effect has been that family offices are taking a factor-based approach to hedge funds and focusing on risk premiums or 'buckets' à la large institutions such as CalPERS in the US or AP3 in Sweden or hedgefunds dragons such as Bridgewater.

Filip Stenberg, founder of Stenberg Alternative Investment Research Ltd and advisor to Adecla in Sweden and North Sea in the UK, said the regulatory costs are changing the industry, and not necessarily for the better. "Larger managers are benefitting as they have a more of an institutional set-up. The mid- to small sized are struggling to survive, which is a pity. Smaller and new managers bring innovation and creativity. Instead, we get off-the-shelf products and almost a commoditisation of hedge funds and regulation is largely to blame," he said.

The family offices Stenberg advises clients on assets between $ 300m-1bn and have taken a risk-based approach to asset allocation, assigning weights to a set of four main risk exposures; growth, inflation, rates/protection and opportunistic investments rather than assets in general. "We can have hedge funds in each risk-bucket as we use a risk factor-based approach and don't consider hedge funds a separate asset classes," he explained, we see hedge funds as a way to express our view in a single asset class or across classes and therefore the only way we disguise between hedge funds and long-only funds are within regards to their fee structure. Looking at the fees, the family offices have some 16% of total assets in hedge funds, invested with 15 providers, including the likes of Brevan Howard, Brummer and others.

Markus Rudling, member of the investment committee of an unnamed Swedish family office with about SEK175m in assets, said the allocation to hedge funds has been stable at around 20-25% and does not foresee any immediate changes. They are currently invested in four strategies; equity long/short with a Nordic focus, special situations with focus on Germany, global fixed income arbitrage and Managed Futures.

"We do not exclude any specific strategies or favour others. What is most important to us is that we understand and can follow the strategy and that the manager selected can translate their investment approach, via the actual fund management to real performance" he said, adding that once the understanding is there, which is not always the case in the hedge fund universe as of today, it makes risk management so much easier and the strategies can play the crucial role they are supposed to in the overall portfolio.

Kristina Jacobsen, head of hedge funds and portfolio manager at Ferd, a Norwe-gian family office, said that an important aspect of investing in hedge funds is to figure out what a strategy and specific fund can add to the overall portfolio. "You also have to be mindful about changes within the hedge funds over time, whether it is staff or style," she said.

Ferd uses the help of Albourne Partners for due diligence and monitoring and as discussion partners. It has approximately USD 350 million, or approximately 10% of capital, invested in over 20 hedge funds and has no definitive rules when it comes to who they invest in whether it is size, track record or terms: "It is more dependent on the specific fund and nature of the strategy in question," she said.

The interviewees agree that the outlook is fairly positive but subdued for both increasing allocation and for start-ups. Most expect hedge fund assets to increase slowly whereas expect more consolidation among managers as costs make it increasingly difficult to run a business and offer the institutional-like package most want. In addition, many family offices are seriously looking at bringing expertise in-house and only use external providers where they are not able to replicate the strategies.

No doubt, hedge funds will survive but they will have increasingly tough job not only providing outperformance, but running a business in a much tougher regulatory environment and increasingly demanding investors.

Pirkko Juntunen

Nordic Hedge Award

2013 brought a new Highlight to the calendar of the Nordic hedge fund industry with the celebration of the inaugural Nordic Hedge Award.

On April 24th, over 150 industry professionals gathered at Stockholms Strandvägen to celebrate Nordic hedge fund managers for their outstanding results during 2012..

The evening started off with a podium discussion. Alvine Capitals Thomas Raber lead through the debate on the current state of hedge fund industry in the Nordic region and its future development. Martin Källström from Första AP-fonden, (AP1), Mikael Spångberg from Nektar Asset Management, Peter Warren from Warren Capital and Gustav Fransson from Coeli Asset Management.

Winners of the Nordic Hedge Award are determined in a two step process. In a model co-developped with the Stockholm School of Economics, a short list of five funds per category was determined based upon data available in the HedgeNordic database. Criteria used to determine the short list of nominated funds were absolute performance in 2012, performance relative to respective NHX sub index, Sharpe Ratio, consistency of returns and long term performance, which were weighted and translated to a point score. The universe of funds eligible for nomination is cons

The short list was then handed to a professional jury panel, consisting of Yngve Torvanger Jordal (Pareto Nordic Investments), Magnus Dahlquist, Professor of Finance (Stockholm School of Economics), Thomas Bergström (Senior Portfolio Manager Nordea), Lars Lövgren (Head of Hedge Funds, DNB Asset Management), Thomas Raber (Founder and Managing Director Alvine Capital) and Tomi Långström (CEO Northern Star)

Each jury member had a discretionary mandate to allocate points to each of the funds. The highest and the lowest points awarded from jury members per fund were disregarded, and the total then added to the quantative score from the database to determine the final result.

The event was supported by Coeli Asset Management, Stockholm School of Economics / IFL / Swedish House of Finance, Advent Software and Efficient Capital.

Winners of the 2012 Nordic Hedge Award

Best Nordic Equity Focused Hedge Fund – Supported by Advent Software
1. Rhenman Healthcare Equity L/S
2. Sector Zen
3. Taiga Fund

Best Nordic Fixed Income Focused Hedge Fund – Supported by Coeli Asset Management
1. Asgard Fixed Income Fund
2. Midgard Fixed Income Fund
3. Danske Invest Hedge Fixed Income

Best Nordic Fund of Hedge Funds – Supported by Coeli Asset Management
1. Merrant Alpha Select
2. Brummer Multi-Strategy
3. Sector Polaris

Best Nordic Multi Strategy Hedge Fund – Supported by Stockholm School of Economics
1. Nektar
2. Tanglin Fund
3. GMM

Best Small Nordic Hedge Fund – Supported by HedgeNordic
1. Sentat Event Driven
2. Atlant Edge
3. PriorNilsson Idea

Best Nordic CTA – Supported by Efficient Capital
1. Warren Short term Trading
2. Capricorn FXG10 SPC
3. Warren Fourth Moment Macro

Best Nordic Hedge Fund – Supported by Coeli Asset Management
1. Asgard Fixed Income Fund
2. Warren Short term Trading
3. Midgard Fixed Income Fund

Appendix: NHX Constituents

The following pages give an overview of the constituents to the Nordic Hedge Index (NHX). Funds are ranked within their respective category based on 2013 performance numbers, as available on January 31st 2014. The tables disregard funds that had not provided at least performance estimates by that date.

NHX Fund of Hedge Funds

Fund Name	Dec. Return	YTD	2012	Annual. Ret.	STD.	Sharpe
Sector Polaris Fund	1.85%	10.54%	4.65%	5.11%	5.99%	0.86
Brummer Multi-Strategy...	1.70%	9.47%	4.42%	8.06%	4.19%	1.88
DnB NOR Prisma	1.05%	9.42%	2.90%	4.05%	4.75%	0.86
SEB True Market Neutra...	0.49%	8.22%	1.45%	4.39%	1.97%	2.20
DnB NOR Global Hedge	1.08%	8.18%	1.45%	4.38%	4.43%	0.99
Agenta Multistrategy	0.70%	7.13%	2.89%	3.10%	4.29%	0.73
Merrant Alpha Select S...	0.95%	6.75%	6.12%	5.56%	1.33%	4.08
Lancelot Global Select...	0.94%	6.25%	0.20%	5.52%	1.89%	2.86
Merrant Alpha Select U...	0.85%	5.93%	5.22%	5.74%	1.60%	3.49
SEB Dynamic Manager Al...	0.20%	4.79%	2.62%	2.37%	1.82%	1.30
OPM Kappa I2	0.57%	4.67%	-2.35%	0.97%	2.70%	0.37
ALFA Quant Fund	0.53%	4.49%	8.73%	6.59%	6.10%	1.08
Graal Total	0.00%	4.20%	-3.05%	6.12%	4.98%	1.22
Eufex Aegis non-UCITS ...	0.31%	4.01%	-2.80%	0.45%	2.98%	0.16
Ekvator Absolut	1.90%	3.93%	0.28%	2.02%	8.19%	0.29
OPM Omega	1.22%	3.73%	1.88%	1.48%	3.56%	0.43
Skandia Global Hedge	0.30%	3.49%	-7.24%	1.74%	3.85%	0.47
Ekvator Trygghet	0.90%	2.83%	1.68%	3.49%	3.38%	1.03
Guide Multihedge	0.75%	2.32%	-0.86%	2.63%	4.55%	0.62
OPM Vega (Nordic Hedge...	0.11%	2.03%	0.89%	2.97%	3.54%	0.85
Guide Hedgefond 2	0.65%	1.29%	-0.33%	2.69%	2.47%	1.11
eQ Hedge	0.45%	-0.02%	-0.86%	1.74%	4.29%	0.42
Coeli Select Multihedg...	1.77%	-1.99%	4.54%	1.54%	4.20%	0.39

Red numbers are estimates.

NHX Multi Strategy Hedge Funds

Fund Name	Dec. Return	YTD	2012	Annual. Ret.	STD.	Sharpe
Norron Select	2.50%	22.83%	2.67%	7.12%	6.45%	1.10
AGPII - Defined Risk 1...	2.52%	17.06%	11.45%	5.09%	10.36%	0.54
Carve 2	1.60%	14.24%	0.46%	12.53%	2.73%	4.35
ALFA Rubicon Fund	1.89%	12.59%	6.06%	11.14%	9.56%	1.16
Norron Target	1.20%	12.41%	5.49%	6.12%	3.03%	1.98
Aktie-Ansvar Graal Off...	1.10%	10.01%	8.44%	5.52%	7.26%	0.78
Canosa (Brummer & Part...	4.10%	8.44%	N/A	12.92%	7.79%	1.60
WH Invest	-0.19%	6.73%	12.60%	6.47%	8.99%	0.74
Shepherd Energy Portfo...	3.54%	5.75%	-4.77%	1.37%	8.59%	0.20
Asymmetric – Global Ma...	-0.91%	5.75%	-0.31%	4.62%	15.36%	0.39
Norwatt Nordic Power B...	7.24%	5.36%	-13.77%	43.16%	113.11%	0.59
Topach Core	0.10%	4.81%	4.86%	4.01%	5.17%	0.79
Atlant Stability	0.50%	4.80%	7.33%	5.67%	1.18%	4.69
Nektar (Brummer & Part...	0.20%	4.35%	7.91%	11.82%	6.81%	1.68
Graal Total 2xL	-0.20%	4.18%	-2.37%	9.04%	9.83%	0.93
IPM Systematic Currenc...	-0.45%	3.81%	-2.37%	3.67%	9.33%	0.44
Graal Kvanthedge	-3.60%	2.66%	11.50%	7.72%	11.99%	0.68
UB Pension	0.11%	1.64%	7.99%	3.55%	4.68%	0.77
ALFA Edge Fund	0.51%	0.83%	18.65%	9.23%	8.40%	1.10
Warren Credit Opportun...	0.80%	0.83%	14.03%	2.90%	9.19%	0.37
Tanglin Fund	-1.09%	0.63%	9.57%	7.82%	7.22%	1.08
IPM Systematic Macro F...	-3.51%	0.33%	9.63%	8.67%	11.02%	0.82
GMM	1.04%	0.25%	9.28%	7.89%	4.52%	1.71
Sector EuroPower Fund...	4.96%	-0.93%	11.93%	6.81%	13.36%	0.57
Nordea Alpha 15 Fund	-3.15%	-2.05%	13.94%	2.11%	13.79%	0.22
Coeli Power Surge Fund...	1.53%	-7.14%	-6.70%	6.02%	12.51%	0.53
NorWatt Energy Invest...	9.02%	-12.52%	-16.97%	-4.35%	12.18%	-0.30
Norwatt Nordic Power F...	12.57%	-14.36%	-14.74%	-1.35%	21.13%	0.03

Red numbers are estimates.

NHX Equity Focused Hedge Funds

Fund Name	Dec. Return	YTD	2012	Annual. Ret.	STD.	Sharpe
Grand Haven Capital Fu...	10.43%	108.20%	27.82%	9.27%	31.45%	0.44
Grand Haven Capital Ne...	10.98%	75.94%	3.33%	9.80%	21.81%	0.54
Rhenman Healthcare Equ...	0.05%	55.29%	18.08%	21.79%	15.11%	1.39
Manticore (Brummer & P...	4.20%	40.62%	8.04%	9.25%	8.74%	1.06
Atlant Edge	3.00%	32.95%	22.59%	16.52%	16.53%	1.01
Madrague Equity Long/S...	1.31%	30.08%	3.16%	16.58%	9.23%	1.72
Sector Zen Fund	1.66%	28.79%	19.16%	11.25%	15.52%	0.77
Nordic Omega plc	0.45%	27.94%	11.66%	8.49%	12.41%	0.72
eTurn	1.94%	27.63%	-4.60%	4.20%	12.07%	0.40
Sector Sigma Nordic Fu...	1.59%	25.75%	-0.52%	14.37%	5.36%	2.68
Nordic Alpha plc	0.87%	23.75%	12.13%	8.02%	11.21%	0.75
Atlant Sharp	2.30%	22.79%	18.26%	7.38%	15.50%	0.54
Gladiator Fond	-2.00%	21.50%	2.00%	11.90%	17.99%	0.73
Taiga Fund	1.25%	17.64%	14.21%	16.82%	11.05%	1.47
PriorNilsson Idea	1.02%	16.59%	25.29%	6.95%	20.15%	0.44
QQM Equity Hedge	0.48%	15.60%	-5.90%	2.96%	6.14%	0.51
Coeli Norrsken	2.49%	14.92%	9.78%	4.56%	5.64%	0.82
Scientia Hedge	0.11%	14.47%	8.29%	9.35%	12.61%	0.77
DNB TMT Absolute Retur...	0.50%	13.94%	-10.93%	3.80%	7.31%	0.55
Nordic Absolute Return...	0.13%	13.35%	8.50%	8.55%	8.97%	0.96
Adrigo Fund	0.91%	12.83%	5.91%	6.81%	5.35%	1.26
Origo Quest 1	2.23%	11.62%	N/A	12.74%	5.43%	2.24
Adapto Nordic	-1.85%	10.45%	14.38%	4.67%	9.88%	0.51
Nordea 1 - Stable Equi...	-1.40%	10.31%	-4.84%	4.25%	7.56%	0.63
Midas Equity Fund	-0.66%	9.89%	15.23%	2.64%	11.27%	0.29
Danske Invest European...	2.56%	9.36%	19.07%	6.58%	11.27%	0.62
RAM ONE	1.98%	8.99%	8.86%	6.41%	10.04%	0.67
Sector Healthcare Fund...	0.70%	8.44%	6.48%	8.64%	4.53%	1.87
Atlant Explora	0.70%	8.40%	12.75%	5.97%	6.02%	1.00
Catella Hedgefond	0.60%	7.47%	5.61%	5.44%	3.42%	1.57
Carnegie WorldWide Lon...	1.20%	7.09%	14.66%	9.02%	10.73%	0.86
Graal	0.70%	6.79%	5.83%	4.69%	3.60%	1.29
Graal Aktiehedge	0.60%	6.04%	6.67%	4.38%	3.51%	1.24
AAM Absolute Return Fu...	-0.75%	4.65%	0.94%	9.71%	8.81%	1.10
PriorNilsson Yield	0.33%	4.10%	5.31%	4.87%	3.89%	1.25
Alcur	0.35%	3.62%	3.62%	5.58%	1.72%	3.18
AAM Absolute Return Fu...	-0.77%	3.61%	0.02%	7.47%	9.35%	0.82
Zenit	0.68%	3.53%	13.68%	15.52%	12.04%	1.26
G&P Orca UCITS Fund I...	-0.72%	3.08%	-2.95%	0.23%	6.13%	0.07
Pharos Nordic Hedge	1.06%	2.77%	4.28%	2.52%	10.79%	0.28
Handelsbanken Europa H...	0.50%	0.68%	5.58%	2.61%	4.08%	0.65
Sector Maritime Invest...	0.64%	0.01%	-5.80%	3.71%	11.94%	0.36
Jyske Invest Hedge Mar...	0.27%	-0.41%	-3.87%	-0.81%	10.66%	-0.02
Futuris	0.90%	-1.04%	-7.77%	13.14%	13.43%	0.99
Catella Nordic Long Sh...	-1.31%	-1.84%	-1.89%	1.57%	5.16%	0.33
Archipel	-0.80%	-3.15%	3.92%	2.85%	5.04%	0.58
Mermaid Nordic	-0.16%	-4.37%	-10.47%	2.35%	6.39%	0.40
KLP Alfa Global Energi...	0.50%	-5.98%	-2.17%	4.32%	9.13%	0.52
Thyra Hedge	0.85%	-7.68%	3.19%	2.52%	8.29%	0.34
CB Hedge Europe	1.30%	-10.22%	7.35%	-1.21%	14.45%	-0.01
DNB ECO Absolute Retur...	3.10%	-14.47%	-0.96%	0.39%	15.92%	0.10

NHX Fixed Income Focused Hedge Funds

Fund Name	Dec. Return	YTD	2012	Annual. Ret.	STD.	Sharpe
HP Hedge	2.04%	15.96%	18.85%	11.13%	9.60%	1.17
Danske Invest Hedge Mo...	1.27%	12.86%	11.43%	3.95%	7.11%	0.58
Observatory Credit Mar...	0.90%	7.28%	13.46%	12.40%	6.60%	1.81
Storm Bond Fund	0.80%	11.02%	13.19%	9.09%	11.44%	0.82
Danske Invest Hedge Fi...	0.74%	18.83%	33.61%	13.96%	9.64%	1.41
KLP Alfa Global Rente...	0.60%	1.39%	5.10%	8.28%	5.78%	1.43
Catella Nordic Corpora...	0.53%	7.78%	9.96%	5.73%	3.08%	1.83
Asgard Fixed Income Fu...	0.49%	16.02%	34.12%	14.66%	6.77%	2.07
Excalibur	0.15%	1.77%	8.50%	6.17%	5.65%	1.10
Carlsson Norén Macro F...	0.11%	0.53%	7.85%	3.70%	3.24%	1.14
Jyske Invest Hedge Mar...	-0.27%	6.83%	2.19%	-17.65%	32.13%	-0.35
Midgard Fixed Income F...	-0.29%	13.78%	33.99%	21.73%	6.45%	3.10
SEB Räntehedge Alpha	-1.08%	-0.83%	1.71%	2.46%	3.18%	0.79
SEB Hedge Fixed Income...	-1.12%	-0.12%	2.58%	3.90%	2.97%	1.31

Red numbers are estimates.

NHX Managed Futures & CTA

Fund Name	Dec. Return	YTD	2012	Annual. Ret.	STD.	Sharpe
Alandsbanken Commodity...	5.08%	12.77%	7.80%	8.71%	17.80%	0.57
Lynx (Sweden)	3.30%	12.13%	-5.16%	12.56%	14.48%	0.89
Warren Short term Trad...	0.00%	11.04%	29.26%	20.24%	4.51%	4.14
Fourth Moment Macro	1.40%	8.10%	7.46%	6.49%	7.29%	0.90
SEB Asset Selection	0.40%	3.74%	-5.19%	4.83%	8.24%	0.62
ALFA Commodity Fund	-0.30%	3.67%	6.52%	8.46%	13.01%	0.69
The Persistence Progra...	2.97%	3.33%	17.89%	13.01%	13.05%	1.01
RPM Evolving CTA Fund...	-0.01%	3.17%	N/A	4.79%	6.87%	0.81
Estlander & Partners A...	2.49%	1.33%	-8.53%	10.61%	14.59%	0.77
Estlander & Partners A...	7.74%	-1.17%	-7.58%	-5.14%	41.06%	0.07
Graal Trendhedge	1.90%	-1.70%	-4.19%	7.16%	14.42%	0.55
Estlander & Partner Fr...	0.68%	-3.13%	-4.97%	10.68%	15.80%	0.72
Estlander & Partners G...	-1.10%	-5.12%	1.12%	6.63%	12.16%	0.59
Capricorn FX Maestro	-0.25%	-5.69%	0.49%	-3.72%	3.13%	-1.20
Rho Altius 1xl Program...	1.40%	-7.72%	-0.79%	3.56%	18.41%	0.28
Coeli Spektrum	4.15%	-10.09%	1.90%	6.59%	12.31%	0.59
Estlander & Partners G...	-2.23%	-10.46%	1.54%	9.52%	24.48%	0.49
NEF Blue Mountain (GMT...	-3.09%	-27.09%	-1.56%	-26.37%	15.46%	-2.04

Red numbers are estimates.

Picture Index

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