HEDGENORDIC

2015
June

New Fund Launches
Introducing three exiting new players out of the Nordic region

Danish hedge fund managers and their secret sauce
Danish fixed income managers seem to have an edge. Let´s ask them why

Nordic Hedge Award
Distinguishing the best Nordic Hedge Funds

Calm before the Storm
Nordic fund selectors discussing the role of hedge funds in institutional portfolios

Nordic Hedge Fund Industry Report
The Nordic Hedge Fund Universe at a Glance!

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HEDGENORDIC

INTRODUCTION

HedgeNordic is the leading media covering the Nordic alternative investment and hedge fund universe. The website brings daily news, research, analysis and background that is relevant to Nordic hedge fund professionals from the sell and buy side from all tiers.

HedgeNordic publishes monthly, quarterly and annual reports on recent developments in her core market as well as special, indepth reports on "hot topics".

HedgeNordic also calculates and publishes the Nordic Hedge Index (NHX) and is host to the Nordic Hedge Award and organizes round tables and seminars.

Upcoming Industry Reports:

September 2015:
Real Estate & Infrastructure

October 2015:
Multi Asset

February 2016:
CTA / Managed Futures

March 2016:
HedgeNordic Industry Report

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The Editor

in his own humble words

Kamran Ghalitschi – Publisher, HedgeNordic

Well, another year has gone by since the last HedgeNordic Industry Report was published, and it does seem like time flies when you are having fun!

The last months also saw a good handful of new launches in the Nordic hedge fund space. Three of them, Elementa, Incentive Active Value and Nordic Multi Strategy UCITS, are featured in this report. The latter two of these are also new additions to the Nowegian Sub Index of the Nordic Hedge Index (NHX). In general, changing regulation seems to be bringing some dynamics to the Norwegian alternative investment space that for too long had been characterized as "hedge fund hostile" territory. So we are pleased to also give a brief update on what the status for setting up and marketing hedge funds is in Norway. Sadly, we also had to say good by to a good number of funds. (subjectively it feels the number is increasing and accelarating with the summer coming nearer).

A good number of pages are used to look at the fixed income heavy Danish hedge fund Industry and one of its special features, the Danish mortage covered bond market.

The report also has a featured update on recent developments on the Asian hedge fund market. "A bit misplaced!" some may initially cry out in horror in a Nordic hedge fund report. The twist there is that Stefan Nilsson, a Swedish hedge fund professional living and working in the region, set up Hedge Fund Club Asia and became somewhat of an insider of the Asian market.

One of the many, many highlights for HedgeNordic since the publication of last years Industry Report was the relaunch of the Nordic Hedge Index databases and pages. We feel we leapfrogged from the older pages (that celebrated their tenth anniversary in February!). We are now able to offer not just a database that is visually more attractive and workable, but also offers a lot more possibilities to crunch numbers. We wanted to launch the new database in January but it was not until March we felt we got it just right. While we made the unique experience an IT project takes more time (and more budget!) than the programmers had planned, the result and feedback we got so far make us feel it was well worth the efforts. Do take a look for yourself and visit the database on www.nhx.hedgenordic.com.

The big one for us though was the Nordic Hedge Award which we were proud to host for the thrird year in late April. It is overwhelming and rather humbling to see how well the event is preceived and how quickly it became an established, recognized and respected as a highlight for the Nordic hedge fund community.

Two funds managed to win in their category for three years running: Merrant Alpha Select as "Best Nordic Fund of Hedge Funds" and Rhenman Healthcare Equity L/S as "Best Nordic Equity Hedge Fund". That is more than enough reason to interview both managers in this issue of the HedgeNordic Industry Report!

The Trophy as "Best Nordic Hedge Fund (over all)" this year went to Lynx, who also won in their category as "Best Nordic CTA". We talked to Lynx founder and CEO Svante Bergström on how it all began.

And there are many more gems throughout the paper!

But, enough said. Time to get those flip flops off, burry the feet in the sand and enjoy the HedgeNordic Industry report!

Kamran Ghalitschi

Time to say good bye...

The hurdles for setting up a new hedge fund today have become increasingly hard to overcome and starting out new, especially in a boutique concept, will always be a strugle.But also those managers who appeared to be well established, with longtrack records and sizeable assets under management, or imbedded within large corporations and networks with access to distribution sometimes get the final bugle call.

To the best of our knowledge no malpractice or wrongdoing is linked to any closure of funds listed. No regulatory action forced the managers to seize operations. Rather, it was market circumstances, personal or corporate decisions that initiated these steps. That in mind, let us not forget a closing fund is not just an ISIN code that dissapears, but that there are people with ambitions, hopes and aspirations, careers, jobs and families behind every fund manager; there are companies providing services to them and depend on the business and of course there are investors who put their hard earned money at risk.

Sadly, the Nordic hedge fund space has become a little thinner over the last months.No statistics are available of hedge funds taken off the market over the years across the Nordic region yet. Gathering data on fund closures is a gap to be filled and on HedgeNordic´s to-do list! Subjectively though, the number of funds throwing in the towel is increasing, and accelarting - especially in the last months with summer coming closer. Some of the funds that closed their doors for good are: Archipel, Futuris, Coeli Power Surge, Alandsbanken Commodity Fund, AGPII - Defined Risk 12, SEB Räntehedge Alpha, SEB Hedge Fixed Income, Lancelot Global Select, Labrusca Global and one of the oldest Swedish hedge funds, Tanglin. There is a good number of funds that has not reported NAVs for some months, not updating their website or producing reports.

Though no official notice of closure was given yet, we have learned to read the signs and expect the list to grow longer. The most common reasons given by managers for closing thier fund, or seize operations all together, are lacking performance in a competitive environment or the inability to raise capital from investors - or a combination of the two.

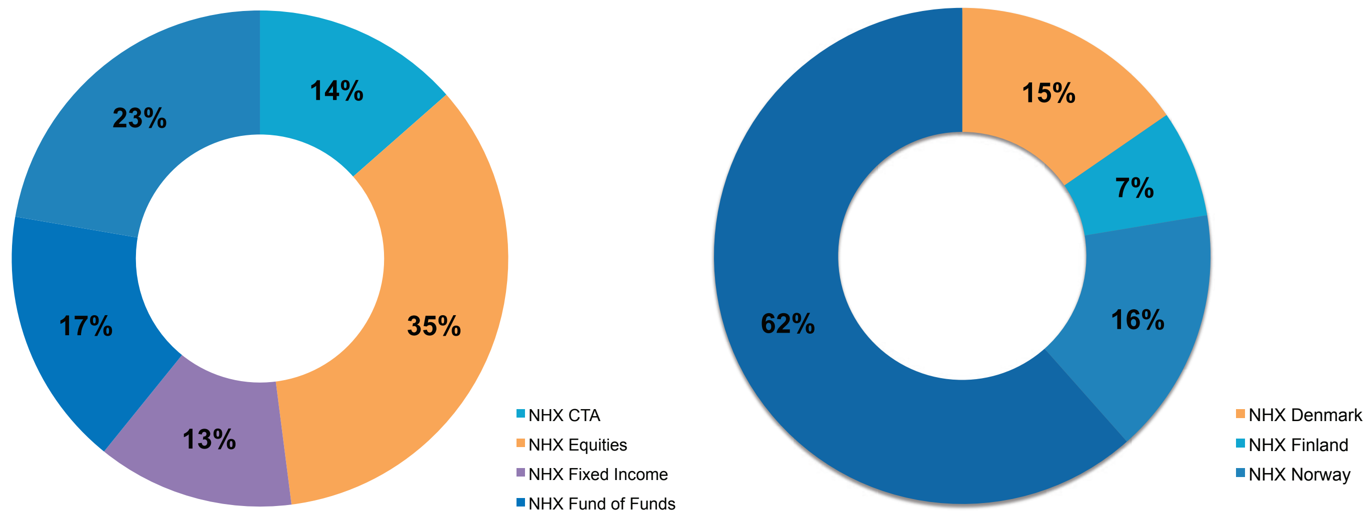
NORDIC HEDGE FUNDS CELEBRATE 10 YEARS OF OUTPERFORMANCE

By Jonathan Furelid

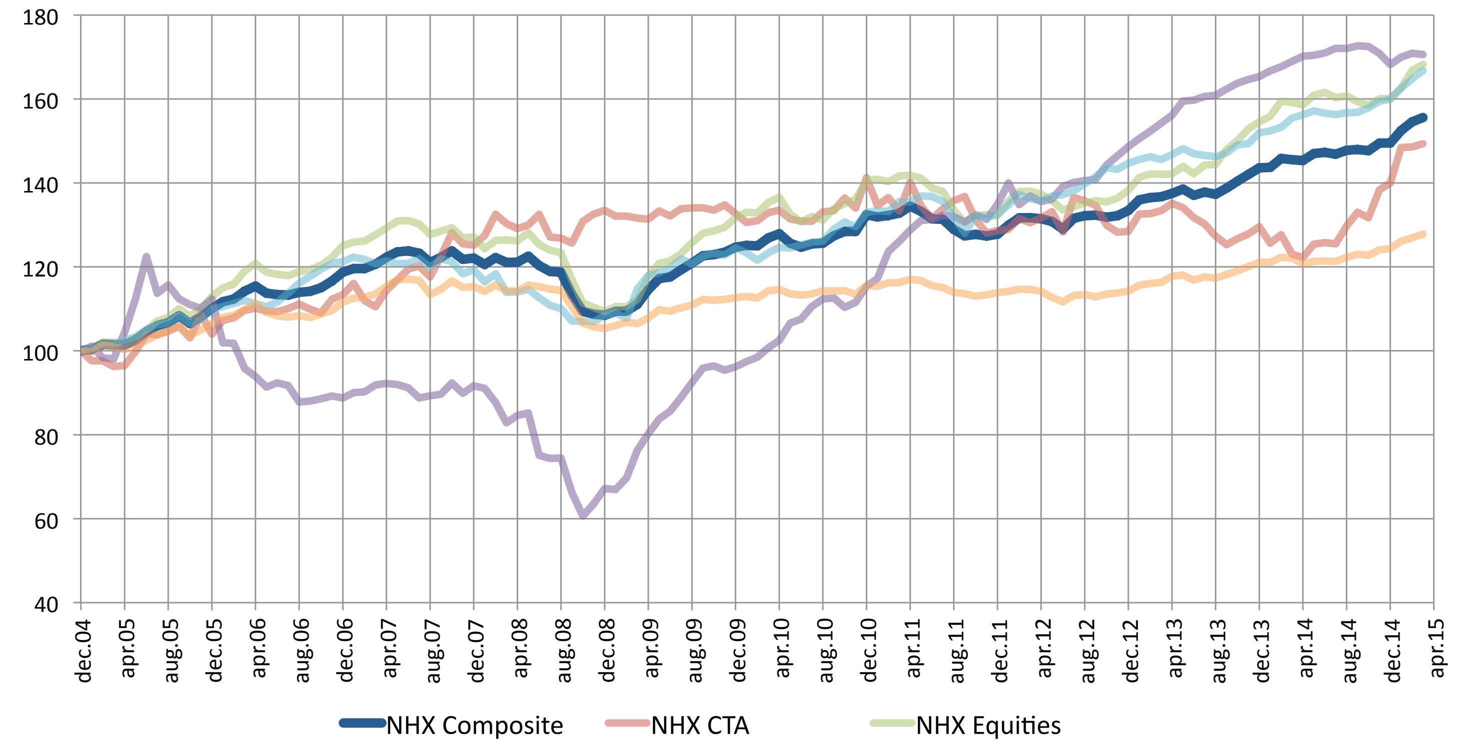
The Nordic Hedge Index (NHX) reflects the performance of the Nordic hedge fund universe. Since its inception in 2005 the NHX has signficantly outperformed global industry benchmarks. The performance in 2014 and first quarter of 2015 was no exception. The Nordic hedge fund industry celebrates 10 years of outperformance in style.

In 2005, HedgeNordic launched the Nordic Hedge Index (NHX), a composite of hedge funds either domiciled in any of the Nordic countries or with close ties to the Nordic region. The index is equal weighted and currently consists of 143 individual funds. Funds are grouped into any of the following categories; Equities, Fixed Income, CTA, Multi-Strategy, and Fund of Fund. The current split of strategy sub-indices are reflected in chart X.

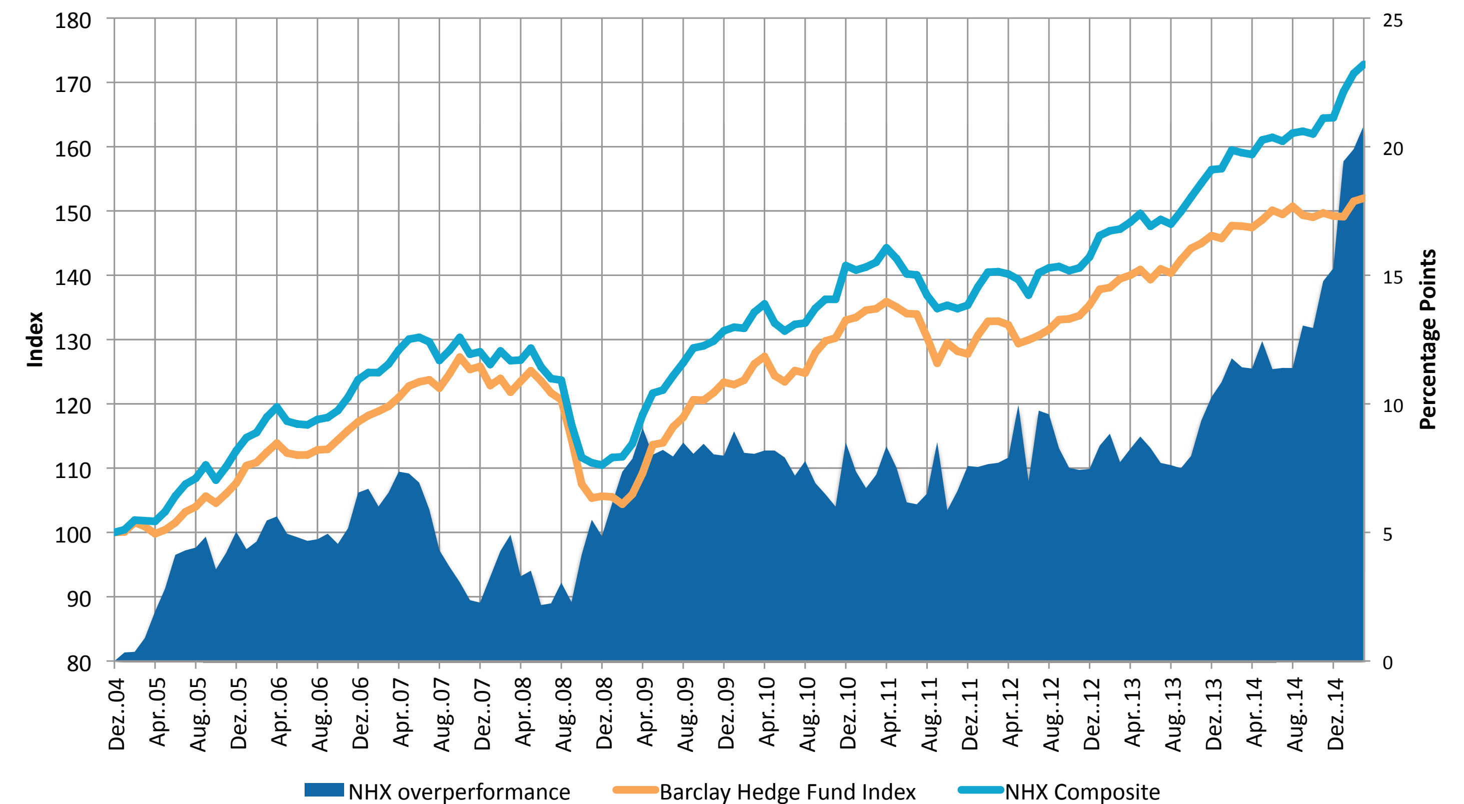
The NHX is clearly leaned towards equity strategies, representing 35 percent of underlying funds. The index is also skewed towards Swedish funds holding 62 percent of the listed fund total. Given that the vast majority of Swedish hedge funds are equity-focused, the strategy decomposition is a consequence of the relative country weightings.



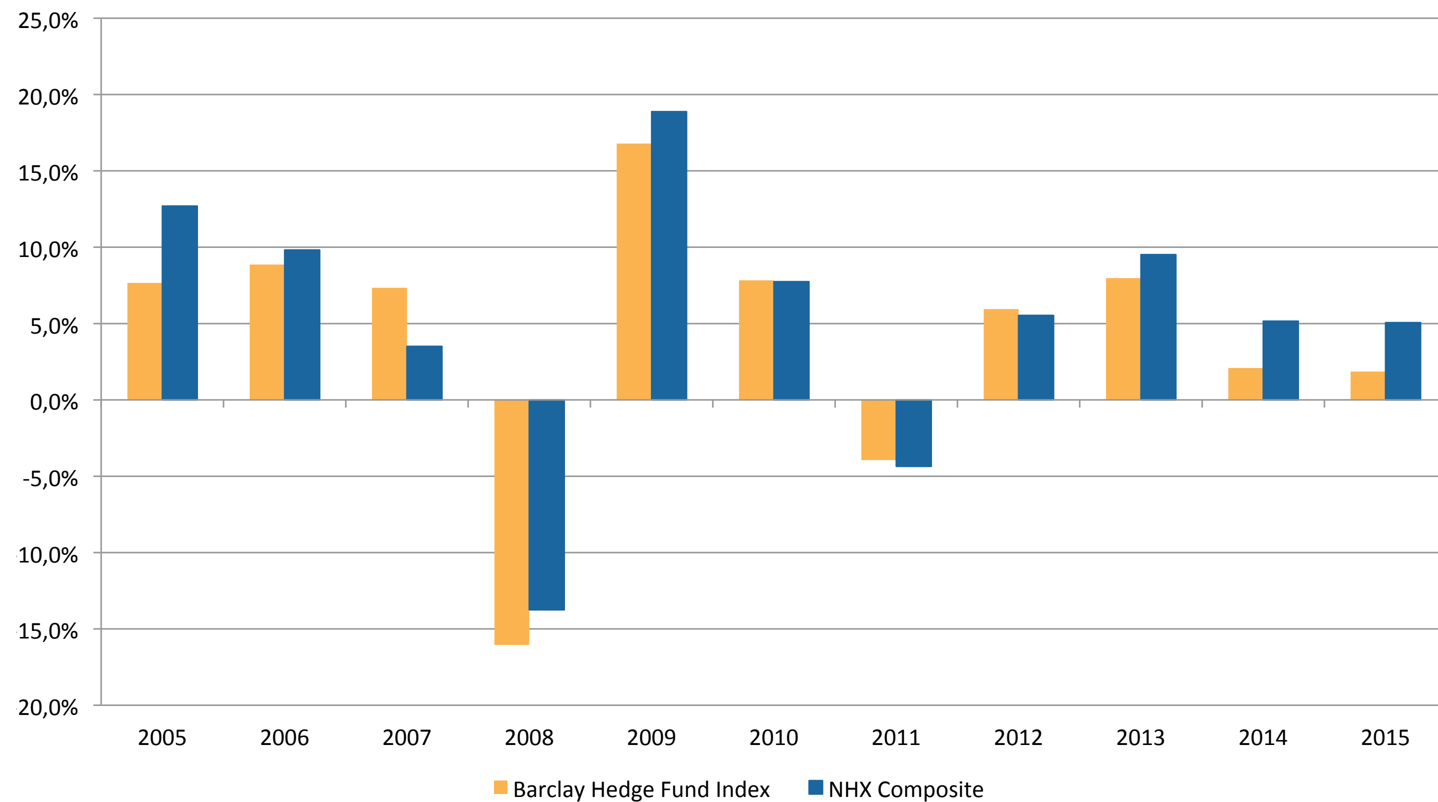
Since its inception in january 2005 up until March 2015, the NHX has returned 55,6 percent net of fees, underpinned by strong performances in fixed income and equity strategies. The realised annualised volatility during this time period has only been around 4 percent, reflecting the strong risk/return characteristics inherent in the Nordic hedge fund industry.



Relative to global benchmarks, the NHX performance also stand out. Comparing NHX to the Barclay Hedge Fund Index shows a significant outperformance since inception of the NHX. After adjusting for volatility, with both indices set to 5 percent annualised volatility, the accumulated outperformance exceeds 20 percentage points. The relative outperformance gathered pace during the financial crisis period in 2008/2009 and has been particularly strong in 2014 and 2015.



This picture becomes even clearer in a yearly breakdown of net returns of the NHX composite compared to Barclay Hedge Fund Index. Again, to even the playing ground, volatility for both indices has been adjusted to 5%. What the naked eye tells you in the ten year period covered since 2005, only in two years, 2007 and 2012 did the global index manage to outperform the Nordic managers. The apparent tendency to overperform in positive years for the hedge fund industry while having smaller drawdowns the broader, global industry over the last decade resulted in the NHX´s outperformance exceeding 20 percentage points. Is there a reason why (seemingly) the Nordic hedge fund managers are able to systematically deliver better returns than their international peers?



The strong performance of the NHX index in 2014/2105 is largely a result of three factors.

• A continued upbeat sentiment in equity markets supporting long/short equity strategies typically holding a long bias. As mentioned, the NHX has a relatively high weighting to the long/short space.

• A favourable environment for multi-strategy and fixed income funds that have been long term beneficiaries of the bull market in bonds. Danish fixed income funds have been strong performers during the period.

• The return of market trends benefiting systematic CTA strategies that for long have been out of favour. The fact that NHX is equal weighted means that CTA strategies, given their relatively high volatility, have a great impact on the overall return profile of the index.

A summary of sub-index performance from January 2014 to March 2015 is found in the graph below.

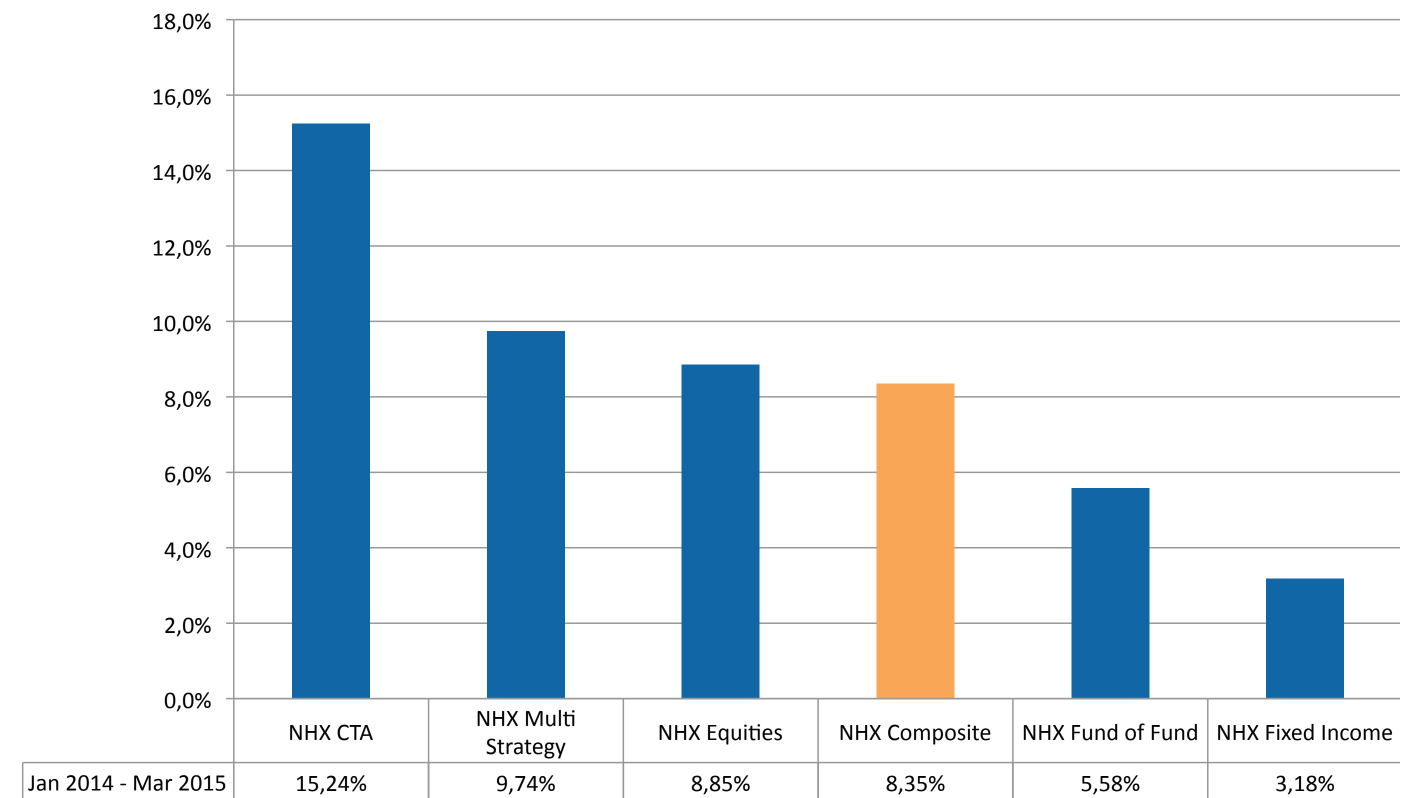
Why the edge?

Why is it that Nordic managers have outperformed global peers during the last ten years. There is obviously no clear cut answer to that question but some points might be worth highlighting:

1. The Nordic region and Sweden in particular has a longstanding tradition of equity investing. By focusing on the Nordic markets many Nordic long short equity funds have managed to successfully find good trading opportunities on their home turf. This is also true for fixed income managers.

2. The Nordics has a tech savvy population, this is beneficial for systematic funds such as CTAs, who are depending on world class algorithms and risk systems to support their trading activities.

3. The Nordics were early adopters in allocating to hedge funds, this has created an environment where investors are keen on supporting new trading teams helping them grow into successful funds.



	NHX CTA	NHX Multi Strategy	NHX Equities	NHX Composite	NHX Fund of Fund	NHX Fixed Income
Jan 2014 - Mar 2015	15,24%	9,74%	8,85%	8,35%	5,58%	3,18%

Going forward

Past performance is not indicative of future results, to that statement most professional investors agree. But will Nordic hedge funds continue to generate outsized returns even going forward? One important prerequisite for that is likely to be a continued strong relative performance for Nordic/European equity markets. The big challenge is presumably a definite turnaround in fixed income markets with steeply rising bond yields. In such an environment, the hope goes to Nordic CTAs who could potentially pick up on the trends and increased volatility that will arise as a result.

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"The manager must have the ability to deliver on the promises made, the ability to generate alpha consistently"

by Aline Reichenberg Gustafsson

Calm before the storm poses challenges for manager selectors

For institutional investors, the main role of alternative investments has always been to add uncorrelated return to help the overall portfolio even in times when the traditional asset classes do not perform well.

In today's market, this diversification benefit is as important as ever. Furthermore, the ability to take risk and add strong returns has become a rarer quality that alternative investments, and particularly hedge funds are well tailored to provide. However, according to Claudia Stanghellini at AP3, there is a worrying tendency amongst hedge fund managers to under-deliver on risk for the last couple of years. "In the last two three years we have seen that volatility has come down in many hedge funds which in turn has resulted in more modest returns", she says. "We are still getting positive returns and are happy that we have never shown a negative year in our hedge fund selection since we started in 2007, but the ability to provide strong returns going forward will be key for our hedge fund program. Another important question for the future is what areas are likely to deliver going forward." So far the allocation between different hedge fund styles at AP3 has been balanced. The goal is not to make short-term tactical allocations but to spread risk and build a balanced diversified portfolio, which shows stable positive returns over time and is uncorrelated with equity markets and possibly bond markets as well. The hedge fund selection started in 2007 with Global Macro and CTA. The portfolio was built gradually since then to include L/S Equity Market Neutral, L/S Credit and Event Driven. It is fully invested right now with fifteen funds (out of a possible maximum of twenty), but there is always some degree of turnover in the portfolio. "Competition to enter the portfolio is very high but we are always on the look for interesting new strategies even if fully invested", she explains.

At Länsförsäkringar Kapitalförvaltning, Despina Xanthopoulou agrees with Stanghellini that given the risk premia are squeezed in traditional asset classes, it is up to the hedge funds to prove that they can generate alpha regardless of the market environment. "One personal worry however, she adds, is that since the second half of 2014, we have observed commonalities and similar trades across our funds like being long equities (and more concretely shifting out of US equities and into European), being long the dollar or short commodities." Therefore she believes that monitoring correlations across funds, analysing top risk exposure and allocating to managers that complement each other in terms of investment horizon, allowed instruments and markets, difference in investment method (fundamental versus quantitative) must be key considerations when building and managing a hedge fund portfolio. In its external managers' portfolio, which constitutes the larges part of its SEK 160 billion portfolio, Länsförsäkringar Kapitalförvaltning has been increasing its exposure to alternative investment strategies. Given the restrictions imposed by regulators after the 2008 crisis, it is mostly liquid hedge funds that have benefitted from the move. Favourites are multi-asset

and multi-strategy managers such as Global Absolute Return Strategies (known as GARS), which exhibit a good risk-adjusted return at a moderate risk level (less than 5% realized volatility) for relatively low fees. Complementary strategies such as Equity L/S Market Neutral and CTAs can be added, as long as they have a diversifying effect on the portfolio. Generally speaking, directionality is not particularly desirable given the difference in fees with traditional directional funds, but Xanthopoulou feels comfortable with leaving it to the managers to decide when to increase or decrease their beta, as long as they are not just being long the market. "Going forward, Xanthopoulou says, we will probably continue to invest in the Equity Long/Short space but preferably in low or varying beta strategies or Market Neutral".

At Swedbank Robur where hedge fund investments amount to SEK 4 billion within different Multi Asset funds, directionality is not popular either. There, the allocation is concentrated essentially around CTAs and Equity Long/Short Market Neutral funds. Celia Grip emphasizes that in order to prepare against a bump on the road, risk diversification is crucial. Therefore, allocation to uncorrelated strategies has been increasing over the past two years. For Grip and her team, one of the limiting criteria is the liquidity of the funds they can select as well as their legal structure, given that their own Multi Asset funds are mostly Swedish special funds and must therefore follow strict guidelines. As a result the UCITS or Swedish on-shore formats with a daily or, at most, weekly liquidity are favoured. Fortunately, the number of strategies available in such formats has been increasing over the past few years, leaving enough choice for a picky manager selector.

For all the manager selectors interviewed, transparency seems to be one of the key criteria. For Heidi Miina at AIM Capital, managers must be explicit about the way their strategy works. "The human factor is very important, she says. To include them into my portfolio, I must understand the way they think." Like Xanthopoulou, Miina believes in the importance of being able to aggregate risk exposure across the portfolio. This also requires a high level of disclosure from the managers; they must be open and provide the necessary data on an on-going basis. As part of her process, monitoring, communication and consistency are equally important. "The manager must have the ability to deliver on the promises made, the ability to generate alpha consistently", she adds. At Swedbank Robur, the process revolves around four axes: Team, Philosophy, Strategy and Risk (where transparency comes into play), and at AP3 they like to talk about the "4Ps": People, Process, Performance and Protection. At Länsförsäkringar Kapitalförvaltning, as resources are somewhat limited since the manager selection team oversees both long-only and hedge fund managers, the focus is on firms with larger assets under management, a proven track record and adequate business support functions like risk management and compliance. Historically, Xanthopoulou says, she has been more bottom up in her process, appointing managers she trusts after meeting them over a longer period of time and monitoring their results in different market environments. For both Stanghellini and Miina, the size of the AUM and the track record are less important, but the operation has to be solid. "We are open for new strategies, we want to see that the operational structure and organization behind the manager is well established", says Stanghellini."We need to know that the fund is ready for institutional money." Miina has successfully invested in start up funds, but that doesn't mean they were start up managers; they were new funds opened with existing infrastructure and proven operations.

When asked whether the recent regulatory changes such as the Alternative Investment Fund Management Directive (AIFMD) have improved the quality of the funds, most believe that the difference they have seen has been marginal at most. They were always able to find transparent managers before the legislation came into force. Miina, who focuses a great deal on US-based managers, can see that the legislation may have drawbacks as most offshore-based funds have more difficulties marketing in Europe. They may therefore become less accessible for investors who lack the resources to proactively seek US managers, unlike AIM Capital. In addition, she thinks that compliance to legislation is costly and investors are likely to pay that price ultimately, lthough this will be difficult to measure. Xanthopoulou on the other hand has seen an increase in the willingness of funds to provide transparency, as an effort to improve the reputation of hedge funds, at the same time as they started lowering fees and complementing their fund domiciles to include onshore locations.

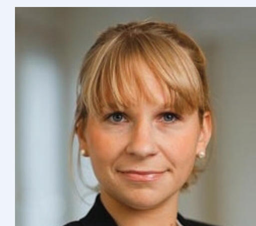
As for investing in Nordic managers, opinions are split. For Grip whose team has invested in the best Nordic funds that fulfill the portfolio's criteria, a number of Nordic hedge funds exhibit very good quality. Since they are easily accessible, they are also more transparent. At Länsförsäkringar Kapitalförvaltning, there has historically been a bias for the same reasons as for Swedbank Robur: proximity and transparency. At AP3, Stanghellini believes the location should not matter. If she has a couple of Nordic names in her portfolio, it is because they deserve to be there in comparison with a tough international competition. For Miina on the other hand, the offering of Nordic funds is not rich enough in the segment she specializes in. Perhaps Nordic managers are not as good at marketing themselves to her as US or UK managers are.

When it comes to what it takes to be a good manager selector, most agree that people skills are essential. Relying on quantitative data is not sufficient. For Xanthopoulou, past returns don´t account for a significant share in her scoring models, but they are in a way a starting point for even making it to the long list in the first place. "You have to look at the people behind the process, says Stanghellini. "We mainly use quantitive analysis to see how the managers have handled risk over time and analyse draw downs. A balance between quantitative and qualitative analytic skills is key." Grip thinks that being curious is a must. "You need to have the drive to understand what the strategy is about, she says, to understand the product and set the standard". For Miina, beyond the basic analytical skills, you have to acquire the ability to both see the whole picture and to spot the details that will make a difference.

Celia Grip is Portfolio Manager in the Multi-Asset Management group at Swedbank Robur

Celia started in the Quant Department at Swedbank Robur in March 2010, straight after obtaining her MSc in Economics from the University of Uppsala. Given her Estonian background she was immediately involved with the alternative assets part of the Baltic pension funds. After the mandate related to the illiquid part of the alternative assets portfolio was returned to the Baltics, Celia specialised in looking after the more liquid hedge fund allocation.

Today, Celia's responsibilities include co-managing the Swedbank Estonian Fund-of-funds (30, 60 and 100), as well as performing the manager selection and monitoring of investments in Asia ex-Japan, Latin America, CEE, Russia and EMEA including Africa. Celia is also part of the Alternative Investment Committee.



Despina Xanthopoulou is Senior Manager Research Analyst in the External Management department of Länsförsäkringar Kapitalförvaltning

Despina has 15 years of experience in asset management, risk and portfolio analysis. After obtaining her MSc in Business Administration and Economics from Stockholm University in 2000, her career started at Lindström & Partners Investment Consulting, where she provided investment to large institutional investors. She moved to Wahlstedt Sageryd Financial Services in 2002, where she performed financial analysis on institutional portfolios. Despina joined Länsförsäkringar in 2005.

Today, in her role as a senior manager research analyst she selects managers for the internal institutional portfolios (total AUM of 160bn SEK) and the unit link platform. The focus the last four years has been skewed towards absolute return strategies.

Heidi Miina is Vice-President at AIM Capital

Heidi has 8 years of experience in alternative investment selection. She started as a Hedge Fund and Portfolio Analyst at AIM Capital in 2007 after obtaining her MSc in Economics from the University of Tampere in Finland. At first, her responsibilities were focused on performing extensive operational due diligence on managers for the AIM team.

Today, Heidi is responsible for the Alternative Credit Strategies, which is one of the four focus areas at AIM Capital, together with Hedge Fund strategies, Insurance Linked Strategies and Alternative Beta strategies. AIM Capital is a Helsinki-based investment management firm that specializes in researching, planning and implementing alternative investment strategies.

Claudia Stanghellini is Head of External Management at AP3

Claudia has 19 years of experience in finance, of which 13 at AP3. After obtaining a MSc in Actuarial Sciences at City University in London, she joined Sun Life Financial as an Actuarial Analyst for 5 years. She started at AP3 in 2002 as a Quantitative Analyst. Two and a half years later she became a portfolio manager in the Global Equity team where she specialised in selecting long-only managers. In 2007, as AP3 operated a separation between alpha and beta strategies, Claudia's focus extended to alternative asset strategies.

Today, Claudia is responsible for manager research, manager selection and portfolio construction of externally managed strategies for the alpha and beta portfolios. She covers traditional long-only strategies and hedge funds strategies across all asset classes. Claudia is also member of the Risk Management Committee at AP3.

BRUMMER & PARTNERS

A big blip on the European hedge fund scenes radar

By Kamran Ghalitschi

Attempting to discuss the Nordic hedge fund space without taking a good look at Brummer & Partners will always leave you with only half the story. The manager has been leaving a growing blip on both investors' and managers' radar screens since the mid nineties when hedge funds were not common and still a somewhat disputed concept. While today the Nordic region offers a wealth of talented and successful managers, the role Brummer & Partners played putting the Nordics on the global map of hedge funds cannot be overstated. Brummer & Partners pioneered as an icebreaker for generations of local managers to come. The firms continued addition of award winning management teams, massive growth in assets to one of the largest European hedge fund groups and lastly the firms' business approach, leaving management teams with a large portion of the equity stake hugely, is a role model of a success story way beyond the Nordic hedge fund scene.

Zenit, Brummer & Partners first engagement and starting point as a hedge fund manager, will be celebrating its 20th anniversary in 2016. Indeed a very respectable age in a sector where sometimes players have shorter lifespans than a bouquet of fresh flowers. Also Nektar – one of Zenits cousins within the Brummer family of funds – founded by Kent Janér and his team, is becoming very much a senior, with now already 17 years of track record.

But it is not an "old and rigid" structure that resides in the office overlooking Norrmalmstorg in Stockholm. On the contrary – with all this experience in the luggage, Brummer & Partners still is a very active manager.

In their annual statement, chairman Patrik Brummer and CEO Klaus Jäntti comment on the 2014 activity. "During the autumn we decided to redeem all holdings in the funds Futuris and Archipel. Despite many years of positive contribution, the contribution during recent years became negative and we came to the conclusion that the probability for a future positive result was too low".

The activity has been high on finding new additions to the group. During 2014 numerous managers had been analysed. Many perhaps felt they where called, but few were chosen. "We continuously work on identifying and evaluating new potential management teams and during 2014 approximately 100 teams were evaluated. Many more than recent years made it all the way through our internal decision process", Patrik Brummer and Klaus Jäntti write in the statement.

As a result of these due diligence processes new managers have been included, and more are on their way. The Brummer model of partnerships seems to be attractive among managers, with extensive

Patrik Brummer
Chairman of the Board
Brummer & Partners AB

Klaus Jäntti
CEO
Brummer & Partners AB

experience within the group, though decentralised business model based on mutual interests making the firm a much desired partner.

In October Brummer Multi-Strateegy (BMS) made their first investment in Singapore domiciled MNJ Capital Management Pte Ltd. MNJ, founded in December 2005 with their MNJ Asia-Pacific Absolute Return Fund, is an equity focused market neutral hedge fund, based on quantitative research. The fund mainly invests on the American and Japanese markets, in systematic relative value strategies.

In January 2015 Brummer & Partners announced the investment into further two new fund management companies. London based Florin Court Capital, focuses on quantitative global macro management. The fund will use quantitative models to identify inefficiencies in a variety of markets. Florin Court Capital is expected to have a relatively low correlation with standard risk premiums as well as with Brummer & Partners' other funds. Dr. Douglas Greenig's responsible for the new fund, which is managed in a team consisting of Greenig, David Denison, Anthony Vinitsky and Simon Nicholls. Douglas Greenigs most recent role was as Chief Risk Officer at Man Groups flagship AHL.

"We are pleased to welcome the new team to Brummer & Partners. Florin Court is expected to contribute with uncorrelated returns and competitive Sharpe ratio, and thus further improve Brummer Multi-Strategy qualities, " Klaus Jäntti said in a statement in January.

A new Swedish fund will also enter the scene during second half of 2015. While yet little has leaked through, the equity based fund, run by a team of two managers, will manage a concentrated portfolio of mainly European companies in the long book, and a more diversified portfolio in the short book.

Recently, on June 1st 2015, Brummer & Partners announced another partnership with an Asian fund manager, Eastfort Asset Management Plc. Eastfort was established by Edmund Ng, former head of direct investments at the Hong Kong Monetary Authority, HKMA. The main investment focus will be securities on the Chinese fixed income market ."Eastfort AM gives investors a unique possibility to gain exposure to the local Chinese bond market through a fund with a portfolio manager who was one of the first foreign investors to invest on the Chinese bond market, when it opened in 2011", Brummer & partners wrote in a statement. Edmund Ng, CIO of the fund, headed the Reserves Management Department at HKMA, responsible for a portfolio with 250 billion USD in AuM. Prior to that he spent 20 years at JP Morgan being responsible for fixed income and derivatives in Asia ex. Japan.

Even if the "old lady" – by hedge fund terms – still dances with grace and is seemingly curious on what is going on in new markets and trying to exploit it, there are also some concerns for the chairman and CEO. 2014 ended as a year of some disappointment, from a performance perspective.

"During 2014 the result from Brummer & Partners total asset management, expressed through the numbers of the Brummer Multi-Strategy fund, reached a return of +2,5%. That is below the historical average of +7,6% of the fund since inception", Patrik Brummer and Klaus Jäntti say. Not good enough for the giants on the European hedge fund map it seems. To be on the answering side of that table during the yearly review when performance is questioned is probably not a thing one would list as "a-fun-day-at-work". With the divestments and new additions described above, the firm certainly seems to want to get a firm grip back on the rudder bringing back performance.

One fund out of the family that stood out contributing a big chunk to the performance of BMS during 2014 was Lynx. The systematic managed futures fund was able to successfully ride the waves of rearising trends on several markets returning over 27% in 2014. This earned the team around Svante Bergström several international awards along with winning positions as "Best Nordic CTA" and "Best Nordic Hedge Fund (overall)" at the Nordic Hedge Award.

2015 certainly started out with a more positive tone. Brummer Multi-Strategy so far showing an estimated return of 3,7% up until June 15. Strongest gainers are , Canosa up 9,2% YTD, Zenit 7,8% and tech fund Manticore up 6,9%. By June 15 estimates, all of the funds within the Brummer & Partners range where positive with Lynx being the sole exception. 2015 turned out to be a rough ride so far for Lynx, carrying on strongly from last years trends in the first quarter just to give back all ground won again and even slide into negative territory by 3,3% towards the end of the second quarter.

While the last year painted a mixed picture in performance contributions, the business side of Brummer & Partners is doing well. As of December 2014, the group assets under management (AuM) reached SEK 120 billion – a growth of SEK 10 billion during the year. Brummer Multi-Strategy saw an increasing interest from both Swedish and international institutions, with net inflows of SEK 6 billion to total off the funds AuM at SEK 49 billion by year end.

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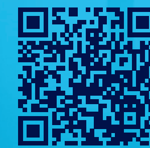

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www.hedgenordic.com - June 2015
HEDGENORDIC

Negative interest rates: New strategies for a new world

In Europe, negative interest rates have become a widespread reality that looks set to last with profound implications for the business model of major financial institutions and a new challenge: how do you generate returns without taking too much risk? Innovation and tailor-made solutions might be an effective response to the current constrained environment.

Maurits Escher was the champion of enigma. This 20th century Dutch artist was a master of portraying strange or paradoxical situations. In Escher's world, white birds transform into daytime landscapes while black birds become night-time landscapes, ribbons only have one side, motion is perpetual and so on.

Until recently, negative nominal interest rates would have never been considered a serious hypothesis. Outside of the imaginings of an "Escheresque" form of finance, financial theory and practice seemed to be based on the solid foundations of the time preference and making money "work". As a result, the widespread and lasting establishment of negative interest rates in Europe directs us toward a new world where our thought patterns have been turned upside down.

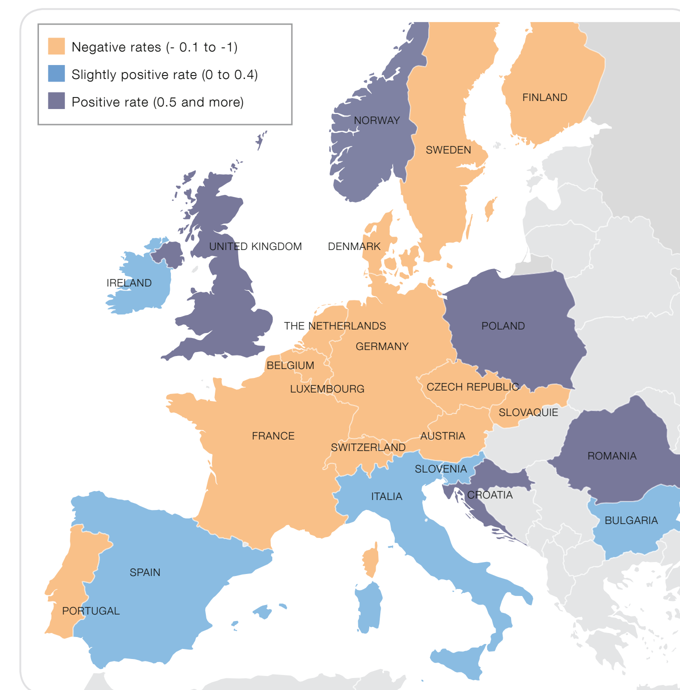
IN EUROPE, NEGATIVE INTEREST RATES HAVE BECOME A WIDESPREAD REALITY THAT LOOKS SET TO LAST

How do we explain why banks are still lending to one another while interbank rates are negative? As of mid- April 2015, five-year sovereign yields were negative in nine European countries: Austria, Belgium, Denmark, Germany, Finland, the Netherlands, Sweden, Switzerland, and Slovakia. For shorter maturities (two-year), twelve countries are trading at negative yield (the above countries plus Czech Republic, France, and Portugal, see graph 1).

We estimate that 25% of bonds contained in the iBoxx euro sovereign all maturities index currently deliver negative yields (see graph 2). At the beginning of February 2015, certain corporate bonds also had negative yields. Since records began at the turn of the 19th century, interest rates have never been so low[1].

Despite this, the flow of investment into European bonds is at record levels. According to Morningstar, European bond UCITS (sovereign and corporate) saw inflows of EUR 6 billion in February 2015, the highest monthly inflow in five years.

Graph 1: Twelve countries in western europe have negative two-year rates at mid april 2015

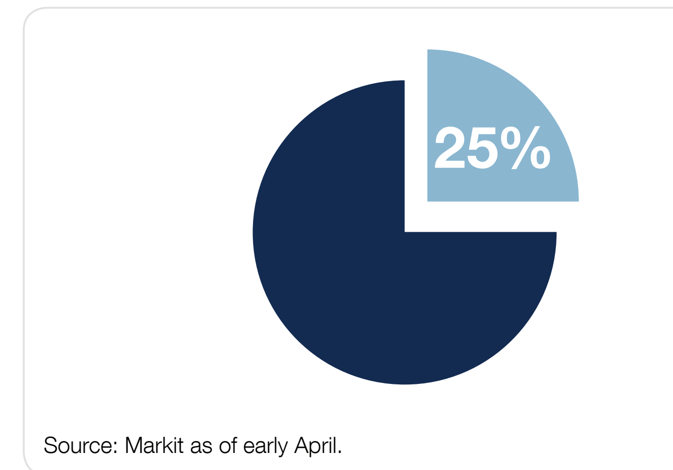


The bond rush is accelerating in Europe, while yields do not appear to offset the credit and duration risks taken by investors.

Falling yields are certainly not a new phenomenon. Since the mid 1980s, there has been a marked decline in real interest rates. There are many reasons for this fall: an abundance of savings in emerging market countries, especially China, a widespread decline in investment in developed countries and increased demand for risk-free assets from emerging markets in the wake of the financial crises in the late 90s.

This fall in interest rates, which has accelerated since the financial crisis of 2007-2008, has now reached its peak. In 2015, leading central banks around the world have adopted a zero interest rate policy. In order to tackle deflation risks in several European countries, some of these have even introduced negative interest rates (ECB, Swiss National Bank, Danish National Bank and Bank of Sweden).

Graph 2: 25% of the IBOXX EURO SOVEREIGN all maturities Index is trading at negative yields



Source: Markit as of early April.

This negative interest rate phenomenon looks set to last. Indeed, it is acting as a catalyst for the decline of the eurozone's growth potential. The latest forecasts by the European Commission signal that the growth potential of the euro area has fallen from 2% at the start of the last decade to 0.7% today. The eurozone has been experiencing deflation for several months, and while this phenomenon should be temporary, long-term inflation expectations have fallen. The ECB survey among professional forecasters at the beginning of 2015 also points to long-term inflation expectations largely below the ECB target: we will have to learn to live with negative interest rates.

FINANCIAL PLAYERS WILL HAVE TO ADAPT TO THIS NEW ENVIRONMENT

It is too soon to size up the implications of such a situation, should it last. In an environment of negative interest rates, the future value of financial assets is less than their current value. This favours debtors and penalises creditors, who now have to pay the equivalent of an insurance premium to put their money in a safe place.

Not only individual investors, but also major financial institutions including banks, insurance companies and pension funds are experiencing far-reaching implications. For banks, for example, imposing negative interest rates on deposits would have political consequences that are difficult to assess. Life insurers and pension funds will have to totally rethink how they operate: what is the point of investing in the markets if they perform less well than a safe deposit box?

These questions may seem like political fantasy if you can convince yourself that even though the current situation of negative interest rates might continue, it cannot go on for too long...

However, we are still left with some very tangible issues facing investors: how do you generate a minimum return without taking too much risk?

> **SPEED READ**
>
> >> Negative interest rates are spreading across Europe. This directs us toward a new world with profound implications for the business models of major financial institutions.
>
> >> This new environment represents a significant challenge for investors: how do you generate positive returns without taking greater risks?
>
> >> Innovative and dedicated investment solutions offer a response to these new constraints on investment.

INNOVATIVE SOLUTIONS TO MEET THE NEW REQUIREMENTS OF INVESTORS

Are negative yields inevitable if you do not want to reduce a portfolio's credit quality, or take on too much duration risk for fear of being caught out by an unexpected rise in interest rates? Innovative and dedicated investment solutions offer a response to new constraints on investment. Actively managed strategies can address the matter of negative yields and the control of market risks.

A dynamic risk-balanced strategy offers a solution for investors wishing to maintain their exposure to European sovereign bonds. Originally designed for banks seeking to invest their HQLA[2] portfolio linked to the Basel III liquidity coverage ratio, this solution is also of interest to investors who have to manage bond portfolios in order to comply with the regulations, manage liabilities or synchronise durations.

The solution adopted by this strategy is to invest in "asset-swapped"[3] government or supranational bonds. A portfolio of government asset swaps does not generate any additional credit risk and reduces the standard duration risk. It also allows positive yields to be maintained by combining the carry paid for by the asset swap with mark to market gains achieved due to the positioning of the strategy.

This strategy offers a response to a major challenge for investors: how to maintain optimum exposure to European sovereign bonds when yields are so low, while keeping a close eye on risks? Treasurers are facing a similar challenge in the light of historically low money market rates. Once again, a turnkey solution involving short-term secured investments can offer real investment opportunities.

In this way, a strategy which invests in short-term bank securities, collateralised by shares could deliver performance. Actually, new regulatory constraints encourage banks to offload shares from their balance sheets, with a commitment to take them back in the future, via repo transactions[4]. This new paradigm is putting pressure on equity repo rates, which are turning negative across the board. Combined with a negative Eonia, this gives rise to a situation in which short-term bank debt securities collateralised by shares offer a higher return than non-collateralised securities, even though objectively speaking they are less risky.

The strategy mentioned above offers the possibility to achieve a return higher than the yield generated by traditional unsecured short-term money market investments, while minimising counterparty, liquidity and interest-rate risk. In addition to its advantages in terms of yield and risk management, it also allows investors to gain this exposure without having to deal with the administrative and financial complexities associated with investing directly in the repo market.

These two active management strategies can be seen as a new source of performance in a universe hampered by low returns. An effective response to the current situation.

(1) ECB (2014), The Coevolution Of Money Markets And Monetary Policy, 1815-2008, December.

(2) High Quality Liquid Assets

(3) These are bonds combined with a bank swap exchanging the fixed coupon for a variable payment such as EUR + spread.

(4) Repos are short-term financing operations whereby the borrower transfers securities (collateral corresponding to bonds, equities or other financial securities) to the lender in return for a short-term cash flow.

Nicolas Gaussel, Chief Investment Officer, Lyxor Asset Management

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100%
of all funds nominated for the Nordic Hedge Award in the fixed income category and thus all winners, since its inception are run by Danish managers. We are wondering why...

The message from the Danish managers appears to be that there continues to be demand for their specialist knowledge and skills but that a changing environment also requires the skills to adapt

by Pirkko Juntunen

Danish Dynamite in Fixed Income

The success of Danish fixed income hedge funds has drawn international attention in the past years resulting in numerous awards for managers display shelves. Is there a secret sauce?

One of the main reasons is the structure of the Danish capital market which is very fixed income heavy, compared to most others, including its Nordic neighbours. Large institutional investor portfolios have also had a heavy domestic fixed income bias as their liabilities are in Danish Krone. This background has also made retail investors less comfortable with equity investments, as opposed to Sweden, where it is hard to find anyone without some investments in equity funds.

In addition, the mortgage market in Denmark is also fairly unique since it tends to be financed by different types of mortgage backed bonds, rather than by bank loans. The system is also

Nicolai Kjer Rasmussen, Nykredit

Soeren Rytoft, Formuepleje/Absalon

Michael Petry, Danske Capital

unique due to the fact there is a one-to-one correlation between a loan and the bond issued by the mortgage lender when financing the loan. This gives low systematic risk and a transparent and flexible loan redemption system. The borrower can always redeem the mortgage without having to negotiate price or conditions and always at prevailing market price. This market in Denmark is four times larger than the government bond market. In Europe, it is second only to Germany.

Bearing this in mind, it is not difficult to understand why the hedge fund market in Denmark is dominated by fixed income funds. In addition, despite its relative size in European fixed income, Denmark remains small in international terms and its complexity it does not warrant the allocation of resources from global players, leaving the locals to pick the spoils. The aftermath of the global financial crisis (GFC) also created opportunities for the survivors, many of whom were Danes.

Nicolai Kjer Rasmussen, chief portfolio manager at the Hedge Team at Nykredit Asset Management, also argue that it pays to be local in order to trade the callable market. "The complexity of the market gives local players an advantage. Also, only Danish banks have the models able to show the risk profiles of the assets, not even Bloomberg can provide this," he explains.

This is also the reason why the foreign competition is non-existent. "Some do go for the Adjustable Rate Mortgages (ARMs) market, which is similar to the Swedish covered bond market, but this is only a small portion of the Danish mortgage market," he said.

At Nykredit the team does not predict the future interest rate movements, instead the strategy is built on close analysis of each single bond in order to identify mispricings and thereby generating excess returns. This relative value approach has been implemented in two strategies at Nykredit: KOBRA and MIRA.

KOBRA is based on duration hedged positions in the short end of the yield curve. The strategy is based on taking positions in short maturity bonds and hedging the interest rate risk using instruments such as interest swaps. In order to boost returns the positions are typically leveraged 15 times. It was launched in 2011 and has an annualised rate of return of 8.2%. The strategy applied in MIRA is to isolate the return that is a result of mispricing. Generally the returns tend to be small in fixed income relative value strategies, why both hedging and leverage are necessary to achieve acceptable absolute returns. MIRA applies up to 10 times leverage.

Rasmussens admits that establishing lines of leverage is costly but being part of a bank perhaps makes this easier than for smaller players.

As expected, smaller independent players such as Formuepleje argue that is precisely this abscence of ties to the banks that gives them an advantage. It allows them to align interest with investors rather than with a bank. Formuepleje is the largest independent manager in Denmark with 7bn Euro in AUM. The majority of clients are HNWI. Absalon, formerly Alfred Berg Denmark, is the institutional arm of the manager, and was acquired in 2013.
Søren Rytoft, head of international sales of Absalon, said despite the storm around the Danish currency earlier in the year and negative interest rates, which led to some profit taking by some of the larger pension funds, there is money to be made. "The capital will have to find assets and increasingly it has been moving towards alternatives, and

clearly fixed income hedge funds is one of them," he added.

He noted that the new environment with negative yields was taken on-board and managed rapidly enabling most fixed income hedge funds weather the storm well. He also argues that going forward, the cheap leverage available and investors' hunt for yield continues to make the Danish fixed income hedge funds an attractive source for returns.

Formuepleje has a multi-strategy portfolio of varying leverage. Their optimal portfolio structure is based on the tangency portfolio theory with 65-75% fixed income and the remainder in equities, where the low returning fixed income portion is the backbone and stabilising factor.

Michael Petry, head of hedge funds at Danske Capital, pointed out that another reason for the Danish success is the fact that while many global fixed income hedge funds died in the wake of the financial crisis, most of the Danish ones survived. "The GFC created a lot of opportunities for the survivors and Danish hedge fixed income hedge funds were able to take advantage of this," he said, adding that the nominations for various awards proves that this continues to be the case.

While the backbone of most Danish fixed income funds is the unique mortgage backed bond market, Danske Capital is moving away from that niche into a more diversified universe.

"We took a strategic decision to move to a broader diversified portfolio both in terms of geography and types of assets and at the moment we are the most diversified we have ever been," Petry said.

Danske Capital invests in core assets in Denmark, Sweden but also across the EU, Switzerland, UK and the US in order to be able to find and benefit from opportunities in another place when they disappear from one.

The move has certainly been successful as it has been forced to close its 8bn DKR flagship fund to new clients in order to be able to continue making money from the more focused strategy. "It is closed or you will have to pay 5 percent subscription fee to enter or invest in one of our other, more diversified, funds instead," he added.

The message from the Danish managers appears to be that there continues to be demand for their specialist knowledge and skills but that a changing environment also requires the skills to adapt – in other words be there and be ready.

THE DANISH MORTGAGE COVERED BOND MARKET

BY KAMRAN GHALITSCHI

In an article of this report on we attempted to identify the reasons of the relatively large offerings in fixed income hedge fund strategies. Even more interesting was to investigate why Danish alternative fixed income managers often seem to have an edge over their international peers. One aspect seems to be the structure of the Danish mortgage covered bond market. So let´s take a closer look.

The Danish mortgage covered bond market is the second largest in Europe, only surpassed by Germany in volume, but one could claim that it is number one in complexity. The market for Danish mortgage covered bonds is more than four times as large as the Danish government bond market and has over 2000 mortgage covered bond issuances traded on the Danish stock exchange.

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: systemic risk is low and, arguably, Danish borrowers have the cheapest mortgage financing 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 if certain criteria's are met (i.e. LTV<100 %), extending the principal free period.

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 set of 5 guidelines that have to be implemented no later than 2020 and the first 3 are to be followed at the end of 2018.

Both initiatives are expected to limit the extent of short-dated refinancing. Further, EBA has set forth their recommendations regarding classifications of covered bonds in terms of the BASEL III framework (CRD IV) coming into effect gradually over the next 5-7 years. The Danish covered bonds are set to be Level-Ib assets for issuances larger than € 500 mm. (roughly 80 % of the total volume fulfil that need), meaning that they will only suffer a 7 % haircut but with a limit of 70 % of the total required liquidity buffer!

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 on-going 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 Nicolai Kjer Rasmussen, Chief Portfolio Manager at Nykredit Asset Management.

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 Nicolai Kjer Rasmussen, 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!

CARNEGIE ASSET MANAGEMENT

Bo Knudsen, CEO

David Rindegren, PM

Henrik Hviid, PM

Hasse Nelson, Head of retail & distribution

> *"Suddenly the stars aligned and we managed to find two highly competent individuals at the same time."*

Hedge Fund offering boosted through new hires

by Jonathan Furelid

Carnegie Asset Management is boosting its hedge fund offering through new hires and a newly launched long/short equity fund with European focus. The goal is to attract significant assets, particularly from Danish investors who, according to recent statistics, are severely under-allocated hedge fund strategies.

Copenhagen-based Carnegie Asset Management has a long history of running long only equity mandates. Since 1986, the firm has managed assets for institutional clients globally through active investments in listed equities. The firm currently has 14 billion EUR of assets under management and employs 100 people.

Since 2003, the long/short equity hedge fund Carnegie Worldwide Long/Short is part of the fund offering. However, the fund has during the last couple of years received little attention from investors and is currently managing 70 million euro.

In an effort to significantly boost this number and to put Carnegie Asset Management on the hedge fund map, two prominent names have been added to the hedge fund team. David Rindegren, who previously was part of the team of portfolio managers at the Brummer & Partners Manticore fund, will be heading the Worldwide Long/Short fund while Henrik Hviid, previously portfolio manager at inter-IKEA, will be starting up a long/short equity fund with a European focus.

– By hiring David and Henrik we have laid the foundation for a significant effort on the hedge fund side says the CEO of Carnegie Asset Management Bo Knudsen and continues:

– In their roles as lead portfolio managers of the Carnegie Worldwide Long/Short and Carnegie European Long/Short they will have the opportunity to shape the funds to fit their individual investment styles. Our experienced team within equity research will support them, primarily on the long side, as this is where we have our expertise.

According to David Rindegren, the return profile of the Carnegie Worldwide Long/Short will be influenced by his background and experience from pervious mandates.

– During my time at Manticore, I specialized in the so-called TMT – Telecommunications, Media and Technology sector. This will, to some extent, be reflected in my new mandate as there are many structural themes and trends producing opportunities for investing both long and short in this space, but the clear focus of the fund is on a generalist approach to investing. Another change, given my background from market neutral hedge

funds, is a somewhat reduced average net exposure of the fund going forward. Previously the fund's short exposure was mainly initiated via equity indices, this will now change to more individual equities, says David Rindegren.

Carnegie Asset Management's effort on the hedge fund side has been linked to finding the right people at the right time rather than a result of a strategic decision according to CEO Bo Knudsen.

– We have been looking to add new people on the hedge fund side for quite some time. Suddenly the stars aligned and we managed to find two highly competent individuals at the same time. It is important to highlight that we are not trying to build a new Brummer & Partners employing a number of different hedge fund teams. We are rather building on our core competencies within equities and complement that with hedge fund talent. We believe the timing is right since we see increased demand for hedge funds, particularly in Denmark, says Bo Knudsen.

> *"We are building on our core competencies within equities and complement that with hedge fund talent."*

Carnegie Asset Management's Director of Partners and Institutional Clients, Hasse Nelson, confirms the trend towards increased Danish demand for hedge funds.

– Institutions in Denmark have been allocated to hedge funds for quite some time but on the retail side, interest has been more or less non-existent until recently. The simple reason for the renewed interest is that investors are seeing the end to the bull market in fixed income and look for alternatives to equities.

According to market statistics from the Danish InvesteringsFondsBranchen, only 1.7 percent of danish retail fund assets were allocated to hedge funds in April 2015. This should be compared to 47.9 percent in fixed income funds and 41.5 percent in equity funds.

According to Hasse Nelson, the low allocation to hedge funds among retail clients has to do with the fact the Danish financial supervisory authority, Finanstilsynet, has put hedge funds into a red product category, indicating a complex and risky product.

– Given that hedge funds are in the red product category , this means that the financial advisors within Danish banks need certifications in order to be able to talk to clients about hedge funds. In practice this means that very few actually advise people to invest into alternative investment funds. The banks typically also have a cap on how much of a client's portfolio that can be invested into "red category products", explains Hasse Nelson.

Despite the strong tradition of holding fixed income and equity exposure among retail clients in Denmark, Hasse Nelson is confident that the tide is about to turn to the benefit of hedge funds.

– We are seeing more and more interest as people realize that the multi-year bull market in fixed income is about to come to an end. At the same time, investors are increasingly cautious to equity markets and need alternative investment strategies. To that end, hedge funds will play an important role.

David Rindegren is also upbeat about the prospects of Carnegie Asset Management becoming a serious contender to the established hedge fund houses in the Nordics.

I look forward to build on Carnegie Asset Management's strong capabilities of picking stocks globally, add insights on shorting based on structural trends and offer a world class long/short equity product to investors in the Nordics and elsewhere.

Opposites attract – New Catella Nordic Long/Short Equity team combines diverse investment styles

by Jonathan Furelid

Swedish asset manager Catella has appointed a new team of portfolio managers for its Nordic Long/Short Equity fund. By combining the quantitative investment style of Ola Mårtensson with the fundamental approach of newly hired Martin Nilsson, Catella looks to further improve the risk/return profile of the fund.

Catella Nordic Long/Short Equity was launched in December 2010 with the ambition to offer an absolute return fund focusing on Nordic companies.

The fund got off to a solid start adding 8.8 percent in 2011 but then struggled to benefit from the strong momentum in global equity markets in 2012 and 2013. During this period, the fund posted two consecutive down-years. In the same period, VINX Nordic Index, reflecting the performance of Nordic equities, gained significantly. In 2014 and 2015 the fund has fared well again, especially in risk adjusted terms, with gains of 10 percent and 9 percent (as of end May) respectively.

In May 2015, Jonas Wikström, the fund's portfolio manager since inception, left Catella. As replacement, Catella decided to combine the skills of Ola Mårtensson and Martin Nilsson. Having worked at Catella since 2003 focusing on quantitative modelling using derivative strategies as well as managing allocation mandates, Ola Mårtensson's approach to investing is highly mathematical and relatively short term in nature. Martin Nilsson, having a background as analyst and portfolio manager from Alecta and most recently Nordea, employs a fundamental investment approach with a horizon of 3 – 5 years.

The two investment styles, by themselves very different in nature, could be highly efficient when combined together in a portfolio context according to Ola Mårtensson.

"There is an interesting overlap between the quantitative and more fundamentally driven approach.

While Martin focus on finding investment opportunities on the long side by looking at fundamental factors that drive value creation, I am more focused on protecting downside risk on a shorter term horizon by finding individual stocks to go short. In addition or alternatively to initiate portfolio hedges through derivatives", says Ola Mårtensson and continues:

"The quant models are making projections on patterns that are discovered in historical data rather than looking at how companies strategically take advantage of options inherent in the business model. In short, quant models are more backward looking while the fundamental analysis is forward looking. This makes the two investment styles complementary."

Martin Nilsson describes his investment style as "traditional equity value investing" with a long term focus:

"During my time at Nordea I started out analysing European and Nordic equities. The last seven years I have been portfolio manager for several Nordic equity funds. The way I will manage the Catella Nordic Long/Short Equity fund is similar to the approach I have adhered to in previous mandates. Essentially, it is not very different from the way the fund has been managed up until today. I will look for undervalued quality companies that from a risk/reward perspective stand out. In other words, I will not by definition invest in companies where I see the largest upside. It is rather the relation between up- and downside that is important, " says Martin and continues:

"The approach could be described as classic fundamental analysis by meeting companies, subcontractors and competitors in order to get a complete view of the business and the market. We will also spend a lot of time travelling around the world trying to understand how similar companies work outside the Nordics."

According to Ola Mårtensson, there will be no major shift in the fund's investment strategy as a result of the change in management. Investors should expect a slight difference in portfolio construction and positions, especially on the short side though.

"The general focus of the fund will remain intact. However, as is often the case when a new team takes over, there are marginal differences that are linked to individual investment management styles. I expect us to have a somewhat broader approach given that we will introduce a number of quant based strategies. These strategies will be particularly active in picking up candidates to short.

Ola highlights that the aim is still to provide a fund where the performance is linked to successful stock picking with limited beta exposure.

"The goal is to be more or less independent of the overall market, although with a slight bias to the long side. Since the strategy is not market neutral, the major performance drivers will come from longer term value picks on the long side. Risk will be managed through balancing long positions with short positions and by strictly controlling the gross and net exposure of the fund."

Martin Nilsson emphasizes that there is also going to be a somewhat broader focus in terms of the fund's geographical exposure.

"We are aiming for a more Nordic focus. The Swedish market has historically been the largest risk contribution. This is likely to be more balanced going forward."

During May, the first month of trading for the new team, the quant models were active in signalling for short positions. At the same time, risk exposure was reduced on the portfolio level, indicating a difficult market environment ahead.

"What we are seeing is an increased market uncertainty reflected in elevated volatility levels. Short-term we are highly ambivalent when it comes to projecting market direction which is also reflected in the fund's risk exposure, " says Ola Mårtensson.

Martin Nilsson agrees that uncertainty currently is on the high side as a result of the somewhat stretched valuations given a very strong start to the year.

"Given the strong run we experienced during the first half of the year it is not surprising to see equity markets retreating from these levels. Our work is now to filter out quality companies that we believe to be good value picks for the long term but that we have considered too expensive previously."

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PORTFOLIOS NEED MORE POWER

by Andreas Edlund
Portfolio Manager, Sheperd Energy

Electriciy, despite being arguably the widest used commodity, rarely finds its way into investors portfolios.

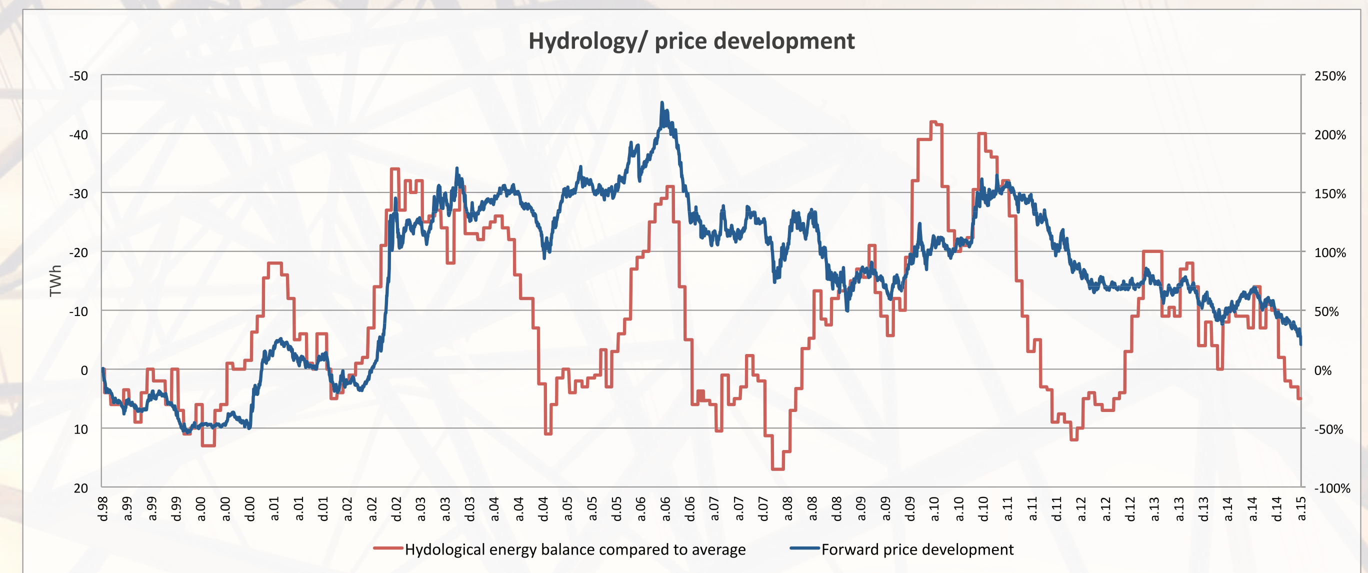
When referring to commodity markets and even more specifically the energy sector, one rarely hears about electricity as an underlying commodity. However, electricity is a significant portion of many countries' GDP and one of the commodities each of us uses every day. One reason for the neglection is the lack of a regulated markets in many countries or that the market there is, is too fragmented and can not attract capital or crucial mass of market participants to create enough liquidity.

For the Nordic region, which now is paired with the northern parts of continental Europe both trough EU legislation and interconnections, the picture is different. The market started as a national Norwegian marketplace in 1992 named Nord Pool and then quickly spread to the other Nordic countries which then formed to a joint market place 1996. Since 2010, the market is owned by the American Nasdaq and operating under the name NASDAQ OMX Commodities. For a long time, the Nordic electricity market Nord Pool had been the world's largest and leading exchange in terms of transparent trading of cleared forwards, futures and option contracts for electricity.

The Nordic electricity pricing is just like any other commodity determined by the relationship between supply and demand, the latter being rather inelastic in the short term. Pricing is therefore much up to fluctuations from the supply side. Supply in turn is mainly determined by the availability of water and snow in Norway and Sweden to drive hydropower stations. In times of a well supplied hydrological situation, the hydropower producers experiencing competition resulting in price pressure. In the opposite situation, in times with bad hydrological situation, the producer can charge more for their water, creating incentives for more expensive production means in order to compete with hydropower, such as biomass or coal. In extreme cases of high demand and low supply, the producers may be forced to resort to gas and oil to cover the total demand with the result that the price of certain hours can be very high. Last time this occurred was in the winters of 2009 and 2010. The price of Nordic electricity therefore moves back and forth with different production types determining price levels on the margin and where the weather and more specific precipitation is the long term prime driver.

Wind power production today takes an important share of the total Nordic power supply. However, here we lack the controllability in opposed to for instance water, nuclear or fossil fuel production. Generally, one can say that the boom in renewable energy sources over the last five years has limited the need of fossil fuel production in the Nordic countries. Yet it cannot be overlooked in more strained demand times and/ or when the hydrology situation turns bad. The risk of very high price spikes like in 2009/2010 is still very much current and the situation has the potential of becoming even more severe if the Swedish power producers Vattenfall and Eon get through their proposals of shutting down nuclear production for cost reasons. The trend of replacing baseload power like nuclear and coal of course has environmental aspects which shall not be underestimated. But it certainly does not support a long term stable price of Nordic power. This means the historic nature of the Nordic power market as a dynamic and highly volatile one will continue in the future even if the system has undergone changes in the last years´ green revolution.

When browsing the financial universe for uncorrelated asset classes from a portfolio perspective, one easily forgets to look at investments with price trends depending on the weather and not only macroeconomic parameters for instance. For this a Nordic power hedge fund or a Nordic power managed account is a good option. In the graph below the accumulated day/day return on the most traded front quarter on the Nordic Power Market one can easily tell how well coupled the hydrology trends are with price moves, and that several trends have been directly uncorrelated with the stock market. For instance, the Nordic Power market rallied more than 100 percent in the end of the IT bear market in 2002. And in the midst of the financial crisis of 2008, the price of the Nordic power futures surged by 50 percent. In both cases the movement was assigned to poor hydrology situations in Sweden and Norway due to a long period of high dominated weather. At present, the power futures are in a one year and +50 percent bear movement which once again is in clear contrast to equity markets.



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OPTIONS AT THE CORE

by Johan Tjeder, Portfolio Manager – Atlant Fonder

Equity and index options are quite commonly used by institutions for risk management or as a means of increasing returns on an existing portfolio. At Atlant Fonder index options are more at the core of the strategy where the profile of the four different funds basically are given by how the fund managers are positioning the option strategy. So instead of options being a complement to a more traditional equity portfolio they are being used to create the basic risk profile of the fund.

Options are basically just an instrument to transfer risk between market participants which also means that their price is heavily influenced by market participants risk impression. The value of options on the other hand is determined – to a large extent – on the actual or realized risk during the life of an option. In option terminology price is determined by the implied volatility of the option while the value of the option is determined by the realized volatility of the underlying instrument. Just as in any financial transaction an opportunity is a discrepancy between price and value, or as Warren Buffett put it in his as usual very accurate quotes; "price is what you pay, value is what you get"

This difference in price and value not only creates opportunities for a trader who has an edge in determining the value of options but it can also convey information about the underlying. As implied volatility can be seen as a – far from perfect but at least an indicative – proxy for the risk premium options are, generally speaking, dear when risk premiums are high and the other way around. Of course a model of market direction has to take a lot more variables such as trend and valuation into account but we have found that volatilities add valuable information to our models. Very simply said call options should be bought when they are the most expensive and put options when they are the most cheap – taking only expected market direction into account. Of course the market knows this so the so called skew of options prices will work against this extremely simplified strategy. The aim is not to find one single strategy and employ that regardless of current circumstances. It is just a way of incorporating option pricing, through the information they convey about the probabilities about expansion or compression of the short term risk premium, into a model of market direction.

Every single option also conveys information about the probability of the underlying being above or below its strike price at or before expiration. This means that the skew of options gives the trader a picture of – the markets view – on the distribution of probabilities of outcomes of the underlying. One has to take this with a slight grain of salt though as other things, such as supply and demand, liquidity of the market, the tendency of market volatility to increase in negative markets etc, also strongly effects the option skew. Nevertheless, if there is a visible probability of a specific outcome that the market obviously believes in it is quite straightforward to compare this to your own view of that specific probability. If you have a view on the expected return and the volatility of what you are trading you basically have expressed a view on that specific probability. Atlant Fonders model will be more general than specific about the individual option but basically we are betting on prices that gives us an edge while at the same time express a market view in some cases. A more advanced model might also have opinions about to what extent the distribution of market return differ from a lognormal distribution but even without that you could – quite simplistically – express a view on those probabilities.

Imagine for example that the 90 strike with a month to expiration indicates that there is a 20% probability of the underlying, which trades at a 100, will close below 90 (and therefore a 80% probability to close above). Now let us next assume that that we know a few things: first of all that over the last five years a 10% move or larger has occurred 25% of the time over a month and over the last 10 years it has occurred 30% of the time. History indicates that there is a higher probability than the 20% the market indicates of a 10% fall until expiration. There might be reasonable reasons for resilience. We could for example compare the volatility of this specific stock to the index or even to the broader VIX and discover that though it is trading at a low volatility compared to it's own history it is trading at a high relative volatility to the index. Although depending on circumstances this might dampen our enthusiasm a bit the most important input to the probability model is the expected return on the underlying. To simplify a bit let us assume that the model indicates that valuation is relatively high (which is another way of saying that the current price does not include a sufficient risk premium), trend indicators are negative and volatility as mentioned a bit too low, indicating a possibility for the risk premium to expand. Let us assume that the combination of these variables over time has produced a negative return of 1% on average over a one month time span on historical data. So we compute the probability of winding up below the 90 strike and find that it's 25% using the markets volatility. Now we know that without taking low expected return into account the historical outcomes indicates that this option is slightly undervalued. Taking low expected return – partly due to the low volatility environment – into account we might become even more convinced that this particular put option offers good value. The probability of a loss is still higher than 50% but that is not the important variable; the question is if it is reasonable to expect to come out ahead if you repeated this strategy on a large number of occasions. The probability distribution indicates that the answer to that question is yes. It is important to be reasonable in the trade off between being able to judge if a trade offers value or not and the risk of overanalyzing things. It is much better to be vaguely right than exactly wrong and as Einstein said "not everything that counts can be counted and not everything that can be counted counts". So we aim to make sure that we are not totally wrong on the big picture and accept that we cannot know all details. That is more or less inherent in the activity of investments.

Actually having an opinion about probabilities is just what more or less every market participant does. You buy something that you – for whatever reason – believe is undervalued to its "true intrinsic value" or might rise in price for other reasons and the other way around. In the end it is all about probabilities. The only difference being that an option price conveys more information about the exact probabilities. We know something about these probabilities and we try to utilize that knowledge into an edge and a different risk profile for our funds that will suit different investors. Thinking in terms of probabilities is also an advantage in investment as it forces you to understand that even if your decision is correct you will still lose money a lot of times – and the other way around. If you knew that a dice was bad so that the probability of getting a six is 1/5 instead of 1/6 you would be stupid to bet on something else even if you lose money 4 times out of 5, right?

If we are allowed to quote good old Warren Buffet again also said that it is important to know your own circle of competence but the most important thing is not what is inside the circle but what is outside. There are ample of things outside of our circle of competence starting from the event horizon of black holes to the movement of EUR/USD, from to the future earnings of Tele2 to the question if China is going to outperform India. At least close to the border of our more limited circle of competence lies option pricing and how to combine options into a strategy that maximizes return for each unit of risk that we can accept given our market view.

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New Fund Launch: Incentive Active Value Fund

Svein Høgset

A value approach to long/short equity investing

by Jonathan Furelid

"We continue to have a constructive view on European equities although there is also a potential for accidents."

Svein Høgset is the head of Oslo based Incentive AS, the investment manager for the Incentive Active Value Fund, a European long/short equity fund launched last year. The Fund invests in a concentrated portfolio of mid-cap companies that the team believe are under valued and poised to deliver good shareholder returns in the years to come.

The value approach is not for the shortsighted. With an investment horizon of 3-5 years, Høgset and his team aim at creating long term capital appreciation for their investors.

"Ideally we would like to find investments that will compound nicely for 3 to 5 years and sometimes even longer in order to extract maximum value. In todays low return environment, companies that are in a position to consistently reinvest their profits in projects that earn attractive, double digit returns, are becoming increasingly rare and therefore more attractive investments we believe. Our ambition is to identify and invest in some of the most attractive investment opportunities from a universe of more than 2000 listed companies in Europe," says Svein Høgset.

Incentive, which currently manages around USD 200 million, launched the Incentive Active Value Fund in July 2014 with the ambition to exploit what the Incentive team believes is a multi-year opportunity in European mid-caps.

"Sell side research coverage of European companies that fall outside of the largest 10 to 15% of European corporates has deteriorated since the 2008-09 financial crisis as investment banks have been cutting back on equity research. That, coupled with the fact that most institutional portfolios closely match their index benchmarks has focused smaller equity research budgets overall around a lower number of companies that the sell side choses to cover and publish research on. As a result, many great companies receive little or no attention from sell side research analysts, in particular if their shares are not part of any of the large benchmark indicies," says Høgset and continues:

"When we launched Incentive Active Value last summer, we invested in a dozen or so companies that we thought were cheap, both in an absolute sense and also relative to industry peers. The vast majority of these remain large investments in the Fund and we have also added a handful of new investments along the way."

A value approach to long/short equity

Incentive's investment strategy can be described as value driven long/short equity with a European focus. According to Høgset, there are a number of characteristics that gives the Fund a different profile than many other long/short funds in Europe.

"First of all, our portfolio is highly concentrated, more so than most other funds I can think of. We believe that we can achieve adequate diversification with a portfolio of 10-20 investments. We prefer a simple portfolio that puts us in a position where we develop an edge by knowing more about the companies that we invest in than just about anyone else out there. Secondly, we are very long-term in our investment approach and plan to hold our investments for many years. Thirdly, although the portfolio has both long investments and short investments, there is a clear long bias in the portfolio. As a consequence, investors should not expect the Fund to be immune to market fluctuations. However, we use little or no leverage as we believe that this puts us in a position where we better can take advantage of sharp movements in stock prices by acting counter cyclically. Fourthly, we focus

on European companies and spend most of our time analysing mid caps. We focus here because competition is less intense and at the same time, this is where we have spent the bulk of our careers on the look out for good investments," Høgset finishes.

Apart from these distinctive traits, Høgset and his team also look to be active owners in the companies Incentive invests in.

"A long term perspective and a concentrated portfolio approach gives us the luxury of getting to know our portfolio companies well. We do a lot of research before we make investments, work that includes in depth discussions with the management teams of the companies we invest in. This dialogue continues as we become shareholders and to the extent that we have views on what companies can do to improve various aspects of how they perform."

"How companies finance themselves or how they communicate with investors for example, we may have opinions on and express these views and if need be, encourage our portfolio companies to take the right steps. As an example, quite recently, we helped one of our portfolio companies, Tethys Oil, in formulating a new capital return programme. Tethys Oil had over the last couple of years gone from a position with debt on its balance sheet to a significant net cash position, thanks to their very cash generative oil producing property in Oman. Given relatively limited reinvestment requirements in this asset, we thought the time had come for Tethys Oil to start distributing some of its cash to shareholders, something both management and the board agreed with," Høgset says.

A concentrated portfolio

The current portfolio consists of 15 long positions and 4 short positions. Nordic and German companies currently dominate the portfolio, a bias that is likely to remain, Høgset explains. "Whereas we consider the whole of Developed Europe our home market, we have particularly strong sourcing capabilities in the Nordic region and Germany. Besides that, corporate governance standards in these markets are typically good and there is no shortage of attractive companies to invest in." Large investments on the long side include German residential real estate developer Grand City Properties, Norwegian investment company Aker ASA, Norwegian stock exchange operator Oslo Børs VPS Holding and the German automotive supplier Hella. On the short side, the fund holds positions in two food retailers, an oil and gas producer and a pulp and paper company.

"We are not afraid of putting a lot of capital behind our high conviction, well researched investment ideas and we prefer a portfolio consisting of several 8-12 percent of NAV sized investments," explains Høgset. "Short investments are typically smaller and each normally capped at around 5 percent of NAV. Short investments need to justify their place in the portfolio on their own individual merits just as the long positions have to and are not typically there as hedges for long positions, Høgset expands. When initiating positions on the short side, this is not done on a pair-trade basis tradinging one stock relative to another. It is rather based on a strong view on the company in question. In order for us to make a short investment, we need to see downside potential of at least 20-30%. The Fund's average net exposure since inception has been approximately 65 percent. This in line with what we expect to be the case also in the long run."

Risk Management

Given the high degree of concentraton in the Fund, avoiding expensive mistakes is key for long term value creation, according to Høgset:

"Holding a concentrated portfolio requires good risk management. When you hold relatively few and relatively large investments, a single mistake matters more to returns than it does in a more diversified portfolio. You also need to make sure that your 10-20 investments are sufficiently different from one another. When you go to bed at night, you do so with a number of different exposures in your portfolio as opposed to a portfolio of different investments where all of them depend on a single variable, for example the level of interest rates or the price of a particular commodity. We are not using leverage and we shy away from binary situations, such as companies where the outcome of a clinical trial for a biotech company or the outcome of a risky exploration well for an oil company represents massively impacts the value of the business, for example. In times of more difficult market conditions, our short investments also help us to offset some of the market exposure we get through our long investments. Opportunistically, we may also sometimes use put options to reduce market exposure."

The market view

Last summer, at the time of the fund's launch, the Incentive team had a constructive view on the prospects for European equities and got to a position where the fund was fully invested relatively rapidly after launch. According to Høgset a few things have changed since, but he remains optimistic on European equties despite the fact that markets have posted strong performance during the first half of 2015.

"We continue to have a constructive view on European equities although there is also a potential for accidents that can happen. Three main factors contribute to this positive view. First, although interest rates have edged up in recent weeks, they are still very low. On a relative basis, equties are cheap compared to bonds where you today earn next to nothing. Low interest rates also encourage investments by corporates and spending by consumers, both factors that contribute positively.

Second, we have seen a depreciation of the euro against the US dollar which of course has a positive impact on the prospects for improved European competitiveness, which in particular benefits exporters. Third, the oil price has come down signficantly in recent months. With Europe being a large net importer of oil, this price decline is very positive and represents the equivalent of a large tax cut for consumers and corporates alike. With all of these factors at work, the conditions for economic growth in Europe are probably better today than they have been in the last few years," according to Høgset.

"With all of this said, bear in mind that we are stock pickers, not macro economists," Høgset says. "Our portfolio does not represent broad exposure to European equties, but rather targeted exposure to what we believe are a dozen or so particularly compelling investments in Europe. As I have said before, given its long bias, the portfolio clearly is not immune to broad market movements. But we firmly believe that it will be the quality of the individual investment decisions we make, rather than the direction of broader markets that will be the most important determining factor in how the Fund performs in the years ahead."

"Bear in mind that we are stock pickers"

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New Fund Launch: Elementa

Long/Short Equity With a Twist

by Jonathan Furelid

Elementa, a newly launched Swedish hedge fund, offers a new twist to long/short equity investing. With a focus on small- and mid sized companies, a long-term investment horizon and a possibilty to allocate to corporate bonds, the fund aims to fill a gap in the Nordic long/short equity space.

Marcus Wahlberg is the founder and portfolio manager of Elementa. He brings years of hedge fund and investment management experience to the newly launched fund. Having previously co-managed Harald Lundén´s Eikos fund and most recently coming from an investment management role at Investment AB Öresund as well as CEO of Ven Capital within investment AB Öresund, Marcus knows what it takes to meet institutional standards when it comes to portfolio management.

Elementa is organised as a sub-fund under the PSG Capital AB umbrella, a fund management company that was founded in 2008. PSG holds an AIF-license and also manages 300 million SEK in a long-only fund focusing on Swedish small-cap stocks

According to Marcus, the decision to start a new hedge fund was not so straightforward given all the regulatory requirements and associated costs. ”Being a small hedge fund today is hard in many aspects, for Elementa, the decision to go with the PSG Capital set-up was crucial and allowed me to start the fund quickly with all the necessary support functions and licenses. It simply makes me focus on what I do best: managing money.”

When describing the strategy behind Elementa, Marcus is quick to emphasize that there are a number of unique features that make the fund stand out from the crowd of Nordic long/short equity funds.

”The Elementa fund could be described as long/short equity with a twist. It is an absolute return fund that takes positions based on fundamentals with a long-term investment horizon. The fund can short stocks quite aggressively and is also allowed to invest in corporate bonds”, Marcus says and continues.

”The fund focuses on small- and mid-sized companies for both long and short positions. Elementa is also designed for absolute return rather than for hedging purposes and good investment ideas tend to get a signficant risk allocation. The fact that the fund holds corporate bonds and is allowed to invest up to 25 percent of the assets outside of the Nordics also sets it apart.”

Marcus Wahlberg, Elementa's founder and portfolio manager.

According to Marcus there is no inherent long bias to the strategy. ”The expected net exposure will vary between -30 percent to +50 percent, in extreme situations these values could be exceeded. Since inception of the fund the exposure

has been more or less market neutral, end of april the bias was slightly long at 11 percent.

The fund's somewhat different approach has so far paid off. After three months of trading, the net gain stands at 4.7 percent.

Elementa is backed by a number of high profile industrialists, finance people and entrepreneurs, something Marcus believes is an important success factor. ”It is very important to have a solid investor base from day one, people who understand the strategy and can live with it for a while. If they feel the strategy works you will have their blessing also in difficult times. In our case, it is important that the investor base holds a long-term view, meaning a 3-5 year horizon.”

Elementa's investment approach is analytically driven and looks at companies ability to generate growth and cash flow. The investment process involves several steps where company specific risks play an important role. The fund rather pays a higher price for a good company than a low price for a company that is operating in a difficult sector and has weak fundamentals.

The reason to include corpoate bonds in the strategy is owed to the fact that these can give a better risk/return profile under certain conditions, according to Marcus. ”The analytical selection process is the same for corporates as for stocks. It is the ability of the companies to generate cash flow and growth. Elementa has no limitations when it comes to credit risk.”

When asked about current stock market valuations and opportunities ahead Marcus says: ”It has become increasingly hard to find reasonably valued companies. Valuations are high overall and if you look at multiples based on long-term earnings it looks very expensive. It is important to focus on companies that have bright future prospects.”

The current high valuations in equity markets could however open up opportunities for short positions Marcus explains, ”if you can find a company that has a weak market position in a challenging market where valuations are high, that could really offer interesting opportunities.”

Marcus has seen a lot of interest for the Elementa fund during its launch phase. Something that makes him comfortable he will quickly reach a large enough asset base to run a profitable business. ”I have seen a lot of interest from people who know me from before. There are also ongoing discussions with a number of private individuals and institutional investors. However, my focus in the short-term is to build the portfolio rather than raising more money. If performance is good assets will follow. I am pleased to see that the fund is off to a good start,” Marcus says with a smile.

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New Fund Launch: Nordic Multi Strategy UCITS Fund

Norwegian asset manager launches Alternative Multi-Strategy UCITS

by Jonathan Furelid

Nordic Capital Management, a Norwegian asset management company based in Oslo, launched the Nordic Multi-Strategy UCITS on May 26. The fund will invest into a diverse set of UCITS compliant hedge funds primarily domiciled in Europe. The goal is to fill a gap in the Nordic market for alternative UCITS funds.

"Our goal is to offer a well diversified, multi-strategy fund with a clear focus on alpha generation. The UCITS format allows us to reach untapped demand for alternative investments, particularly in the Norwegian retail market. This is now seeing a rebirth following the lift of the ban on hedge funds," says Bård Halmrast, portfolio manager of the Nordic Multi Strategy UCITS fund. Nordic Capital Management is part of the Nordic Group, a company that started as a brokerage house in 2009. In 2014, Nordic Group acquired the asset management firm Groven & Partners AS. Consequently, Groven & Partners changed name to Nordic Capital Management.

Groven & Partners had two full time employees, the founder Morten Groven and Bård Halmrast. Morten Groven co-founded the Brummer & Partners fund Futuris in 1999 and was, prior to forming Groven & Partners, head of trading at SEB Enskilda where he was also responsible for setting up the banks own in house hedge fund. Bård Halmrast joined Groven & Partners in 2010 as a portfolio manager. Prior to that, Bård had worked within equity sales and research since 2005.

As part of Nordic Group, Morten and Bård decided to launch the Nordic Multi Strategy UCITS: a multi-strategy fund of hedge funds, investing into other UCITS funds. When setting up the new strategy, Nordic Capital worked closely with Thomas Bergström who previously spent 13 years within Nordea Investment Management. Bringing more than ten years experience of managing and analysing alternative investment funds, Thomas´s knowledge came to good use in setting up the structure for the new fund.

"Thomas has been an invaluable resource in setting up the strategy framework. He has also given us access to fund managers and potential investors. So far we have worked with Thomas on a consultancy basis but the plan is to make him part of the team as soon as possible," says Bård Halmrast.

The idea behind the fund is to provide investors with an alternative investment solution that can extract value from different alpha sources. At the same time, the fund should be expected to have very low correlation to equity markets providing a stable foundation in a savings portfolio over time.

"This is a true multi-strategy approach. While outsourcing alpha, the Nordic Capital team will focus on portfolio construction and risk control. We believe that our combined experience will be key in this context. Morten brings years of highly succesful equity trading and risk management to the table. Bård and myself contribute with our long experience from constructing portfolios, evaluating positions, and managing alternative investment funds. Our combined skill-set allows for a solid understanding of the strategies we invest in," Thomas Bergström tells us and continues:

"The fund will be allocated to a number of uncorrelated hedge fund strategies that are exposed to different types of risk. The goal is to have a highly diversified approach, fully taking advantage of the diversification benefits of the portfolio." According to Thomas, the increased number of high-quality UCITS hedge funds in recent years has made the potential investment universe for the fund much larger, making it an opportune moment to launch.

"The space for alternative UCITS used to be quite limited making it hard to build a multi strategy UCITS hedge fund.

Left to right: Bård Halmrast, Thomas Bergström, Morten Groven, portolio manager of Nordic Multi-Strategy UCITS

With a lot of top-quality managers entering the market in recent years, the opportunity set has changed completely offering us the possibility to build a well balanced multi-strategy product."

In terms of underlying strategies, the fund is expected to be balanced over time with no clear bias towards any particular sub-strategy. The allocations short term will be determined by the portfolio managers' perception of the market environment and how well the respective strategies are positioned to take advantage of this environment.

"Long term we anticipate the portfolio to have a balanced exposure to major hedge fund strategy buckets such as relative value, event driven and long short equity. We also hold exposure to what we define as tactical trading including CTAs and global macro. Currently we hold 35 – 40 percent of the risk exposure in tactical trading or long volatility strategies," says Thomas Bergström and continues:

"Given that long/short equity, a highly diversified strategy in terms of trading styles and geographical exposure, has the largest number of UCITS funds, we will hold a somewhat higher allocation to that space. Currently it is around 30 percent. The relative value space, including statistical arbitrage and equity market neutral strategies, is much more limited in terms of funds offered so there we will hold a relatively smaller allocation over time. " According to Thomas Bergström, the expected annualised volatility is around 5 percent on the fund level, which means that the long-term expected return for the fund will be 5 - 10 percent annually should the fund meet its targeted risk/return profile.

"My experience is that it is hard to get volatility up to levels around 10 percent when you run a multi-strategy hedge fund. It is more likely to hover around 5 percent due to inherent diversification benefits. In the short-term, volatility levels can however be higher, especially at times when we have hold a tactical allocation to directional strategies." The fund charges a management fee of 1.5 percent and a performance fee of 10 percent on top of the fees charged by underlying funds. The total expense ratio is estimated to 3.6 percent annually leading us into the question how the fund is expected to generate a meaningful return net of fees.

"We expect the total expense ratio to come down towards the 1.5 percent quickly as the fund grows. The current size of the fund is 2 million NOK making fixed costs high in percentage terms. With outside money coming in already in June and with our ambition to grow the fund quickly we see the expense ratio as less of an issue going forward" says Bård Halmrast.

"It is also worth highlighting that there is an institutional share class of the fund that only charges a management fee of 0.5 percent. We believe this product to be a very interesting option for smaller pension funds, companies and endowments and see interest particularly from Norway and Sweden."

Hedge funds in Norway

by Peter Hammerich and Markus Heistad
Advokatfirmaet BA-HR DA

Establishing and Marketing Hedge Funds

The Norwegian hedge fund scene is characterised by certain seemingly contradictory facts. Norway has for a long time experienced relatively strong economic growth, and has a very affluent government, primarily due to high income from the petroleum sector. A strong economy should lead to larger investments being channelled towards alternative investments, such as hedge funds. In other Western countries, the hedge fund industry has experienced strong growth for a number of years. There are, however, few Norwegian hedge fund managers, even fewer Norwegian hedge funds, and investments in such funds, by institutional investors, are limited. This situation has historical reasons, but recent trends and regulatory developments may change this.

Prior to July 2010, Norwegian legislation did not allow establishing or marketing hedge funds in (or into) Norway. As of 1 July 2010, an amendment passed in 2008 was enacted that allowed establishing and marketing of hedge funds to investors qualifying as professional clients under the securities trading act (implementing MiFID in Norway). Marketing to retail investors would be prohibited until the implementation of the AIFM-Directive, which was effective as of 1 July 2014 with the entry into force of the Norwegian AIF Act. Further, the Norwegian investment rules applicable to insurance companies (under Solvency I) has and continues to severely limit the ability of such companies to invest in hedge funds.

Establishing hedge funds in Norway

As hedge funds could not legally be established in Norway before July 2010, many Norwegian promoters of hedge funds traditionally chose to establish funds in other fund jurisdictions, such as Ireland or Luxembourg. Habits are often hard to break, and to date very few funds have been established in Norway (a total of five funds, across three managers).

It is however not only the force of inertia which keeps the number of funds established in Norway low. Both the overall regulatory situation and a lack of relevant and cost effective service providers, such as administrators and prime brokers, have an influence.

The rules allowing for hedge funds essentially widened the scope of the Norwegian investment fund act (the IFA) to include mutual funds with investment strategies typical of hedge funds. This means that hedge funds are subject to regulation based on the UCITS rules, but with wide exemptions concerning investment strategies. The IFA refers to this category of funds as “special funds”, and they may only be established in accordance with the IFA. Unfortunately, the IFA is relatively “undeveloped” as it only allows for contractual funds, and contains several restrictions with respect to the use of share classes and remuneration structures. Foreign investors are typically also unfamiliar with the Norwegian rules, and tend to prefer funds established in “recognised” jurisdictions. As another factor, Norwegian rules prohibit nominee registration of shares by Norwegian shareholders, which the fund would be. In addition, the regulator (the Financial Supervisory Authority of Norway, FSAN) is not subject to deadlines for handling cases, meaning that there is considerable uncertainty when timing a launch. These factors lead us to believe that few hedge fund sponsors will choose Norway as home state for funds in the near future.

Fund raising and marketing in Norway

The amended IFA allowed for marketing of hedge funds in Norway to professional investors, pursuant to prior authorisation from the FSAN. In practice, the application process was costly and time consuming. This meant that only a limited number of sponsors chose to apply for an authorisation, others relying instead on reverse solicitation sales. This situation has changed fundamentally with the implementation of the AIFM Directive. EEA hedge fund managers authorised under local legislation implementing the AIFM Directive, managing EEA funds, may with effect from 1 July 2014 market their funds in Norway under the passport rules. This provides a quick and cost-effective access to market.

Norway is expected to implement the Solvency II Directive with effect from 1 January 2016, having the effect of abolishing the current investment rules for insurance companies. As of that date, insurance companies are not subject to quantitative investment restrictions. Combined with what seems to become a long term low-interest rate market, we expect Norwegian insurance companies to allocate larger sums to alternatives in order to achieve higher returns.

Managers wishing to market to non-professional investors must still apply for authorisation in accordance with the IFA. It may be added that the traditional scepticism towards hedge funds seems to have been carried forward under the new rules, under the guise of consumer protection. Two important conditions for authorisation is that the fund in question may be legally marketed to non-professional investors in its home state, and that the fund and its manager are subject to home state regulation that grants investors in Norway protection at least on par with that offered by the IFA.

Especially the former condition may require some effort to document, and application processes should be expected to be relatively time consuming. The FSAN has accepted that investors are granted such protection if important investor safeguards are laid down in the fund documents (and not only statutory legislation). It should be noted that the FSAN has held that the latter condition requires that the fund may be legally marketed to all non-professional investors in its home state, which may not always be the case for Qualifying Investor Funds and similar types of funds. The Ministry of

Finance is currently reviewing an appeal made against a refusal of authorisation on this ground. Access to the retail segment will be uncertain until that case has been resolved

Recent development

The current Norwegian rules on taxation of mutual funds, hereunder hedge funds, separate between equities funds and fixed income funds. Investments in equities funds are governed by the tax rules applicable to limited companies, while investments in fixed income funds are taxed as interest outside the scope of the Norwegian tax exemption method. Combination funds (funds investing in both equities and other securities) are treated as equities funds for tax purposes. As a result, foreign combination funds have been a tax favourable alternative for Norwegian investors (the fund itself is subject to low or no tax in its home state, whilst the Norwegian investors can allocate interest income under the tax exemption method). In addition, the definition of "equities funds" has made it possible to qualify as such with only a limited exposure to equities. The Norwegian Ministry of Finance has proposed new rules on taxation of securities funds aimed at neutralising the differences in the tax treatment of equities funds and fixed income funds. According to the proposal, funds invested in equities in excess of 90% are treated as having invested 100% in equities. For funds having invested between 90% and 10% in equities, the taxation is proportional to the documented equities proportion. Hedge funds, which typically may require a higher level of flexibility with respect to its allocation in different market conditions may find themselves faced with more onerous reporting requirements if they are to remain attractive to Norwegian investors. It is expected that the rules will be finalised in the fall of 2015, with effect from 2016.

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Hedge Fund of the Year!

Catella Hedgefond

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*Privata affärer and fondmarknaden.se **31 May 2015. Not adjusted for inflation.

Investments in funds are subject to risk. Past performance is no guarantee of future returns. The money invested in a fund can increase and decrease in value and there is no guarantee that you will get back the full amount invested. No consideration is given to inflation. Catella Hedgefond is a special fund pursuant to the Swedish Alternative Investment Fund Managers Act (SFS 2013:561) (AIFMA). For a complete prospectus, key investor information, or the annual and half-year reports, please contact us at sales@catella.se, or visit our website at catella.se/fonder.

catella.se/fonder

FEE PRESSURES ARE A HOT BUTTON

By Simon Kerr, Publisher of Hedge Fund Insight (www.hedgefundinsight.org)

Fee pressures are ubiquitous in the hedge fund industry. Pre-Credit Crisis there were fee pressures, but some large and very large managers with capacity constrained funds and closed to all new capital could not be bullied or argued into fee concessions. In the aftermath of the Credit Crunch only investing institutions were net investors in hedge funds, and as a consequence all terms of business were subject to review and change across the board. It turns out that a lot of the industry developments of the last 5 years have reinforced the pressure for change.

There has been a bias towards putting fresh capital in large, branded funds. It has become increasingly difficult to launch a new hedge fund management company. It is far easier to launch a fund under an existing regulatory umbrella and share fees. The absolute costs of systems, compliance capability, headcount and office space has made independent launches less frequent. The corollary of the difficulty of raising day one capital is in the fees charged by new hedge funds shown in Table 1.

Table 1 details the average performance and management fees charged by North American hedge funds based on their year of inception. Historically hedge fund performance fees were close to 20% p.a. and the average management fee at launch was somewhere between 1.5 and 2%. Falls in both those types of fees have accelerated in the last two years, to the extent that the average performance fee is now less than 15% and the average management fee in the most recent year was less than 1.5% for new North American hedge funds.

Launching a hedge fund is a competitive activity, as new funds compete with each other to attract capital. Since 2008 in North America there have been 1260 launches of long/short equity funds, of which 238 came in the last year. The number of launches has an impact on the average level of fees that can be charged. It is particularly competitive for long/short equity hedge funds in North America, so that the Table is focused on the combination of geography/strategy were the pressures are greatest.

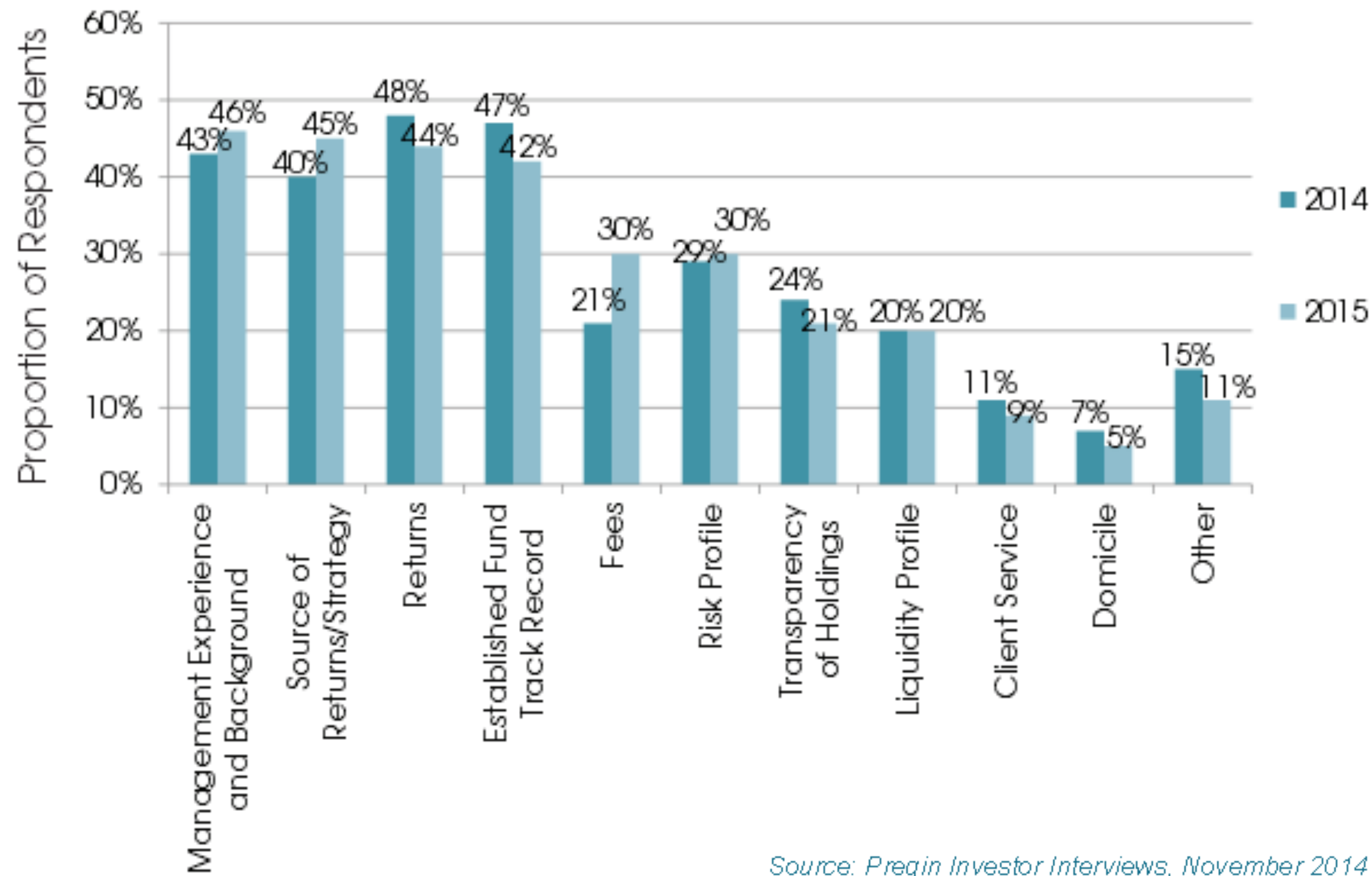
Year	Average performance fees (%)	Average management fees (%)
2004	19.60	1.57
2005	19.92	1.69
2006	19.47	1.66
2007	20.35	1.63
2008	19.14	1.57
2009	18.05	1.62
2010	18.09	1.62
2011	18.38	1.64
2012	18.03	1.54
2013	16.74	1.44
2014	14.73	1.48

Source: Eurekahedge

How important are the fees to investors in hedge funds?

Fees are an important factor in looking at potential investments in a hedge fund, but by some way less important than the return history of the manager. That fees are a secondary factor was reflected in the Preqin survey of investors conducted last November. As shown in figure 1 there were four factors given ahead of fees in importance by the 134 institutional investors in the survey.

Key Factors Used by Institutional Investors to Evaluate Hedge Fund Managers, 2014 vs. 2015



Source: Preqin Investor Interviews, November 2014

As a medium-to-long term trend, the constant commercial discussions around management and performance fees between managers and investors in hedge funds is having an effect which investors consider positive. Three-quarters of investors in the Preqin survey noted an improvement in this area over the previous year. That is, the topic is pervasive and investors are seeing change.

One of the reasons for change is the growth of capital into hedge fund strategies in the mutual fund format. There is some growth in UCITS hedge funds in Europe, but much greater growth of capital flows is occurring because of the availability in the United States of hedge fund strategies from brand name managers in`40 Act Funds. When investors can access the investment strategies of successful managers like Winton Capital Management, Highbridge, AQR and Joel Greenblatt's Gotham Asset Management in an onshore regulated format like a '40 Act Fund it has impacts on offshore funds and onshore investment partnerships and their fees.

'40 Act Funds are not allowed to charge performance fees, and management fees are a standard 1%. The fees and the fact that the funds are regulated has attracted capital not just from retail investors in hedge fund strategies. There is a lot of evidence that institutional investors are switching to mutual fund versions of the hedge fund strategies they invest in, and are now seeking '40 Act solutions to the new capital allocations they have.

The availability of mutual fund versions of hedge funds also applies to multi-manager hedge funds, or funds of funds. It makes an easy strategic move for a provider that already has an extensive range of mutual funds and is a manager of funds of hedge funds to implement the latter in the former format. So it make a lot of sense for the likes of Blackrock and AllianceBernstein to offer funds of funds as a Registered Investment Company. However, these are products that are bought mostly by retail customers (or at least the mass wealthy) and so do not bring additional fee pressures for hedge fund managers that single manager hedge funds in a mutual fund wrapper do.

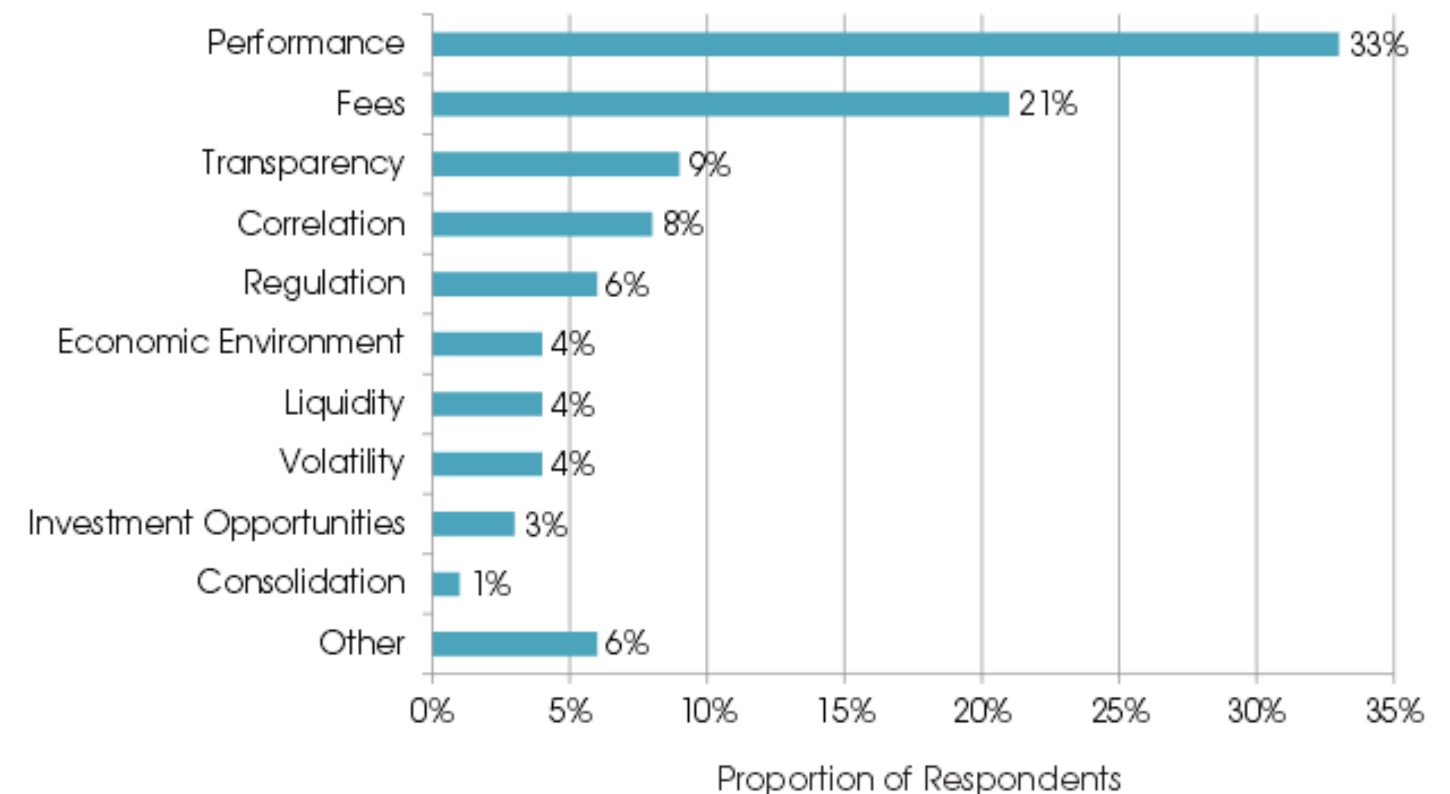
Another pressure on the fees charged by single manager hedge funds is the issue agenda of the regulators. The SEC has a number of current topics including valuation policies and procedures of hedge fund, and fee transparency. In previous growth phases of the industry (pre-Credit Crunch) some hedge fund managers charged various operating expenses to the fund rather than taking the cost through their own P&L. The costs allocated this way have included travel and other marketing expenses, costs of research, and all I.T. costs. The dominance of investing institutions has tempered the practise of hedge fund management companies routing some of their operating costs to their funds. So called "all-in" fees have become the standard, but there are a few legacy arrangements still around. The SEC when visiting a hedge fund management company will specifically investigate for the presence of hidden costs, and as hedge funds come onshore (and are increasingly regulated) the practice should die out.

The same Preqin survey referred to earlier asked institutional investors what they saw as the key issues facing the hedge fund industry in the year ahead (2015 at that point). The aggregated responses are shown in figure 2.

So looking forward, and consistent with the results of figure 1., returns of hedge funds in 2015 is the issue of most concern to investors. However fees are expected to be the second most significant issue of concern to investors this year. Investing institutions are far from passive on the issue, with 68% of investors in the Preqin survey still seeking improved management fees over the next 12 months.

We started this fee review by stating that large, branded hedge funds with closed funds were able to resist fee pressures in the era before the Credit Crunch. That is no longer true. It has become public knowledge that for a large institutional mandate (say $100m or more) public pension plans can extract some fine terms from hedge fund management companies. They can achieve full transparency, enhanced liquidity terms and even contractually oblige the principals of hedge funds to conduct a regular dialogue. Fee pressures are here to stay even for the increasingly dominant elite of the industry. When Och Ziff, one of the few large and publicly Listed alternative investment groups, has conceded a management fee of well less than 100bps you know that the show is on the other foot.

Key Issues Facing the Hedge Fund Industry in 2015 According to Institutional Investors



Source: Preqin Investor Interviews, November 2014

STILL ROOM TO RUN FOR BIOTECH AND HEALTHCARE STOCKS

BY JONATHAN FURELID

Benefiting from a strong rally in healthcare and biotech stocks, Swedish hedge fund Rhenman Healthcare Equity L/S has experienced exceptional gains in recent years. The fund´s portfolio manager, Henrik Rhenman, believes there is still room to run for a sector that had been completely overlooked and mispriced when the fund launched in 2009.

"The way I see it, we are only about halfway into a complete re-evaluation of the healthcare sector. Let me know of any other major sector that grows by 7% annually. It is indeed very hard, if not impossible, to find," says Henrik Rhenman.

When Rhenman & Partners started their healthcare focused long/short equity fund in 2009, the healthcare sector was under pressure and largely ignored by investors due to weak growth prospects and structural problems related to the industry.

"One has to remember that when we started the fund, in the aftermath of the financial crisis, valuation levels were extremely low. Investors had more or less given up hope that the sector could grow through continued product development. At the time, healthcare stocks were traded at price/earnings ratios of around 11, ridiculously priced to my mind," says Henrik Rhenman and continues:

"Investors feared that expiring patent rights and low productivity within research and development would translate into weak growth figures. Since then, productivity numbers especially within biotech has improved significantly."

Emerging markets driving growth

According to Deloitte's Global healthcare outlook 2014, the healthcare sector will continue to grow underpinned by increased healthcare spending levels, an aging population and advances in health technologies. Emerging markets including China, India, Indonesia, Russia and Mexico are expected to see spending increase quickly over the next five years.

Henrik Rhenman agrees that emerging markets have played an important role in the recent re-evaluation of the sector and that they will do so going forward. He also highlights another factor that has contributed to the pick-up in productivity and growth for healthcare companies globally.

"One thing that has improved the productivity and time to market for new healthcare products is the fact that the US Food and Drug Administration, FDA, has become much more transparent and cooperative towards the industry. Healthcare companies now better know what to expect when initiating clinical studies which in turn means that they are more likely to do so. This development also gives more comfort to investors in the healthcare sector."

"Emerging markets are really the part of the world that has surprised on the upside when it comes to healthcare spending and has strongly affected growth numbers for the sector. The expectation was that emerging markets would buy into generics once major patents expired. This proved completely wrong. Given that many emerging economies have a growing middle class that has more money to spend on modern healthcare products, the potential demand for modern treatments has increased many times over. This is a huge change in the market dynamics."

Good prospects for the right companies

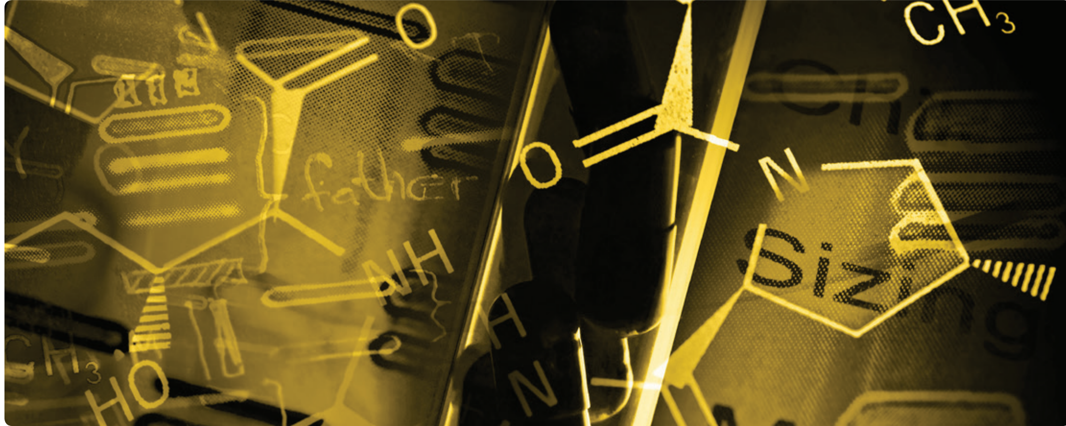
When it comes to identifying potential investment candidates, Rhenman highlights that the key is not identifying companies as such, it is rather understanding why the companies' products would work and make sure that there is a so called "proof of concept".

"There is a lot of medical research that is seemingly interesting and relevant but where there is no proof in clinical studies that the drug in development actually works. We find it extremely important that what you intend to do also works in clinic. Another important thing to look at is if it treatments for the disease already exists on the market and what a new treatment would bring to the table. Last but not least we look carefully at the management of the company and its financial situation."

Looking forward, Rhenman sees a lot of potential in healthcare despite the recent run-up in valuations. There are however major differences in growth potential within the sector that are worth paying attention to as an investor.

"Different areas within healthcare show very diverse growth numbers. For example treatments for stomach ulcer is declining given expiring patents. On the other hand the market for diabetes grows by 10 % yearly and certain forms of cancer treatments are showing yearly growth numbers of 20 %."

"I often hear that there is scepticism towards the valuation of biotech companies. I do not share that view at all. The four largest biotech companies, Gilead, Amgen, Biogen and Celgen, spend over 10 % more in research and development compared to traditional healthcare companies. They trade at somewhat higher multiples but grow much faster than the industry as a whole at around 10 % yearly. While analysts are adjusting revenue forecasts for S&P companies downwards, these



companies show no signs of weakness in revenue growth and still only trade at a premium of 15 % to the S&P.

Soft closing in October

The Rhenman Healthcare Equity L/S fund will soft close in October, only allowing existing investors to subscribe to the fund. The simple reason that was pre-announced by the manager some time ago for closing is that the fund has reached a pre-set capacity limit of 500 million euro. A hard close limit has been set at one billion Euros.

According to Henrik Rhenman, the fund maintains a constructive view on the healthcare sector with long positions dominating the portfolio.

"We maintain the long bias in the fund and actually increased the exposure in May as we considered the downturn in April to be exaggerated. This has paid off well with gains in May of approximately 10 %, taking year to date performance to 30 %. Going into the summer we are cutting back on risk again."

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Ek & Vass

by Ulf Sedig and Rolf Hagekrans Portfolio Managers, Merrant Alpha Select

Merrant´s Market Neutral Approach

The art of building a true Alpha Engine

Swedish fund of hedge funds Merrant launched in 2009 with a clear vision: to consistently generate a strong risk-adjusted return profile to its investors through allocations to carefully selected market-neutral strategies. 6 years later, the manager has delivered just that. With an average yearly return of 6.1 percent, achieved with an annualized volatility of around 1.6 percent, the manager has been recognized as one of the top performers in the hedge fund universe and has received numerous awards to its name. In this article, Merrant discusses what they believe to be the crucial aspects in building a truly uncorrelated multi-manager hedge fund portfolio.

Backdrop – Why go market neutral?

The hedge fund industry, as diverse as it may seem, has over time shown strong correlation to equity markets, especially in times of market distress. This, to our minds make little sense. The reason for investors to use hedge funds in a multi-asset portfolio is (or at least should be) to gain diversification benefits, especially in times when equities fare badly. The term "hedge" means offsetting risk, indicating that a hedge fund is supposed to perform on its own merits. The claim should be to offer protection to a broader portfolio, rather than being linked to the performance of equity markets.

The Fund of Hedge Fund universe, as defined by the HFRI Fund of Funds Index (chart p.56), reveals an obvious correlation to equity markets. The HFRI FoF, although offering protection during the IT bubble burst in the early 2000s, suffered losses of the same magnitude as equities during the financial crisis in 2008. Funds of hedge funds have also shown a strong positive correlation to equities during the strong run up experienced during the last 5 years. This indicates that hedge funds overall hold exposure to risk factors that are linked to equity market beta rather than offering investors an alpha source. When we set out to start Merrant in 2009, we wanted to create a multi-manager hedge fund that could offer investors the opportunity to buy into a true alpha engine. To that end, we decided to focus on

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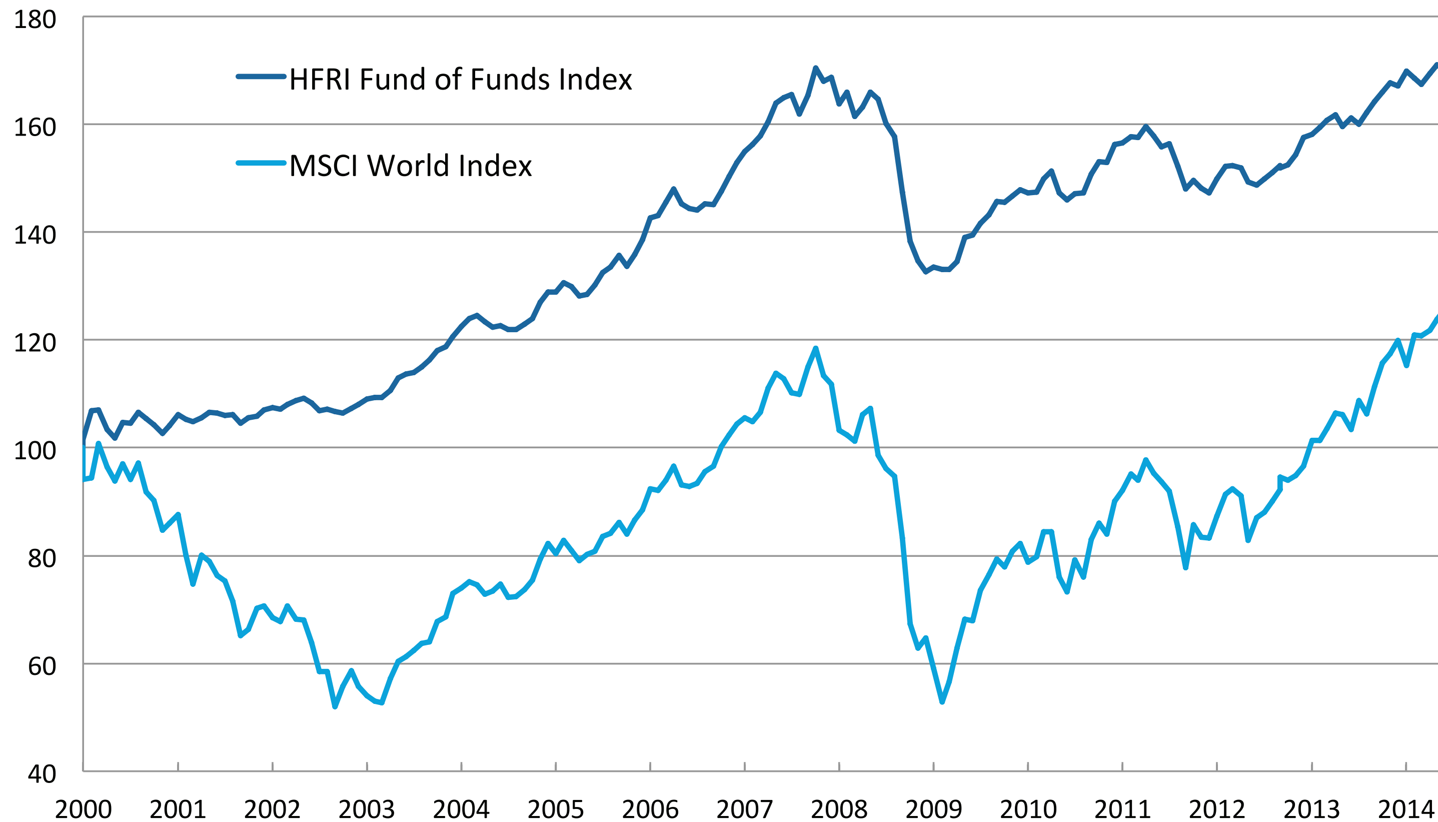
market neutral hedge fund strategies. These strategies are designed not to be dependent on beta exposures and instead focus on extracting true value or alpha. Given that these strategies show little correlation not only to the broader market but also to one another, there is much to be gained from a diversification standpoint.

In order to provide investors with consistent, truly uncorrelated returns, Merrant has worked diligently to put together a well-diversified fund of market neutral hedge funds. Our fund selection process is highly structured and we live after a number of core beliefs that we believe explain why our funds have been recognized as having some of the highest risk adjusted returns in the industry.

particular strategy could face particularly difficult conditions but also helps in understanding the opportunity set for the strategy at a much deeper level.

When selecting managers and strategies to our multi-strategy funds, we always have a very clear understanding of what to expect from the strategy and how it should add value to the portfolio. We also strive to find managers that have a well defined edge, at least 5 years of live track record and that have proven themselves in difficult market environments, such as that experienced in 2008. One way of finding unique edges is to look at the market or sector traded by the manager and to pinpoint why the manager should be able to have a comparative advantage in this respect.

Graph: Covariation HFRI vs MSCI World, 2000-2014



Understand your investments

In order to successfully build a multi-manager hedge fund portfolio, it is of critical importance to understand the underlying strategies: the inherent risks, how the Alpha is generated, and the consistency in how the strategy is applied. It also helps to have a background of running risk on your own books. This adds to the understanding of when a

Be selective

Manager and strategy selection is of course one of the key components when setting up and managing a multi-strategy hedge fund. However, in order not to be overwhelmed by options, you need to be focused on a select few names rather than trying to scan a broad universe. Limiting ourselves to the market-neutral space is the first step but the filtering process go much further than that. Merrant have a number of quantitative and qualitative criteria for our filtering process that ultimately leaves us with an investable universe that is 5 % of the total universe scanned. Among the quantitative criteria Merrant use are: the level of consistency of the strategy, low downside risk, low volatility, significant alpha, low level of correlation to equities and fixed income markets and low correlation to other strategies in the current portfolio. In addition, there are a number of qualitative factors that we consider prior to investing. For example, we only consider managers where investment decisions and risk control are a function of a team effort and rather than the strategy being dependent on a single person. Furthermore, we only look at managers who can show relevant and extensive experience managing the particular strategy. Merrrant also wants the manager to have a solid infrastructure, including relationships with well regarded custodians, auditors and administrators.

Manage risks

At Merrant, we have a very conservative stance towards risk taking. This is reflected in the volatility levels of our funds. We believe that capital preservation is a key for long-term competitive performance. We continuously monitor our portfolio and the underlying managers and we adhere to a number of preset stop-loss rules that we believe will ensure persistence in the way we manage our clients money. The turnover of managers is a consequence of not only our ability to find new names to add to the portfolio. It is also a direct result of an individual manager's performance. Merrant aims to have 8 – 20 names in the portfolio at any given point in time and to have at least 5 different sub-strategies represented in order to have sufficient diversification over investment styles.

Do not be exposed to invisible risks

There are strategies that Merranr actively avoids. Among those are options strategies, particularly strategies that involves selling options. Collecting option premiums works for some time – until it does not, typically leaving a manager with seemingly good risk control in months with double digit losses. Merrant only invests in managers with repeatable strategies where risks are visible.

Other strategies that we avoid are CTA and global macro for the simple reason that the risk-adjusted returns for these strategies, on a stand-alone basis, are too weak.

What we have achieved

Since launching the Merrant Alpha Select Fund in 2009, Merrant has had an average return of 6.1 %, which has been achieved with an annualized volatility of 1.6 %, translating into a Sharpe ratio of 3.7. The strong focus on downside protection has resulted in the fund posting 94 % positive months. The returns have been truly uncorrelated to equity markets such the MSCI world index. The strong performance has not passed unnoticed. Merrant Alpha Select was awarded best Nordic Fund of Hedge Funds for the third consecutive year at the Nordic Hedge Award in April and has been awarded best market neutral Fund of Funds at the UK Hedge Fund awards. Merrant holds the highest possible performance rating "A" by the independent Suisse hedge fund rating agency Hedgegate.

The Lynx Story

by Kamran Ghalitschi

Turning Silver into Gold

In 1999, three guys from Sweden left their prop trading desk at Nordbanken to set up a hedge fund management company; Silver Kapitalförvaltning AB. The ambition was to raise 100 million SEK for a systematic trend following strategy. Little did the small team know that they had laid the foundation for what is today one of the world´s most successful and respected CTAs, managing more than six billion USD. This year, Lynx was not only distinguished as "Best Nordic CTA" at the Nordic Hedge Award, but also took away the trophy for "Best Nordic Hedge Fund (over all)", but how did it all start?

Svante Bergström, Martin Sandquist and Jonas Bengtsson met while working for the proprietary trading unit at Nordbanken in the 1990s. What brought them together was a joint interest in analyzing financial data in a structured, systematic manner in order to find trading strategies that generated consistent returns over time. Svante had a stock-broker background having spent his career doing arbitrage trading between investment companies and their underlying holdings. Jonas and Martin were analysts, both with a highly quantitative skill-set.

"We started to number crunch data and to look for patterns in financial data and build models around different phenomenon that we saw. Quite quickly we found that trend following models were superior to other strategies. But we also found that all trend following models were highly correlated so we wanted to find models that could supply a different return stream. Models using inter market relationships was something we discovered worked well and also contrarian models, making money when markets were not trending, also added a lot of value from a portfolio construction perspective" Svante says.

Being part of a proprietary trading group that was evaluated on short-term profits rather than longer-term goals was somewhat problematic for the kind of strategy the team had built. According to Svante this was what started the discussion to spin out the model framework to a separate business.

"As a systematic trend follower you need to have room for difficult periods over 6 to 12 months so we found that this concept was probably better in a hedge fund setup. Luckily enough, when we talked to the bank about setting up a hedge fund internally they said it was too early for them. There were no hedge fund teams in Swedish banks back then. We were free to leave and set up our own business instead." The transition took place in 1999 when Silver Kapitalförvaltning, a fund management company later renamed Lynx Asset Management, was set up. Svante remembers the time to be challenging with long working hours and no paychecks. Gathering assets also proved much harder than anticipated.

"In the beginning it was just the three of us doing everything ourselves. We took a big risk because we could not take any salaries. We had small costs but the fund was tiny, maybe half a million dollars at the time. We had to make sure that we did not spend money on things we didn't need".

"Our view on asset raising was quite naïve back then. The business plan was all set up around delivering performance and developing stable systems. We believed if we could deliver that investors would find us, come knocking at our door wanting to invest in this fabulous fund. Well, that was not the case", Svante says with a smile. "Over time we learned that institutions do not invest in funds only for the sake of the track record, they need the infrastructure as well".

In 2001-2002 after having turned down other offers to join forces with larger, more traditional asset managers, Lynx was approached by Brummer & Partners. At Brummer they had just started broadening their offering and needed more strategies in order to create a multi-strategy fund. Lynx was believed to be an interesting building block. Brummer & Partners then was probably around the 1 billion Dollar AuM mark and by no means the well-recognized, global player it is today. But they seemed to have similar visions, and made the right offer.

"The Brummer set-up was much more attractive to us than previous offers. They presented a solution where we would keep the majority of the shares in the company, rather than being employees of a larger organization." Svante remembers. "Brummer let us build Lynx Asset Management in our own way, but with the support of their infrastructure. Lynx today is very different from other Brummer funds in a number of ways (more international clients, managed accounts and multiple funds, high transparency for our clients etc)." After having joined forces with Brummer, Lynx grew the team and assets under management quickly. In order to continue building the strategy and to make sure execution was handled in the most efficient way possible, the company hired new research people and additional programmers.

"The investment process has developed over time but we have stayed close to our roots in terms of what we want to deliver; a multi-strategy CTA type of return with trend following at the core complemented with contrarian and inter market models. I think that is the reason why we have outperformed over the years. The three models combined make a diversified portfolio in a smart way. It has allowed us to reduce drawdowns in difficult periods compared to the average CTA while keeping the upside in more opportune markets", Svante says.

When Lynx first started they were actually unaware of the fact that there was a whole industry out there offering CTA strategies as fund vehicles. It was only later that the team became aware of this fact and started benchmarking themselves more actively.

"One way we discovered there were others out there doing what we did was that we found ready made models for sale where you could buy the code. We bought quite a number of these, simply for benchmarking, not for implementation purposes. Later we realized that there were companies offering fund vehicles around CTA strategies. Graham was one of the companies we admired back then but we also tracked other big names like Aspect, AHL, Transtrend and Winton."

"When we realized there was a whole industry doing what we did it was comforting not to be the only beast of our species. When talking to institutions in Sweden, who were generally a bit sceptical about the concept of systematic, automated trading, we were able to refer to other guys out there doing similar things, showcasing the concept. Lynx was not inventing the wheel."

With the benefit of hindsight, Svante sees some major milestones explaining the success of Lynx Asset Management, at the same time he recognizes that it has become harder to set up an institutional asset management company today.

"Leaving the bank and setting up the fund on our own was the first milestone of course. A difficult and very risky decision at the time! An obvious milestone was teaming up with Brummer & Partners and to joining the group in 2002. Starting the offshore fund in 2004 was another critical success factor, which made us start talking to international clients. The opening of our office last year in New York that services our large US investor base is another step-stone that falls in line with this. To do the same transition as Lynx did 15 years ago is more difficult today according to Svante. "It is much tougher nowadays for different reasons.

One is that the CTA industry is very competitive; emerging managers have to fight for investments against others like Lynx that have big research teams and organizations behind them that can supply what institutions need. Secondly you have all the regulations which have increased the costs to start a company and become a huge hurdle to entry."

Svante continues, "The shift in the investor base is another factor playing into the difficulties of setting up a small hedge fund shop today. When we started there were more private investors, some high net worth and a few smaller institutions. If you look at the investor base today, the large pension plans are a major investor in hedge funds and CTAs. When they write tickets they write big ones, but they want a lot that a small hedge fund shop simply can't offer. It took us 2-3 years to build our company. Today I would say the same thing requires 5-7 years.

Currently Lynx has over 50 people employed and manages over six billion Dollars. The crucial factor to remain in the forefront of the CTA universe according to Svante is to keep developing the system and to hold onto and add more smart people to the team.

"Since 2004, we have continuously expanded the research team which has added tremendously to overperformance over time. One of the most crucial milestones since we set up the company was in 2011, when we started making senior employees partners. That has helped us to hold onto smart people, create stability and insure Lynx will live on after Svante Bergström."

Svante Bergström
Founding Partner, Portfolio Manager
CEO – Lynx Asset Management

Supported by:

Deutsche Asset & Wealth Management

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Determining the Winners

Unlike many other awards in the financial industry, since its inauguration in 2012, the Nordic Hedge Awards takes pride to determine the winners as best Nordic hedge funds in the respective categories in a three step process.

QUALIFYING UNIVERSE

To qualify, funds and managers need to be listed in the Nordic Hedge Index (NHX). This requires funds and managers to meet certain criteria to fit within the defined universe of Nordic hedge funds and making relevant documents and performance data available. In addition to being listed in the NHX, funds need to meet additional criteria to qualify for the Nordic Hedge Award, such as minimum asset under management and a minimum track record of 18 months.

QUANTATIVE RANKING – THE SHORTLIST

Funds qualified for the Nordic Hedge Award undergo a quantitative screening and ranking. The model for this procedure was co-developed by HedgeNordic and Stockholm School of Economics takes several key figures of the funds short and long term (risk adjusted) absolute and relative performance into consideration. Certain factors in these calculations may be over or underweighted. (As example, the one year Sharpe Ratio may have a higher or lower weighting than the absolute performance of the fund).

Results of these calculations are translated to a point scoring system. The five highest scoring funds per category make up the short list of funds and are the nominees to be considered for the Nordic Hedge Award by the Jury.

QUALITATIVE SCORING

Unlike other industry awards, the Nordic Hedge Award is not a pure performance award. In order to also capture components of a fund and hedge fund manager that are hard to evaluate in a model the organizer introduced a professional Jury to the scoring. This Jury will also take “soft factors” into account and determine the final ranking of funds through the points each jury member awards.

Jury members will be presented with the short list of five funds per category. The funds scoring or ranking will not be disclosed to jury members to avoid any biases. Each jury member will then assign his / her score to each individual fund on a purely discretionary basis. (“qualitative score”). While jury members are free and uninfluenced to assign their scores at their discretion, HedgeNordic as organizer of the Nordic Hedge Award does suggest to consider factors that have not been captured in the quantitative scoring and rather way in soft factors, such as organisational and administrative structure, fees, manager reputation, asset raising capabilities, transparency, good conduct in sales and marketing etc.

Jury members for the 2014 Nordic Hedge Award are: Magnus Jahnke (Portfolio Manager, Lancelot Asset Management), Wollert Hvide (Managing Director, Sector Asset Management), Julia Axelsson (CAIA), Peter Ragnarsson (Portfolio Manager, External Management, AP3) Jauri Häkkä (Executive Director Alternatives & Manager Selection, Nordea).

Once HedgeNordic has received all scores by the individual jury members the computation starts according to the following procedure: Like in some sports, the highest and the lowest of the six scores given by individual jury members are disregarded for further calculation. The remaining four scores are then normalized and added to the score each fund received from the initial quantitative calculations. The combined scores of the qualitative jury score and the quantitative scoring represent the total score for each fund, the ranking of which determines the final result and winners of the Nordic Hedge Award. Qualitative and quantitative scores are equal weighted. The top three ranked funds per category were distinguished on April 22nd in Stockholm.

2014 Nordic Hedge Award Winners

Best Nordic Multi Strategy Hedge Fund

Supported by Magnusson Law

1. Carve 2 (SWE)
2. Formuepleje Penta (DK)
3. VISIO Allocator Fund (FIN)

Best Nordic Equity Hedge Fund

Supported by Amundi Asset Management

1. Rhenman Healthcare Equity L/S IC1 (SWE)
2. Taiga Fund (NOR)
3. Sector Sigma Nordic Fund (NOR)

Best Nordic Fixed Income Hedge Fund

Supported by Northern Trust

1. Asgard Fixed Income Fund (DK)
2. Danske Invest Hedge Fixed Income(DK)
3. Danske Invest Fixed Income Relative Value (DK)

Best Nordic Fund of Hedge Funds

Supported by Deutsche Asset & Wealth Management

1. Merrant Alpha Select (SWE)
2. OPM Vega Nordic Hedge (SWE)
3. Graal Total (SWE)

Best Nordic CTA

Supported by Efficient Capital

1. Lynx (Sweden) (SWE)
2. IPM Systematic Macro (SWE)
3. SEB Asset Selection Opportunistic (SWE)

HedgeNordic Performance Award

Supported by HedgeNordic

Winner Rhenman Healthcare Equity L/S IC1 (SWE)

Best Nordic Hedge Fund (over all)

Supported by Coeli Asset Management

1. Lynx (SWE)
2. Taiga Fund (NOR)
3. Rhenman Healthcare Equity L/S (SWE)
3. Asgard Fixed Income Fund (DK)

2014

NORDIC HEDGE AWARD

It may be early days yet to call it a "tradition". Still, the Nordic Hedge Award has in the short period since its inception become a much appreciated happening within the Nordic hedge fund community. HedgeNordic is proud and honoured to have been host and organizer to the Nordic Hedge Award which was carried out for the third successive year in Stockholms old town, Gamla stan.

Over 150 guests joined on April 22nd 2015 in what has become the - arguably - largest gathering of the Nordic hedge fund community. Managers, allocators and service providers alike come together to celebrate not only those managers and funds being distinguished as the best in their category, but the Nordic hedge fund industry as a whole.

The aim was always to give a podium and platform to the outstanding, diverse and skilled number of managers in the region that often struggle to find a broader audience and recognition. The hedge fund space is an environment of highly talented, motivated and competitive professionals. To create such an award, to give this justice seemed a natural thing to do. The actual award ceremony, which likely is the more formal part combined with the casual event character around it turned out to be a winning concept. The Nordic Hedge Award has become an appreciated platform for product providers and allocators, peers, competitors, and (former) colleagues to meet and socialize in a casual atmosphere attracting industry professionals from all across the Nordic region and those who take an interest in it.

Looking forward very much to welcoming you next year when the best Nordic hedge funds of 2015 are announced in Stockholm!

"The Nordic Hedge Award event is a fantastic opportunity to meet and enjoy the company of many Nordic hedge fund friends. An evening to celebrate the fantastic results some of the brightest asset managers bring to their investors. I am really grateful that HedgeNordic put so much effort into an evening that is always so much fun.

Gunnar Wiljander, CEO
Nektar Asset Management

"Now the hedge fund community in the region has a natural scene to meet. Thank you Nordic Hedge Award for organizing this event.

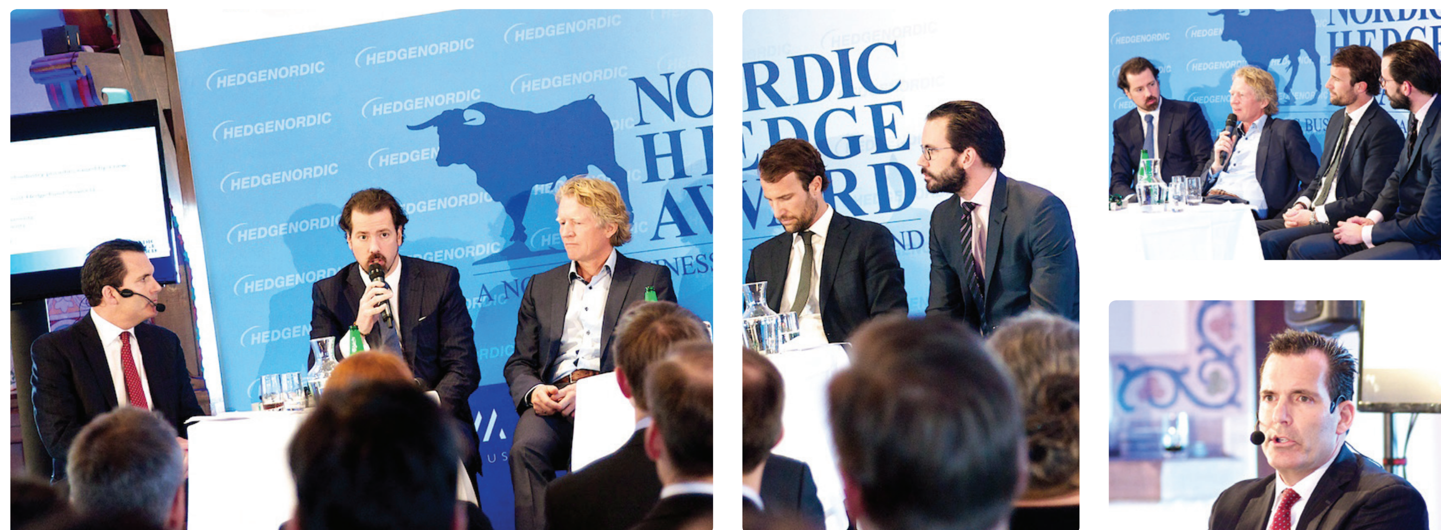
Martin Källström
Head of Alternative Investments
First Swedish National Pension Fund (AP1)

"The Nordic Hedge Award is a great event to feature the talented hedge fund managers we have in the Nordic region. The evening format also makes it a great social event that most often fits everyone's calendar.

Peter Ragnarsson
Portfolio Manager, External Management
Third Swedish National Pension Fund (AP3)

"We greatly appreciate the Nordic Hedge Awards for the professional attention it brings to the alternative investment management space in the region as well as the opportunity to exchange views with other people in the industry.

Andreas Petterøe, Portfolio Manager
Taiga Fund



Panelists (left to right): David Rindegren, Wollert Hvide, Martin Källström, Anders Holst

Moderator Peter Sanchez

A Nordic perspective on transparency, regulation and industry priorities

by Pirkko Juntunen

The hedge fund industry has undergone major changes since the financial crisis as the industry becomes more institutionalised with increased transparency and regulations forcing a re-think of industry priorities. These topics were the basis of the discussion, moderated by Peter Sanchez, CEO of Northern Trust Hedge Fund Services, at 2014 the Nordic Hedge Award in Stockholm.

Transparency is an issue that has been widely debated within the hedge fund industry ever since the financial crisis and remains a major topic of discussion despite improvements.

A recent survey by Northern Trust Hedge Fund Services shows that there is still a discrepancy between asset managers and investors. Sanchez quoted the survey saying that the vast majority of managers believe their investors are "satisfied" with the transparency they receive. However, slightly less than half of investors would like more or substantially more transparency than they get today.

Martin Källström, Head of Alternative Investments at AP1, one of the Swedish national buffer funds, said he is generally happy with the level of transparency provided by the managers, but pointed out that the level of transparency varies greatly in the hedge fund industry. "We would never invest if we do not get enough information. There is a positive trend to increase investor transparency, which has been driven by mainly the institutionalisation and increased sophistication of the industry but also regulatory changes," he said.

David Rindegren, portfolio manager at Carnegie Asset Management in Copenhagen, said that retail investors in Sweden had a longer history of investing in equity hedge funds than Danish investors, which makes transparency vital. "Our investor base is made up of two-thirds retail investors, making transparency one of the key issues as we need to make sure the investors fully understand what it is that they are buying," he added. Comparing the Nordic region with the rest of the world, Anders Holst portfolio manager at Lynx Asset Management, one of the Brummer & Partners family of funds, highlighted that Sweden is relatively competitive as the regulator, Finansinspektionen, has in many cases been ahead of its' international peers in implementing tough regulations. "We are as transparent as we need to be," he said.

Wollert Hvide, CEO of Sector Asset Management, questioned whether or not investors are asking the right questions. He argued that transparency into the positions is not as helpful as having the insight into the liquidity, exposure; who the investor base is; or having done scenario-based analysis of a fund.

Summing up the discussion on transparency Sanchez said it is all well and good to want transparency, but investors also need the right tools to know what to do with the data and information. Increased regulation in the wake of the financial crisis has played a role in reshaping the hedge fund industry and increasing the operational demands on hedge fund managers. The Northern Trust survey shows that while the majority of managers and investors believe that at least some regulations have helped reduce the likelihood of another financial crisis, a fairly large percentage think regulation has not been helpful.

One point in particular is often raised and that is the barriers to entry and the stifling effect it has on new managers. Rindegren pointed out that it is also important to look into the unintended consequences of regulations and what new regulatory regimes do to the market itself, pointing to Jamie Dimon's 2014 letter to shareholders. [Chairman and CEO of JP Morgan Chase].

Källström was also sceptical about the efficiency of new regulation to prevent any future Madoff incidents, but was convinced it has led to a consolidation and re-shaping within the hedge fund industry, with platforms and various other solutions on offer both to investors as well as new managers. One noticeable effect is that Källström gets less calls from US-based managers as a result of new EU-wide requirements.

Hvide is convinced regulation will not be an efficient barrier to stop the next Madoff, nor will it reduce risk. "It will only increase complexity. And it is easier to cheat with detailed regulation as there will always be ways around this whereas if there was a more general and broad requirement on good, prudent business practices it is much harder to get around," he said.

Holst agreed, arguing that while regulation in Sweden has not caused major problems there is a risk that regulators, in general, could miss the target as they do not necessarily have the practical hedge fund experience to address problems.

Sanchez noted that there seem to be lot of data collection but not a clear path on how the regulators will use that data or how it could be useful. Holst said data can be impenetrable even for financial experts, let alone regulators. "The US is further down the data collection path than Europe is (Form PF/CPO-PQR for the last three years, AIFMD in the last year) and Europe could learn from the experience in the US.

A positive effect of regulation, from a Nordic managers' point of view, is that many Nordic hedge funds are now seeing the whole of Europe as a big fishing ground. "They are looking at how they can take their strategies internationally to grow their AUM through the distribution channels that the new regulation allows for," Holst pointed out.

The panellists concluded the discussion on regulation by pointing out that complying with regulation is a fact of life and has to be in place but not a priority, such as generating alpha. Turning to the issue of priorities, Källström said top priorities are talent, alpha generation and risk management with other issues being more of a box-ticking exercise.

On the issue of talent Holst said finding the right recruits is tough which is why the firm focuses on people with a strong connection to the Nordic region. "We take a while to bring talent on board and give them a few years to blossom and learn the skills. We are looking for interesting ideas and interesting people rather than just finding someone to implement a model," he added.

Another point made during the discussion was the focus shifting from alpha towards distribution and AUM in order to stay in business. The panellists agreed that while the majority of assets are going to the bigger hedge funds as they have more resources to spend on operational infrastructure, there are ways for start-ups to flourish be it through platforms or seeding.

Going forward, the hedge fund industry is facing a challenging time as other strategies such as traditional long-only funds offer great returns, often at a lower price. In addition, scepticism of the viability of hedge funds when investors such as CalPERS pull assets from it does not help.

In order to continue to attract clients Rindegren said education is vital and that the low, or negative interest rate environment as in the case of Denmark, forces investors to look at alternatives such as hedge funds, giving the industry an opportunity to continue prospering.

Källström said evaluating and selecting managers based upon past performance is risky. "There is too much randomness in the short-term performance numbers. With that said, it is harder to justify investing in a manager with poor performance. Nevertheless, if a manager has an interesting story and have the right talent, we could consider investing," he concluded.

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20 %
Increase Y/Y

Total assets for the Asian hedge fund industry hit US$192.81 billion at the end of 2014

The Asian hedge fund industry is outperforming its global peers and becoming more institutional. HFC Advisory Group's Stefan Nilsson, based on the ground in Asia since 2004, points out some of the opportunities and challenges in Asia.

THE ASIAN HEDGE FUND INDUSTRY

CHALLENGES AND OPPORTUNITIES

BY STEFAN NILSSON

Following a slow recovery from the 2008 global financial crisis, Asian hedge fund managers have outperformed global hedge funds over the past few years. Asian hedge funds had net inflows of at least US$14 billion during 2013-14 and 2015 is so far continuing that trend. The Asian hedge fund industry is maturing and there is now a critical mass of institutional-quality hedge fund managers for investors to consider allocating to which has never really been the case in the past.

Hong Kong and Singapore are the two Asian capitals of hedge fund management. However, Tokyo has made a comeback with some great new fund managers with the arrival of Abenomics and improved corporate governance. Shanghai is also a major hub for Chinese "sunshine" funds, although the debate whether these funds are proper hedge funds or not continues. Sydney is also doing quite well and Seoul is slowly waking up.

Equity long/short is by far the dominant strategy in Asia, but here are signs that some other strategies are making progress, including macro, credit and multi-strategy funds. Of course, within the equity long/short space there are many different variations. Many of the region's established hedge funds have a pan-Asian focus in order to be flexible enough to take advantage of opportunities across the region's many markets.

Getting accurate numbers from surveys, reports and indices is very difficult (partly because some funds don't report numbers), but the picture is clear: the Asian hedge fund industry is growing, getting better and is increasingly ready for institutional requirements and allocations. In recent years, there is a trend of higher-quality launches of new funds that either launch with relatively large assets or quickly grow after launch to a viable institutional size. Firms such as Myriad, Janchor, Turiya, Pleiad, BosValen, Guard and BFAM, to name some of the more high-profile Asian managers, have all launched in recent years and manage large pools of assets as well as have established proper institutional set-ups from the start.

Despite the recent trend of some bigger launches, the fact remains that, by and large, Asian hedge funds are typically small and, as a consequence, face a lot of challenges, including scalability of investment strategies and profitability. Hedging is difficult and expensive to do in some Asian markets. A majority of all hedge funds globally close within five years of launch. Many fund launches never reach the level of AUM they need to run profitable businesses. Thus allocations to such smaller, less established funds come with a certain business risk that not all investors are prepared to take. Smaller hedge funds often suffer from a lack of access to world-class service providers. Many of the leading prime brokers, fund administrators and custodians have minimum requirements that smaller hedge funds cannot meet, ever. Some niche players, such as "mini primes" (essentially introducing brokers) and boutique fund admin firms are filling this gap in Asia but often they lack the name recognition of the brand names that many institutional investors prefer.

Even when institutional investors are prepared to look at these smaller, newer Asian hedge funds, they find it hard to make meaningful allocations as they typically don't want to represent more than 10% or so of any fund's AUM. Some investors get around this by making larger allocations to Asian-focused fund of funds managers while others allocate to seeding funds. In recent years we have seen renewed seeding activity in Asia, both by global players such as KKR, Goldman Sachs Asset Management and Blackstone and local firms such as HS Group and Dymon Asia Capital. For those investors lacking the capability of doing their own Asian manager research, such FoF and seeders can be an efficient way of getting exposure to Asian hedge funds.

Star portfolio managers or talented traders who come out of bank prop desks or global hedge funds to launch their own Asian hedge funds sometimes struggle to adjust to not only running their portfolios but also running companies. A great bank prop trader may not be a great independent hedge fund manager, especially not if he or she

"Equity long/short is by far the dominant strategy in Asia, but there are signs that some other strategies are making progress"

MARKET IN NUMBERS

Defining the Asian hedge fund universe is tricky, but here are some numbers (from Eurekahedge and AsiaHedge) to get an idea of the scope:

Total assets for the Asian hedge fund industry hit US$192.81 billion at the end of 2014, a 21% year-on-year increase.

Hong Kong is the largest centre in Asia for the management of Asian hedge fund assets with US$68 billion in AUM.

83 new fund launches in Asia collectively attracted as much as US$5.5bn in assets in 2014, a 42% increase on 2013.

The average new Asian hedge fund set up in 2014 raised $19 million at inception.

The average AUM of all Asian hedge funds was US$117m at the end of 2014.

is also the CEO of the new firm with more responsibilities than just managing the investments. A number of independent platforms for hedge fund managers have emerged in Asia to address these issues. The concept of being part of something bigger where tasks such as compliance, administration and marketing are taken care of by someone else is appealing to some new managers who want to focus on managing the investments. However, in reality, many of these relationships never work out as some investors don't like outsourced solutions with limited control and the risk of being associated with other managers on the same platform if things go wrong. Additionally, many of these funds fail to grow their AUM as the independent platforms often have very limited marketing capabilities.

> **"Hong Kong and Singapore are the two Asian capitals of hedge fund management."**

In Asia, especially in Japan, there are some major institutional investors allocating billions of dollars to hedge funds. Unfortunately for most local managers, this money typically gets allocated to big, global fund managers in the US or Europe. Perhaps in the near future, some of that money will stay in Japan and Asia as more local and regional managers become more institutional friendly. Subsequently, we are then also likely to see more Western institutions making bigger allocations to Asian managers.

At the Hedge Funds Club events around the region, attended by both smaller start-ups and multi-billion dollar managers as well as investors, we are seeing a lot of optimism. The mood in the Asian hedge fund industry is bright and it is getting even brighter.

ABOUT THE AUTHOR

Stefan Nilsson is a Swedish businessman based in Tokyo since 2004. Prior to that he was based in London for ten years. Nilsson has spent most of his career working in the hedge fund industry, including managing the Tokyo office of a global macro hedge fund firm and working in prime brokerage and asset management at JP Morgan and Bear Stearns. In 2011 Nilsson set up his own firm, HFC Advisory Group, an investment, research and advisory firm primarily focused on alternative investments.

In 2005 he founded the Hedge Funds Club (www.hedgefundsclub.com), which has grown to become a major network of hedge fund managers and investors with regular networking sessions in Tokyo, Singapore and Hong Kong.

HEDGENORDIC

"Chance favors the prepared mind."

Louis Pasteur

Appendix: NHX Constituents

The following pages give an overview of the constituents to the Nordic Hedge Index (NHX). Funds are in alphabetical order in their respective categories. The tables may include funds that have announced to seize business by the time of publication. Data is generally updated until May 30 2015 (79%of funds), while some NAVs may not be as recent. In total, 158 funds are currently included in the Nordic Hedge Index (NHX)

NHX CTA / MANAGED FUTURES

Program Name	VAMI	Avg.ROR	Inception	Total Return	Max DD	Sharpe	Std. Deviation	Correl.S&P 500
Alandsbanken Commodity Fund		-1.20	10/2010	-5.30	-28.32	0.01	4.90	0.67
ALFA Commodity Fund		7.46	06/2010	43.29	-15.67	0.59	3.99	-0.11
Coeli Spektrum		5.87	06/2008	49.12	-22.50	0.54	3.43	0.21
Estlander & Partner Freedom Program		10.68	10/1991	1,003.16	-25.81	0.73	4.48	-0.01
Estlander & Partners Alpha Trend II - Class P		0.46	12/2008	3.01	-59.52	0.21	11.41	0.07
Estlander & Partners Alpha Trend Program		10.45	10/1991	950.54	-26.33	0.77	4.15	0.02
Estlander & Partners Global Markets Program		6.58	08/1991	357.04	-14.99	0.60	3.42	-0.02
Estlander & Partners Global Markets XL Program		9.66	08/1991	800.54	-28.15	0.50	6.89	-0.03
Graal Trendhedge		7.47	07/2002	153.73	-23.42	0.59	4.03	0.02
IPM Systematic Currency Fund		3.63	04/2005	43.64	-14.90	0.44	2.58	-0.25
IPM Systematic Macro Fund		9.40	07/2006	122.86	-12.43	0.89	3.09	-0.13
Lynx (Sweden)		13.25	05/2000	553.59	-13.47	0.93	4.19	-0.24
MG Commodity		10.55	09/2012	31.77	-0.80	3.32	0.88	0.20
Nordea 1 – Heracles Long/Short MI Fund		4.25	03/2008	30.62	-10.55	0.54	2.39	-0.06
RPM Evolving CTA Fund		8.09	06/2013	16.84	-9.75	0.58	4.44	0.00
SEB Asset Selection		7.17	10/2006	82.22	-8.17	0.86	2.46	-0.21
The Persistence Program		9.79	09/2005	148.69	-18.13	0.80	3.68	-0.30

NHX FIXED INCOME FOCUSED HEDGE FUNDS

Program Name	VAMI	Avg.ROR	Inception	Total Return	Max DD	Sharpe	Std. Deviation	Correl.S&P 500
Agenta Alternative Fixed Income		3.99	01/2012	13.94	-0.72	4.79	0.24	0.05
Asgard Fixed Income Fund		14.58	07/2003	406.28	-10.40	2.08	1.93	0.25
Carlsson Norén Macro Fund		3.53	01/2008	29.32	-6.17	1.17	0.87	0.01
Catella Nordic Corporate Bond Flex		4.91	12/2010	24.05	-4.74	1.78	0.78	0.60
Danske Invest Fixed Income Relative Value Class DKK		12.75	09/2012	39.10	-4.42	1.98	1.78	0.12
Danske Invest Hedge Fixed Income		12.80	01/2005	250.55	-22.30	1.36	2.66	0.37
Danske Invest Hedge Mortgage Arbitrage		3.41	01/2004	46.66	-23.40	0.53	1.97	0.41
Excalibur		5.88	04/2001	124.58	-6.59	1.09	1.55	-0.15
Formuepleje Fokus		0.93	07/2013	1.79	-6.59	0.21	1.42	-0.05
HP Hedge		10.12	03/2007	112.81	-30.41	1.11	2.63	0.54
Jyske Invest Hedge Markedsneutral - Obligationer		-14.51	10/2007	-69.94	-84.69	-0.31	8.38	0.42
KLP Alfa Global Rente		8.02	01/2008	77.17	-4.30	1.48	1.54	-0.44
Midgard Fixed Income Fund		18.14	09/2009	160.79	-5.80	2.37	2.08	0.08
Nordkinn Fixed Income Macro Fund SEK		5.01	07/2013	9.82	-0.77	2.48	0.57	-0.32
Nykredit KOBRA Hedge Fund		11.96	12/2011	48.51	-2.53	3.47	0.95	0.00
Nykredit MIRA Hedge Fund		10.17	11/2008	89.23	-9.17	1.44	1.99	0.34
SEB Hedge Fixed Income		3.39	04/2001	59.42	-4.47	1.13	0.87	-0.13
SEB Räntehedge Alpha		1.65	05/2006	15.84	-5.55	0.53	0.92	-0.12
Storm Bond Fund		4.97	09/2008	38.71	-26.93	0.48	3.34	0.18

NHX FUND OF HEDGE FUNDS

Program Name	VAMI	Avg.ROR	Inception	Total Return	Max DD	Sharpe	Std. Deviation	Correl.S&P 500
Agenta Multistrategy		3.27	06/2006	33.22	-11.75	0.82	1.17	0.54
ALFA Quant Fund		3.65	01/2012	13.02	-4.99	0.69	1.56	-0.04
Atlant, Multi-Strategy		4.41	05/2012	14.24	-2.00	1.32	0.96	0.08
Brummer Multi-Strategy		7.75	04/2002	167.11	-3.61	1.79	1.22	0.05
Brummer Multi-Strategy 2xL		8.79	09/2008	76.60	-5.40	1.21	2.08	0.23
Coeli Select Multihedge		0.69	06/2012	2.03	-5.52	0.19	1.17	-0.10
Danske Invest Eliksir FoHF		3.19	12/2002	47.68	-8.34	0.88	1.06	0.34
DNB Global Hedge		3.99	09/2002	64.24	-13.91	0.93	1.24	0.38
DNB Prisma		3.62	09/2003	51.47	-16.83	0.80	1.32	0.50
Ekvator Absolut		2.73	07/2005	30.33	-18.56	0.39	2.25	0.25
Ekvator Trygghet		3.37	01/2004	45.63	-6.99	1.03	0.94	0.21
FIM Orient Alpha		7.77	10/2012	22.10	-2.91	1.91	1.15	0.16
Formuepleje Merkur		7.56	07/2013	14.98	-2.75	1.34	1.61	0.30
Graal Total		6.46	07/2002	124.39	-10.95	1.32	1.40	0.13
Guide Hedgefond		1.39	01/2014	1.97	-1.14	0.82	0.49	-0.04
Guide Hedgefond 2		2.48	02/2006	24.38	-3.61	1.06	0.67	0.07
Guide Multihedge		2.52	07/2005	27.97	-14.07	0.61	1.22	0.35
Lancelot Global Select		2.97	11/2012	7.85	-3.95	0.91	0.94	0.29
Merrant Alpha Select SEK		5.43	03/2011	25.21	-1.50	3.62	0.42	0.30
Merrant Alpha Select USD		5.55	08/2009	37.00	-1.57	3.33	0.47	0.22
OPM Absolute Managers		-	09/2014	5.10	-1.44	2.15	0.90	-0.28
OPM Omega		2.30	04/2008	17.69	-7.91	0.65	1.04	0.30
OPM Vega (Nordic Hedge)		3.34	05/2003	48.69	-8.94	0.97	0.99	0.23
Peak Core Hedge		5.67	09/2012	15.84	-0.25	4.69	0.34	0.42
SEB Dynamic Manager Alpha		1.75	09/2008	12.40	-2.58	0.97	0.52	0.18
Graal Total		6.46	07/2002	124.39	-10.95	1.32	1.40	0.13
Guide Hedgefond		1.39	01/2014	1.97	-1.14	0.82	0.49	-0.04
Guide Hedgefond 2		2.48	02/2006	24.38	-3.61	1.06	0.67	0.07
Guide Multihedge		2.52	07/2005	27.97	-14.07	0.61	1.22	0.35
Lancelot Global Select		2.97	11/2012	7.85	-3.95	0.91	0.94	0.29
Merrant Alpha Select SEK		5.43	03/2011	25.21	-1.50	3.62	0.42	0.30
Merrant Alpha Select USD		5.55	08/2009	37.00	-1.57	3.33	0.47	0.22
OPM Absolute Managers		-	09/2014	5.10	-1.44	2.15	0.90	-0.28
OPM Omega		2.30	04/2008	17.69	-7.91	0.65	1.04	0.30
OPM Vega (Nordic Hedge)		3.34	05/2003	48.69	-8.94	0.97	0.99	0.23
Peak Core Hedge		5.67	09/2012	15.84	-0.25	4.69	0.34	0.42
SEB Dynamic Manager Alpha		1.75	09/2008	12.40	-2.58	0.97	0.52	0.18
SEB True Market Neutral		3.72	04/2009	25.25	-1.49	1.99	0.53	0.43
Sector Polaris Fund		5.08	01/2006	59.40	-10.06	0.91	1.62	0.36
Skandia Global Hedge		1.24	08/2007	10.13	-10.22	0.35	1.06	0.36

NHX MULTI STRATEGY HEDGE FUNDS

Program Name	VAMI	Avg.ROR	Inception	Total Return	Max DD	Sharpe	Std. Deviation	Correl.S&P 500
AGPII - Defined Risk 12		6.12	11/2006	64.92	-19.33	0.64	2.94	-0.05
Aktie-Ansvar Graal Offensiv		5.79	07/2002	106.91	-28.75	0.84	2.02	0.51
ALFA Edge Fund		3.12	12/2011	11.37	-11.40	0.44	2.19	-0.03
ALFA Rubicon Fund		6.99	08/2011	29.56	-9.47	0.84	2.45	0.17
ALFA SagaFund		6.02	03/2014	7.58	-0.74	2.09	0.82	0.20
Asymmetric – Global Macro Fund		6.01	12/2012	15.71	-17.91	0.43	4.91	-0.08
Atlant Explora		5.67	07/2002	103.90	-16.60	0.99	1.65	0.41
Atlant Stability		4.88	10/2008	37.37	-1.40	3.72	0.37	0.30
Carve 2		11.21	11/2012	31.60	-1.07	3.09	1.00	0.76
Catella Hedgefond		5.81	03/2004	88.76	-7.02	1.72	0.96	0.57
Crescit		5.47	04/2013	12.23	-1.52	1.40	1.12	0.52
Elementa		-	03/2015	4.71	0.00	6.07	0.88	0.47
Formuepleje Epikur		18.99	07/2013	39.56	-2.96	1.91	2.71	0.39
Formuepleje Pareto		8.98	07/2013	17.91	-2.82	1.67	1.52	0.46
Formuepleje Penta		24.60	07/2013	52.44	-2.86	2.35	2.78	0.30
Formuepleje Safe		14.95	07/2013	30.60	-1.93	2.42	1.69	0.32
Graal Kvanthedge		8.27	07/2002	179.11	-13.30	0.73	3.40	0.03
Graal Total 2xL		9.75	07/2002	232.45	-20.13	1.02	2.77	0.16
HCP Black Fund		-	-	-	-	-	-	-
Monyx Genesis RC		2.68	12/2013	3.59	-1.51	1.08	0.71	-0.13
Nektar		11.09	01/1998	524.57	-13.00	1.62	1.92	0.03
Nordea 1 Multi-Asset Fund		2.39	05/2011	9.48	-9.23	0.33	2.34	0.39
Nordea Alpha 15 Fund		2.94	11/2006	27.97	-24.00	0.28	3.87	0.50
Nordic Multi Strategy UCITS Fund		-	-	-	-	-	-	-
Norwatt Nordic Power Balanced		-5.07	06/2011	-17.36	-19.72	-0.64	2.22	0.10
Graal Total 2xL		9.75	07/2002	232.45	-20.13	1.02	2.77	0.16
HCP Black Fund		-	-	-	-	-	-	-
Monyx Genesis RC		2.68	12/2013	3.59	-1.51	1.08	0.71	-0.13
Nektar		11.09	01/1998	524.57	-13.00	1.62	1.92	0.03
Nordea 1 Multi-Asset Fund		2.39	05/2011	9.48	-9.23	0.33	2.34	0.39
Nordea Alpha 15 Fund		2.94	11/2006	27.97	-24.00	0.28	3.87	0.50
Nordic Multi Strategy UCITS Fund		-	-	-	-	-	-	-
Norwatt Nordic Power Balanced		-5.07	06/2011	-17.36	-19.72	-0.64	2.22	0.10
Norwatt Nordic Power Focused		-2.85	06/2011	-10.07	-36.73	-0.05	5.66	-0.08
Ress Life Investments		0.52	04/2011	2.18	-9.28	0.21	0.75	-0.05
Sector EuroPower Fund		6.26	12/2006	67.53	-16.01	0.55	3.58	-0.07
Shepherd Energy Portfolio		1.19	03/2004	14.19	-20.22	0.18	2.40	-0.01
Tanglin Fund		6.99	08/2000	172.38	-19.63	1.01	2.02	0.17
Topach Core		4.61	04/2005	58.17	-12.08	0.92	1.46	0.66
Traction Yield		1.38	12/2006	9.31	-11.42	0.20	2.46	-0.22
UB Pension		3.73	12/2003	49.61	-18.00	0.83	1.31	0.50
VISIO Allocator Fund		13.28	04/2010	90.44	-10.93	1.60	2.32	0.57
VISIO EM Multi Strategy B		12.88	06/2012	43.82	-7.95	1.55	2.33	0.28
WH Invest		7.30	07/2004	113.34	-33.99	0.87	2.46	0.79

NHX EQUITY FOCUSED HEDGE FUNDS

Program Name	VAMI	Avg.ROR	Inception	Total Return	Max DD	Sharpe	Std. Deviation	Correl.S&P 500
AAM Absolute Return Fund Class A (USD)		5.92	12/2006	62.32	-17.91	0.66	2.70	-0.18
AAM Absolute Return Fund Class B (NOK)		8.18	12/2005	109.63	-16.84	0.93	2.57	-0.20
Accendo		8.41	03/2008	79.61	-18.96	0.64	4.09	0.50
Adrigo Fund		6.67	12/2006	73.11	-9.14	1.32	1.44	0.61
Alcur		5.26	01/2007	53.99	-0.48	2.99	0.50	0.29
Atlant Edge		16.40	07/2002	610.96	-47.38	1.03	4.65	0.57
Atlant Sharp		7.80	07/2007	81.26	-43.56	0.60	4.15	0.55
Borea, Global Equities		-	01/2015	5.85	0.00	74.39	0.13	-1.00
Carnegie WorldWide Long/Short Fund		10.07	07/2003	213.75	-34.56	0.97	3.02	0.53
Catella Nordic Long Short Equity		5.22	12/2010	25.72	-8.80	0.75	2.06	0.12
Cicero Focus		6.84	03/2007	67.88	-52.32	0.45	5.42	0.69
Coeli Norrsken		4.48	12/2010	21.80	-9.06	0.82	1.59	0.12
Danske Invest European Equities Absolute Fund		6.58	12/2007	61.31	-16.41	0.62	3.26	0.42
DNB ECO Absolute Return		0.93	12/2010	4.23	-26.73	0.14	4.72	0.15
DNB TMT Absolute Return		2.32	12/2010	10.85	-15.41	0.36	2.04	0.16
eTurn		5.20	03/2007	51.94	-26.41	0.49	3.39	0.47
European Absolute Return Fund		6.73	04/2003	120.97	-16.73	0.77	2.60	0.29
G&P Orca UCITS Fund R		-1.61	01/2012	-4.76	-8.96	-0.25	1.69	0.54
Gladiator Fond		12.13	02/2005	226.32	-45.48	0.76	4.97	0.38
Graal		4.80	07/2002	83.14	-8.63	1.37	1.00	0.50
Graal Aktiehedge		4.54	07/2002	77.36	-8.88	1.33	0.98	0.51
Grand Haven Capital Fund		6.45	11/2006	66.62	-57.10	0.36	8.81	0.57
Grand Haven Capital Neutral Fund		6.11	11/2006	62.37	-49.07	0.38	6.19	0.07
Handelsbanken Europa Hedge Selektiv		2.40	11/2001	37.68	-5.32	0.61	1.16	-0.12
HCP Quant		20.41	06/2014	20.41	-5.55	1.60	3.50	-0.06
Incentive Active Value		-	07/2014	18.15	-6.90	1.44	3.83	0.21
Jyske Invest Hedge Markedsneutral - Aktier		-0.29	09/2006	-2.53	-33.14	0.02	2.86	0.07
KLP Alfa Global Energi		3.18	01/2009	22.23	-15.93	0.41	2.46	0.27
Madrague Equity Long/Short		10.40	02/2012	39.05	-9.12	1.19	2.49	0.45
Mermaid Nordic		0.97	09/2007	7.77	-22.20	0.18	1.95	-0.01
Nordea 1 - Stable Equity Long/Short Fund		6.01	11/2012	14.59	-4.84	0.96	1.83	0.50
Nordic Alpha plc		8.92	09/2003	172.81	-32.36	0.85	3.11	0.71
Nordic Omega plc		9.92	12/2005	145.66	-32.67	0.86	3.41	0.74
Norron Select		9.44	02/2011	47.84	-7.36	1.43	1.87	0.44
Norron Target		5.71	03/2011	26.61	-3.16	1.84	0.88	0.46
Origo Quest 1 (Class A)		15.39	02/2013	39.64	-4.68	1.61	2.66	0.31
Pandium Capital, Global		-	01/2015	8.70	0.00	4.42	3.36	1.00
Pharos Nordic Hedge		-4.16	07/2011	-15.32	-24.00	-0.34	3.08	0.20
PriorNilsson Yield		4.73	12/2002	78.17	-9.25	1.28	1.06	0.53
PriorNilsson Idea		9.26	01/2006	130.24	-46.09	0.56	5.51	0.72
QQM Equity Hedge		3.83	01/2008	32.11	-11.04	0.60	1.92	0.17
RAM ONE		6.37	11/2002	117.49	-27.56	0.70	2.75	0.55
Rhenman Healthcare Equity L/S IC1 (EUR)		29.12	06/2009	363.40	-19.52	1.69	4.63	0.45
Scientia Hedge		8.28	06/2009	61.21	-17.79	0.68	3.71	0.62
Sector Global Investments Fund		3.54	01/2000	71.05	-48.58	0.36	3.30	0.10

Sector Healthcare Fund		8.08	09/2005	113.39	-3.99	1.80	1.26	0.19
Sector Sigma Nordic Fund		14.16	06/2012	48.77	-2.02	2.46	1.58	-0.12
Sector Zen Fund		11.25	04/2006	165.73	-25.64	0.81	4.20	0.45
Storm Nordic Fund		10.50	01/2004	215.12	-45.47	0.78	4.05	0.52
Taiga Fund		18.99	05/2008	242.64	-12.11	1.76	2.96	0.52
Pandium Capital, Global		-	01/2015	8.70	0.00	4.42	3.36	1.00
Pharos Nordic Hedge		-4.16	07/2011	-15.32	-24.00	-0.34	3.08	0.20
PriorNilsson Yield		4.73	12/2002	78.17	-9.25	1.28	1.06	0.53
PriorNilsson Idea		9.26	01/2006	130.24	-46.09	0.56	5.51	0.72
QQM Equity Hedge		3.83	01/2008	32.11	-11.04	0.60	1.92	0.17
RAM ONE		6.37	11/2002	117.49	-27.56	0.70	2.75	0.55
Rhenman Healthcare Equity L/S IC1 (EUR)		29.12	06/2009	363.40	-19.52	1.69	4.63	0.45
Scientia Hedge		8.28	06/2009	61.21	-17.79	0.68	3.71	0.62
Sector Global Investments Fund		3.54	01/2000	71.05	-48.58	0.36	3.30	0.10
Sector Healthcare Fund		8.08	09/2005	113.39	-3.99	1.80	1.26	0.19
Sector Sigma Nordic Fund		14.16	06/2012	48.77	-2.02	2.46	1.58	-0.12
Sector Zen Fund		11.25	04/2006	165.73	-25.64	0.81	4.20	0.45
Storm Nordic Fund		10.50	01/2004	215.12	-45.47	0.78	4.05	0.52
Taiga Fund		18.99	05/2008	242.64	-12.11	1.76	2.96	0.52
Tellus Midas		1.86	01/2007	15.85	-24.11	0.22	3.14	0.64
Thyra Hedge		3.79	11/2006	37.58	-15.76	0.47	2.54	0.32
Traction SmallCap		5.49	09/2007	37.18	-25.64	0.49	3.59	0.61
Zenit		14.80	07/1996	1,260.83	-16.58	1.25	3.37	0.02

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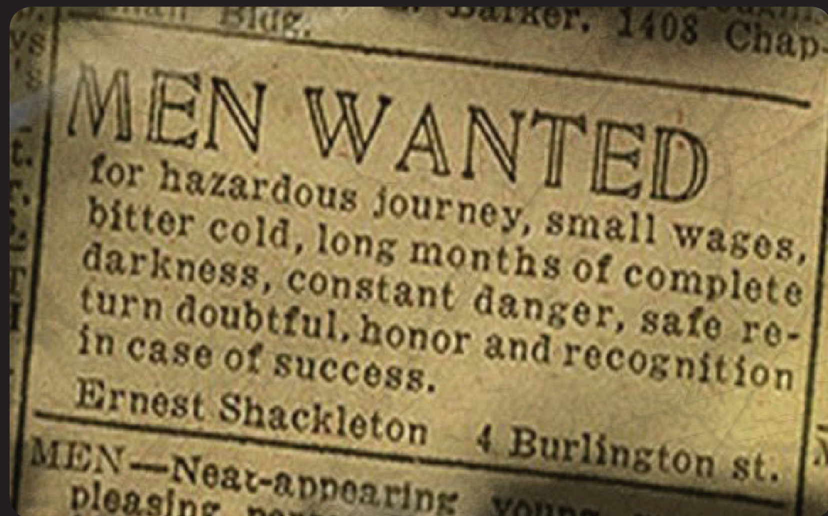

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