

Interview: Jannik Arvesen - Sector Sigma Nordic Fund

Stockholm (HedgeNordic) – Norwegian asset manager Sector Asset Management has specialized its offering on equity hedge fund strategies. Within the range is Sector Sigma Nordic Fund. Launched in June 2012, the fund trades equities listed on Nordic stock exchanges. The fund is co-managed by Jannik Arvesen, Jan Gabrielsen and Bjørn Tore Urdal. The team follows a high conviction long / short equity strategy with a long bias. We had the opportunity to interview Jannik Arvesen, Sector Sigmas CIO and here is what he had to say:

HedgeNordic: What would you say is “the edge” of the Sector Sigma Nordic Fund compared to other long/short equity funds with a Nordic focus?

Jannik Arvesen: We do not know what other long/short equity funds are doing – we ourselves have an absolute return focus. We are independent thinkers and are not afraid to be non-consensual. We have shown willingness and demonstrated ability to actively manage exposure. We are analytical, “paranoid” and opportunistic.

HedgeNordic: In the fund description it says that you base your investment decisions on fundamental equity valuation and business cycle analysis. What equities/sectors do you see as under/over valued at this point given fundamental valuation factors and what is your current view on the business cycle. How does your current positioning reflect these views?

Jannik Arvesen: Structurally we remain skeptical to commodity-related sectors. Growth stocks may look expensive/overvalued, but are so for a good reason in a low-interest, low global growth environment. Our base case scenario is that we are in a late expansion phase – although we may be in for an extended period of “slower for longer” growth.

HedgeNordic: What are your structural/tactical investment cases currently traded?

Jannik Arvesen: We have been net short oil services for close to two years. IOC’s don’t have the necessary free-cash flow from operations to maintain E&P capex growth at previous 10 year average of more than 10%. Fish-farming exposure is a structural long position. Tactically, we have been short/avoided Nordic companies with Russian exposure since the annexation of Crimea. In October we increased our cyclical sector exposure by adding long positions in capital goods names – expecting market will discount tailwind for the global economy from sharp drop in oil prices/commodities in general going into 2015.

HedgeNordic: Is there a home bias in your exposures or is the country exposure a reflection of the difference in market capitalization between countries in the Nordics?

Jannik Arvesen: No – we definitely have no home bias. We invest in the Nordic equity market, across sectors, irrespective of where individual companies are listed.

HedgeNordic: Last month, the fund entered a net short exposure, the first time this has happened since the inception date of the fund, what was the underlying reasoning behind that? Do you foresee a bearish market sentiment going into the last quarter?

Jannik Arvesen: As part of our investment process and risk management we regularly monitor a number of financial market indicators. Over the summer and going into October a lot of “yellow

flags” were flashing. Our main concern was to avoid a loss of capital if a market correction ensued. No, we are not bearish going into the last quarter. We are mentally flexible.

HedgeNordic: You have soft limits on the net exposure of +90%/-30% what would make you breach these limits and how far could you go in an extreme market environment.

Jannik Arvesen: A breach would only happen if we were positioned/insured against a market downturn and a swift market crash occurred.

HedgeNordic: You have so far traded at a volatility level significantly lower than the targeted volatility, is this a reflection of the low overall market volatility or does it reflect a defensive view from your side?

Jannik Arvesen: This is both a reflection of lower market volatility (around 14%) since inception and our risk management process which targets volatility at half that of the market. The Fund returned 25% last year – I wouldn’t call that defensive.

HedgeNordic: Could you explain the position sizing and why it makes sense to have step-wise functions in this respect?

Jannik Arvesen: Our position sizing is disciplined – ranging between 2.5-5% on individual positions both in the long and short book. We want high conviction positions in the Fund – at times we regulate net/gross exposure through changes in position sizes.

HedgeNordic: The fund comes in a UCITS format, does this restrict you in any way with regards to the trading strategy?

Jannik Arvesen: No, we manage the Fund within the parameters of a UCITS format.

HedgeNordic: What is the current AuM of the fund and do you see any capacity constraints?

Jannik Arvesen: Current AUM is USD 42 million. Capacity of the Fund as we manage it is USD 500 million in AUM. Since inception we have managed the Fund as if AUM were above USD 250 mill with a focus on liquidity in the Fund’s portfolio matching daily liquidity in the Fund offered to investors.

HedgeNordic: Having traded equities for over 25 years, could you share some market wisdom with us?

Jannik Arvesen: Think independently, but be humble. The market is always looking for a way to humiliate you.

[Link to Sector Sigma Nordic Fund in HedgeNordic database](#)