

Looking for Michelin star quality Market Neutral strategies

Stockholm (HedgeNordic) – **Ludwig Holmgren, Head of Capital Introduction at SEB in Stockholm, discusses what makes Market Neutral strategies attractive for institutional investors.**

In theory, Market Neutral is a great idea for any portfolio; a costeffective uncorrelated asset. As fixed-income is not a lucrative option nowadays, Market Neutral should constitute an attractive alternative for any investor. However, for some, this style still doesn't currently have the status it deserves. Ludwig explains: "For any product you add to your portfolio as an institutional investor, you will ask yourself: what do I add for my clients? Does this product provide the right level of expertise? And then you will care about how you will explain that to the board."

In medium and smaller organisations, this means staying away from complex products. In larger institutions, investment parameters are well defined in terms of risk, return target, liquidity and costs, which could de facto exclude some Market Neutral strategies. First, let us define what Market Neutral strategies are and how we can categorise them. In terms of assets, potentially any asset that has an exposure to the market can be hedged out and thereby "neutralized". Clearly the most common Market Neutral asset class is equity, but we find some fixed income and convertibles as well as a mix of assets in various arbitrage and systematic strategies. "Convertible arbitrage in particular presents interesting opportunities nowadays, says Ludwig, as most of the large prop desks that held huge trades left the market after the Volcker rules were implemented.

" Typically, any of these Market Neutral types falls into two categories: the fundamental and the quantitative strategies. This was easy. Now, one who speaks about Market Neutral automatically implies alpha generation and that's where we need to call in the experts. The proper evaluation of risk and risk premia is key to isolating alpha. On average, quantitative managers are more successful in identifying, and perhaps more importantly explaining, risk than fundamental managers are.

To read the whole interview in the HedgeNordic Special Report on market neutral strategies, please [click here: Market Neutral Strategies](#)