

Modest Rise for Carnegie WorldWide L/S in April

Stockholm (HedgeNordic) – Denmark's Carnegie Asset Management reported a modest rise of 0.2% for its Carnegie WorldWide Long/Short Fund in April, building on its March rise of 1.2%. The fund retained EUR 74.7m in AUM at month-end. The fund, whose objective is to generate competitive risk adjusted returns, reported a gross exposure (beta adjusted) increase to 96.3% and a net exposure (beta adjusted) decrease to 12.4% of its portfolio.

Positive contributions during April were primarily among the fund's short positions, despite their sizes being about half those of their long positions. The short squeeze in the market through February and March meant the fund's shorts' poor fundamentals weighed heavier as quarterly numbers were reported than short covering, but the wider market was in fact up a little in April. Of note, GAP's loss of 21% in value in April added 30bps to the fund's performance. The largest detractor from the fund's performance in April was Alphabet, which reported revenues of USD 16.5b against expectations of 16.6b for the quarter, with shares selling off 5% on the day. Carnegie considers this to be an overreaction, however, as Alphabet maintains a healthy revenue growth of 18% and a positive margin trend with an increase of 130bps in its operating margin compared with the previous year, which is not yet properly reflected in the share price.

In Carnegie L/S's April report, David Rindegren, the Fund's PM, suggested that the fund's modest numbers for April were reflected in a poor beginning to the earnings season, with only 36% of European companies beating sales expectations – the worst figure in eight quarters – and 56% beating expectations for earnings per share. In addition, the NYSE short interest dropped to its lowest level in 6 months in early April. This recent trend reversal after the rise of short interest over the past two years signals a weaker outlook for the general market going forward, and that the driver behind recent rally has been short covering.

The fund, therefore, is essentially in a market neutral position at 12% net long (beta adjusted), with gross exposure at low levels. Its outlook remains similar to the end of March, with elevated valuation levels, level investor sentiment, a mild hiking cycle from the FED, weakening market momentum and a number of grey swans prescribing caution. The fund, however, aims to increase its gross exposure by adding more shorts after the improved performance of its short positions over the last two months, and by selectively increasing position sizes for its longs.