

New dawn rising for Aktie-Ansvar

Stockholm (HedgeNordic) – Widely known for their Graal hedge funds, Aktie-Ansvar is one of the oldest fund management companies on the Swedish market with its roots dating back to 1965. In 2016, a new dawn seems to be rising for the firm as two senior hires; Philip Wendt, previously with länsförsäkringar and Marie Ljungqvist, previously with Alfred Berg, were added to its team of portfolio managers. The ambition is clear, Aktie-Ansvar is looking to remain a competitive player on the Swedish hedge fund scene, just as they have been since they started its first hedge fund, Graal, in 2002.

“With Philip and Marie onboard, we feel very comfortable that our hedge fund offering will continue to deliver on its promises, meaning generating consistent returns independent of the overall market environment. The fact that they come from different backgrounds, with Philip from the equity side and Maria with a background in macro strategy and credits, gives a very interesting dynamic to the management of Graal and Graal Aktiehedge products”, Sina Mostafavi, CEO of Aktie-Ansvar says.

The Graal and Graal Aktiehedge funds share the same underlying investment strategy that is to combine an actively managed portfolio of equities and corporate bonds with the aim of generating stable long-term performance to a limited risk. The funds use derivatives on equity indices to manage the equity exposure and can go net short the equity market, although there is an inherent long bias.

The difference between the two funds is their fee structure and liquidity terms which has resulted in a difference in the underlying investor base. While Graal has attracted institutional clients through offering a lower fee base and monthly dealing. Graal Aktiehedge has more of a retail audience, which is likely a result of the daily liquidity terms according to Carl Bergenstråhle, head of sales and distribution at Aktie-Ansvar.

“The Aktiehedge product is more suited for the retail distribution platforms out there as it allows for daily dealing. Apart from the difference in fee structures, the funds are identical with regards to trading strategy which is also reflected in the performance”, Bergenstråhle says.

The fact that Graal and Graal Aktiehedge share a low volatility target means that there is a limitation as to how much can be changed in the performance and risk profiles of the respective funds. However the incremental changes that will result from the change in management is not to be overlooked and lies in how the investment process is being reshaped, according to Philip Wendt and Marie Ljungqvist (*pictured*).

“I think what our investment process brings to the table is a long- term macro road-map, creating a framework for how much risk we will take on at any given point in time. Also the fact that we will work closely together discussing individual positions from different standpoints, i.e. shall we have the stock or the corporate credit for a specific company, is a change”, Ljungqvist says.

“The investment mandate is obviously setting the framework for our day-to-day management of the funds. The idea is for these funds to stay low-risk, meaning a risk target, expressed as annualized volatility, of 2-5 per cent. Today we are right in the middle of that range which is a result of the underlying investment process. This process is a combination of Maria’s top-down macro views and the more bottom-up stock picking approach employed by myself”, Wendt says continuing;

"Our allocations are based on a main market scenario and combines that with alternate scenarios in order to reflect potential risks ahead. The main scenario is then compared to the current market valuations, giving us a sense of what is priced in and not. We look at things like projected earnings growth and earnings revisions and compare that to the overall trends in the markets. Our market view then decides the allocation between equities and corporate credits. In May the net exposure fluctuated between 80% equities and 20% corporate credits, to 70% equities and 30% corporate credits, back and forth showing the actively management of the funds.

Currently, we judge that the investment cycle is not quite over and this still favors risk assets. However, we are entering a face that may bring more rather than less volatility. The funds are therefore trading at around the base case allocation according to Maria Ljungqvist.

"Our main scenario is that the current investment cycle is set to continue translating into higher interest rates before we see a turnaround in overall economic conditions for the worse. At the same time, there is a possibility that we could see a downturn in economic activity without a traditional rise in interest rates. The fact that we see such an alternate scenario as not too farfetched make us somewhat defensive despite a positive main scenario", Ljungqvist explains.

On the credit side, Ljungqvist foresees that the new investment process will focus more on the purpose of each investment, both from a liquidity and risk/return standpoint.

"Right now we have a rather conservative credit exposure, but it is spread in different parts of the credit spectra. Looking forward I see the credit exposure as being more divided according to its purpose. One part of the credit book will be leaned towards liquidity management, which of course filters out the less liquid bonds and in essence works as an alternative to cash. On the other hand you have the alpha-generating part where credits are seen competing more with the equities part of the portfolio, either in terms of dividend yields or as a value case."

Within credits, the investment mandate allows for the fund to take on exposures further out in the high-yield segment, however, Ljungqvist highlights that the new investment process is still being developed.

"Since we are likely to enter the later part of the investment cycle, this is not the time to be massively exposed to the high yield segment. We also foresee that the number of defaults will rise further, particularly within certain sectors of the market such as energy"

Within the equity book, Wendt sees significant changes to come about as a result of the change in the portfolio management set-up.

"The equity part of the portfolio used to be very focused on so-called yield plays, meaning real estate and banks, given our positive main scenario, we have now increased the weight to cyclical stocks to reflect that view. Also when we came to Aktie-Ansvar we naturally started a discussion with Lars Erik Lundgren, the current manager of Swedish equities to have his inputs and views, as he had recently increased the weights to cyclicals, there was an obvious consensus about where we were going which reinforced our view"

The team effort is also something that Aktie-Ansvars CEO Sina Mostafavi, highlights as being a key ingredient in the new organization.

"With the addition of Philip and Maria, we have gathered a number of specialists, within credit and macro as well as in equities. However, we do not see each position as an individual part but rather

look to benefit from a symbiosis effect combining all these competencies and lay the ground for ongoing discussions between the teams. Although we have only had the new team in place for a couple of months, we see that there is already an increased activity in terms of positioning in the funds, which I see as a positive sign”, Mostafavi concludes.