

Nordic Hedge Fund Asset Growth Index

Stockholm (HedgeNordic) - As of January 2017, HedgeNordic has been calculating and publishing a new index, Nordic Hedge Index - Asset Growth Index (NHX-AGI), with an attempt at representatively measuring the asset growth or decline of the Nordic hedge fund industry. Ambitious as we are, we would have liked to answer simple yet obvious questions as: "how big is the Nordic hedge fund universe" or "what was the net inflow any given month in U.S. Dollars (or any other currency)." But right from the starting blocks, we ran into problems we have yet to overcome or find solutions to. The increased technical challenge of doing cross currency calculations going back several years (the AuM of the funds could be expressed in SEK, NOK, DKK, CHF, EUR, GBP, USD or any other currency) was a hurdle that could be taken with some effort. The main challenge we identified, however, was the dispersion among the AuM of the Nordic managers and funds.

The Nordic hedge fund universe consists of a few giants with funds in the billion-dollar range, while the vast majority probably sits in the 100 million to 300 million range. If the assets of a very large fund such as Brummer Multi-Strategy, whose AuM peaked at around 6.5 billion dollars, would decrease by 5% during a given period, the dollar-amount decrease may well offset much of the potential increase in assets enjoyed by other players within industry. While the numbers and results would be accurate, this would not be a fair representation of the industry as such, we feel. The solution we chose was to truly fall back on an indexed-based compounding methodology.

The assets under management (AuM) of each respective fund were converted to an index value of 100 at the start date of the index, set as December 31st 2009. The original index value for the NHX-AGI was calculated as the arithmetic mean of the index values of all constituents. Thus, the arithmetic mean of the index values of the funds constituting NHX-AGI equaled 100 at the start date. Each fund's AuM, regardless of its size or any other factor, is equal weighted within the index. The calculation makes no distinction or discrimination with regard to the functional currencies or the size of AuM. A net appreciation of 1% of assets in a billion-dollar fund has the same effect on the index as a net increase of 1% of assets in a 50-million-NOK fund.

Selection of funds making up the NHX-AGI

The NHX-AGI constituents were selected on the discretion of HedgeNordic. The aim was to have a representative gauge to measure the asset growth/decline of the Nordic hedge fund industry as a whole. The first selection criterion was to shortlist the funds that had been consistently reporting AuM figures to HedgeNordic. From that pool, the aim was to create a representative basket taking into account: (1) trading Style (2) country (3) size of the fund at the start date. We aimed to stay neutral regarding selecting funds that had extraordinary appreciation or decline in assets under management. The number of funds constituting the NHX-AGI should at least represent 10% of the universe making up the Nordic Hedge Index Composite, which is composed of 155 funds.

Indeed, we would have preferred to have a wider base for the calculation. However, as of December 31st 2016, there are only 49 funds active and alive within the NHX-Composite Index that track back to 2010, of which only a portion are disclosing AuM to the public, which significantly narrows down our sample group.

Wrong Assumptions

We wrongly assumed that the index would flatten out after the first couple of years, which emerged as a problem with our methodology. Our line of thinking was that younger funds may enjoy a steeper

assetgrowth curve in the first three to five years. Although sales teams' opinions may differ, the underlying assumption was that the challenge of adding 1% of assets a month in nominal Dollars to a five billion-dollar fund would typically be greater than increasing the assets of an emerging 50 million-dollar fund by one percentage point (again, in percentage of assets, disregarding ticket sizes). We are still investigating the possibility of adding younger funds that meet certain criteria every year since the start date of the NHX-AGI to compensate for any such effects.

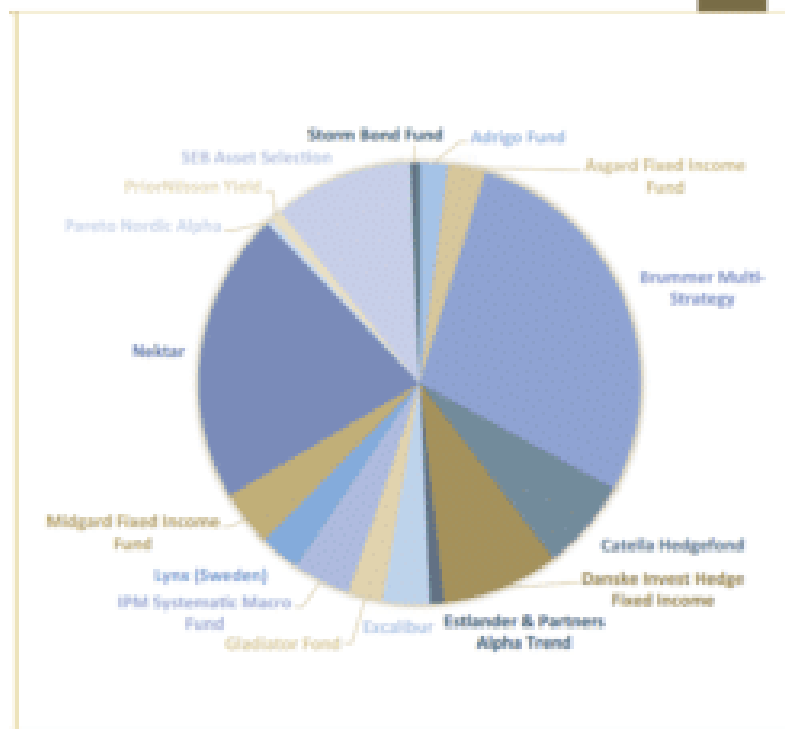
AUM DEVELOPMENT OF NHX-AGI COMPONENTS

If we were attempting to predict the growth in AuM of Nordic hedge funds in late December 2009, we would have likely expected the largest funds within the industry to realize a lower percentage increase in assets over the next six-year time span. This hypothetical prediction would have however been wrong. For instance, the Danske Invest Hedge Fixed Income Strategies fund, the fourth-largest constituent at start, with around \$1.22 billion under management, enjoyed the second-highest* growth in assets in the period January 2010-April 2017. Leaving aside the Danske exception, our data shows that the smallest Nordic funds in terms of AuM enjoyed some of the highest rates of growth in assets over the period of six years and four months starting from January 2010. For example, Storm Bond Fund, a Nordic high-yield fund that had the lowest amount of AuM among the NHX-AGI components at the end of 2009, experienced the highest growth in assets in the period January 2010-May 2017**.

Fund	AuM in USD (31/12/09)	AuM in USD (28/4/17)	Net Change	Weighting (28/4/17)
Adriago Fund	31.313.459	297.509.460	850%	2,1%
Asgard Fixed Income Fund	285.576.200	387.657.027	36%	2,7%
Brummer Multi-Strategy	2.646.646.871	3.989.156.831	51%	28,1%
Catella Hedgefond	717.967.393	956.570.848	33%	6,7%
Danske Invest Hedge Fixed Income	130.486.659	1.220.145.592	835%	8,6%
Estlander & Partners Alpha Trend	300.590.000	144.000.000	-52%	1,0%
Excalibur	106.868.732	491.446.676	360%	3,5%
Gladiator Fond	48.924.309	359.518.834	635%	2,5%
IPM Systematic Macro Fund	67.083.000	604.000.000	800%	4,3%
Lynx (Sweden)	270.463.331	416.445.474	54%	2,9%
Midgard Fixed Income Fund	139.053.200	582.056.659	319%	4,1%
Nektar	1.343.492.633	3.037.442.819	126%	21,4%
Pareto Nordic Alpha	234.313.098	60.570.763	-74%	0,4%
PriorNilsson Yield	39.217.883	117.580.618	200%	0,8%
SEB Asset Selection	2.187.409.391	1.447.945.500	-34%	10,2%
Storm Bond Fund	10.727.425	94.278.393	779%	0,7%
Total	8.560.133.584	14.206.325.492	60%	100,00%

Source: <http://nhx.hedgenordic.com>

The table above sketches the composition and constituents of NHX-AGI. Putting things into



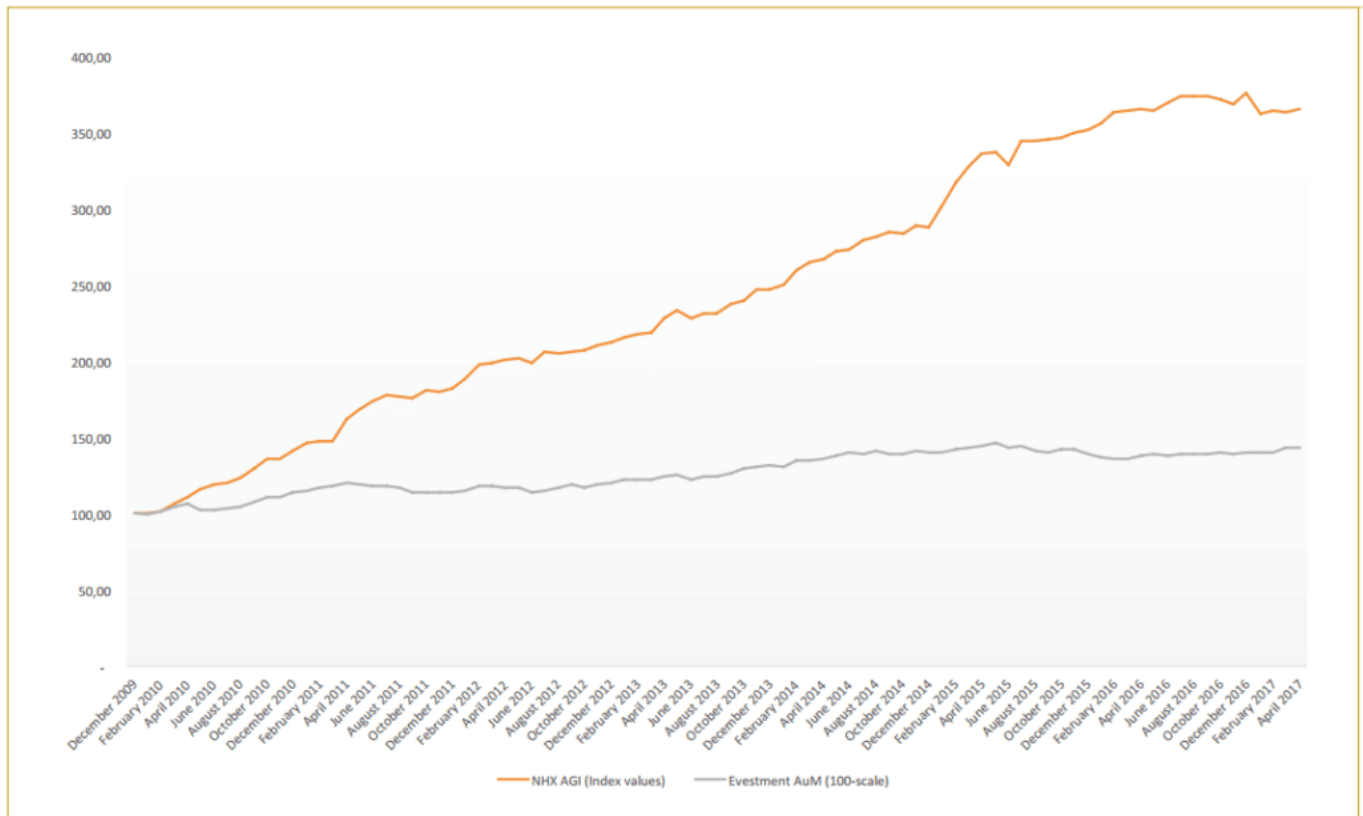
Source: <http://nhx.hedgenordic.com>

perspecti ve, the dollar-amount increase in the AuM of Brummer Multi -Strategy (BMS) – the largest fund in the Nordic hedge fund industry both as of the end of 2009 and as of the end of April 2017 – accounted for around 24% of the dollar-amount increase of the entire NHX-AGI. This figure seems extremely high, especially considering that the change in the AuM of BMS was a mere 87% – a percentage increase that is significantly lower than the triple- and quadruple-digit growth rates of the smaller funds. More importantly, BMS and Nektar, two players within the Brummer & Partners family of funds, accounted for nearly half of the increase in the dollar-amount of AuM of the NHX-AGI. Our attempts to create an index based on actual assets under management showed no meaningful results, with the table presented above presenting the hurdle of building such an index. Though all constituents in NHX-AGI are equal weighted for index calculation purposes, the pie chart to the right illustrates how an asset weighted composition of the same funds would look like.

DEVELOPMENT OF THE NHX-AGI VERSUS GLOBAL HF ASSET FLOWS

Before drawing any conclusions from the data encompassed in NHX-AGI, one should bear in mind that the index does not reveal explicitly whether the dollar-volume of AuM of the Nordic hedge fund industry increases or declines. Instead, the NHX-AGI serves as a proxy representation of AuM growth for the Nordic hedge fund universe. Hence, the index shows how the AuM of both small and large hedge funds develop on a monthly basis. Although it may be a stretch to find a meaningful benchmark for the NHX-AGI to illustrate a comparison between the newborn Nordic index and external data, we attempted just that. In the chart to the left exhibiting the growth of assets for the global hedge fund industry the NHX-AGI shows to have been growing at a faster pace than the growth in hedge fund assets as provided by eVestment, a trend possibly explained by the relatively young stage of growth of the Nordic hedge fund industry. Starting from mid-2016 up to this point in time, the NHX-AGI has experienced a noticeable drop in values. Investor outflows dominated the narrative surrounding the global hedge fund industry during 2016, and the Nordic hedge fund industry appears to be no exception. In addition, there were individual funds, like Catella Hedge Fond, which had extraordinary reasons for a sharp decline in AuM. One should not ignore the possibility that the NHXAGI overestimates the growth of assets for the Nordic hedge fund industry, as the index is computed using weighted-average percentage changes. For instance, the actual dollar-volume of assets under management of the 16 index components increased by roughly 66% in

the period January 2010-April 2017, significantly lower than the 265%-increase in the index value of the NHX-AGI. Nonetheless, the increase in the dollar-volume of AuM of the Nordic industry still outpaced the 43% jump in the assets of the global hedge fund industry.



Source: <http://nhx.hedgenordic.com> / <http://evestment.com>

*Growth was measured using the functional currencies of the funds.

**The month-end AuM figure for May 2017 due to missing data for the month of April.

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