

Sector Sigma Nordic Fund Suffers Worst Performance Patch Since Inception

Stockholm (HedgeNordic) – Sector Sigma Nordic Fund, a long-short equity fund primarily investing in the Nordic region, is experiencing its worst performance patch since the fund's inception in mid-2012. The Norwegian fund suffered eight consecutive months of negative performance, with its year-to-date losses reaching 8.2%.

Sector Sigma Nordic Fund's team, which comprises three investment professionals with many years of investing experience in equity markets, is braced for a downturn in Nordic and global equity markets. The three-man team believes equity markets will not emerge "unscathed by a normalization of central bank monetary policy." The G4 central banks have all signaled a gradual reversal of accommodative monetary policies.

While Sector Sigma Nordic Fund's long book generated a return of 3.3% in the first eight months of 2017, the fund's short book posted a disastrous loss of 11.3%. As of the end of August, the fund's portfolio comprises 19 long positions and 14 short positions, collectively yielding a net market exposure of 26.4%. The Norwegian fund seeks to deliver absolute returns employing fundamental research and a thematic investment process, combined with cyclical investment strategies.

The long-short equity fund posted a loss 0.74% in August, with the long book delivering a negative return of roughly 0.1% and the short book returning a negative 0.7%. The fund's long positions in Danish beverage and brewing company Royal Unibrew, Swedish capital goods company Atlas Copco, and Swedish home appliances manufacturer Electrolux were the biggest contributors to performance in August. Royal Unibrew has been a long position in Sector Sigma Nordic Fund's portfolio nearly since the fund's inception. The company's shares gained 9.46% in August after delivering strong second-quarter results.

The fund's long exposure to pulp and packaging companies hurt massively its August performance. The long positions in Finnish pulp and packaging companies Metsa Board and Stora Enso fell 7.6% and 2.3%, respectively. The entire pulp and packaging sector has been affected severely by the appreciation of the Euro against the U.S. dollar. The two companies have high exposure to FX moves, as their costs are mainly denominated in euros and sales are mainly denominated in euros and U.S. dollars.

In July's letter to investors, the team at Sector Sigma Nordic Fund wrote that European equities, including Nordic equity markets, are faced with three separate sources of potential headwinds: 1. a further weakening of the U.S. dollar against the Euro; 2. the possibility of a softer "patch in global economic growth as China scales back fiscal stimulus measures;" 3. "a change in liquidity provision by central banks," also referred to as quantitative easing tapering. The fund's team anticipates increased sector dispersion and relative outperformance of cyclical over defensive stocks if global growth momentum "holds up as more widespread tapering unfolds." As a result, Sector Sigma Nordic Fund's long book is tilted towards cyclical exposure, while the short book towards interest-sensitive names that will potentially be impacted by increasing interest rates.