

Cheap Hedging to the Rescue

Stockholm (HedgeNordic) – The Catella Nordic Long Short Equity fund, a Nordic-focused absolute return equity fund, gained 5.1% year-to-date through the end of last week, with most gains in the second half of the year. This mid-single-digit return follows three consecutive years of annual returns above 10%.

Catella Nordic Long Short Equity enjoyed a rebound in September, as the fund kept up with the strong-performing Nordic equity markets. The fund gained 4.02% in September but gave back some of the gains in October (-0.17%). The fund's strongest-performing stock picks in October were Norway-based industrial investment company Aker ASA, and specialised engineering, procurement and construction provider Kvaerner, which gained 13% and 21%, respectively. Meanwhile marine geophysical company PGS disappointed, hit by worries over negative cash flow in 2018 and concerns over the company's inability to use its credit line due to existing covenants.

Catella's Nordic Long Short Equity fund has performed well in the past couple of years and was named the "Best performing fund over a 2-year period" at the Hedge Fund Journal Awards in London earlier this year. Martin Nilsson and Ola Mårtensson manage the fund out of Stockholm.

Although the fund managers believe company valuations are not stretched when looking at the Stockholm stock exchange, in particular, U.S. equity markets, especially in the technology sector, appear historically expensive and illustrate the importance of stock selection at this stage. "We are keeping this in mind and focusing more on stock picking rather than where the market is headed," Martin Nilsson says in a press release.

While Catella Nordic Long Short Equity's fund managers are not explicitly saying they expect equity markets to fall in the coming months, they have been loading up on hedges in the form of options as they "have historically never been as cheap as they are now," according to Ola Mårtensson. "In rough terms, the cost of hedging is about half what it normally is," added Mårtensson.