

# RAM AI: From Emerging Markets to Systematic Long/Short

Stockholm (HedgeNordic) – During a recent visit to Stockholm, Emmanuel Hauptmann, Partner & Senior Systematic Equity Fund Manager at Geneva-based RAM Active Investments, spoke to HedgeNordic about his firm's systematic Long/Short strategy, and explained why he often visits the Nordics.

A few years back, when Hauptmann and his team started travelling to Stockholm, they presented mostly their flagship Emerging Market strategy, as local institutions showed a keen interest in these types of assets. The fund is now soft closed at \$2.5 billion. "We promote our beta-neutral strategies now," comments Hauptmann, "as we believe they represent the most attractive opportunity for the next 5 to 10 years. The Nordics have a strong alternative culture. There is a large number of alternative investors here in Sweden, and across Northern Europe."

RAM AI's strategy is different from other systematic funds, in that it is based on stock picking, and is fundamental in its approach. The strategy seeks fundamental inefficiencies and mispricing in a strictly bottom-up selection process using models only. "No discretionary input is allowed," Hauptmann underlines. One interesting part of the model, on the long side, is what Hauptmann calls the low-volatility or low-risk opportunities: "On average over time, stocks with below-average volatility outperform the market statistically. The market looks for embedded leverage and tends to overpay for beta; we've done a lot of work to capture this opportunity." This is one of three uncorrelated stock-picking strategies on the long side, together with a value and a growth/momentum strategy. Each of these elements has a stable allocation in the fund. "We tried to implement time allocation between the three strategies but found the most effective allocation is one that is stable," Hauptmann explains.

On the short side, the model is set to search for specific inefficiencies. For example, it identifies disproportionately negative free cash flow, which generates a need for constant refinancing and makes the company particularly vulnerable to worsening financial conditions, such as widening credit spreads. "We often face a beta that is asymmetric," admits Hauptmann, "with a higher beta on the downside. In a risk-off event, only the low-volatility part of our long book provides alpha. We compensate on the short side with companies whose balance sheet is shaky and fragile. They make for a great hedge." The fund does not use single names for the whole book, however. "Only half the beta is hedged this way; the rest is short index exposure. It is a pure risk hedge."

Interestingly, the capacity for running this type of strategy in some markets is not as large as one would usually assume for a systematic fund. One of the reasons is that the model is agnostic when it comes to market capitalisation. In fact, it seems that the strategy is dependent on a certain breadth of available targets in the small and mid-cap space to deliver its full potential return, especially in the European market. Given the recent success of the Long/Short European Equities fund at raising assets in excess of €700 million, it is possible that it will soon too be soft closed.