

# Swedish Domestic Market: Proceed Cautiously

Stockholm (HedgeNordic) – PriorNilsson Idea, a long/short equity-focused hedge fund managed by Swedish asset manager PriorNilsson Fonder, has generated a cumulative return of 194.5% since its inception in January 2006, equating to an annual compound rate of 9.6%. The fund's performance has been solid in recent years, with the fund being on track to deliver an annual return in excess of 10% for a sixth consecutive year.

Earlier this year, PriorNilsson Idea was awarded the title “Best Hedge Fund of the Year” for 2016 by Swedish business magazine Privata Affärer, recognising the fund's competitive risk-adjusted performance last year and over the previous three years. The fund has been managed by Torgny Prior, who co-founded the business together with P.O. Nilsson in 2002. Previously, Torgny had worked as a portfolio manager for the Tercentenary Foundation of the Swedish central bank for 13 years and served as an analyst and asset manager at Skandia. In a recent interview with HedgeNordic, Torgny Prior discusses PriorNilsson Idea's strategy and performance, as well as the current level of stock valuations.

**HedgeNordic: To start off, could you summarise PriorNilsson Idea's investment strategy?**

**Torgny Prior:** The fund follows a long/short equity strategy where the focus is on strategic allocation and stock picking. The fund is actively working with allocation towards the stock market as a strategic element in the investment strategy, and the net exposure towards the stock market varies between 0 – 150%. However, the fund is typically managed with a long bias. The fund uses options and other derivatives in combination with short selling to vary net exposure and hedge various market risks. The other piece of the investment strategy is fundamentally driven long/short investments in specific stocks.

**HedgeNordic: What would you attribute to being the most crucial factors for your fund's strong performance over the past six years?**

**Torgny Prior:** In general we have managed to navigate the ups and downs of the Nordic capital goods sector fairly well combined with a generally high allocation towards the Nordic property sector. Specific investments in luxury goods companies and gaming developers have also contributed more recently.

**HedgeNordic: What kind of qualitative and quantitative research do you perform on stocks before adding them to your fund's portfolio? Could you walk us through the process from idea generation to actual investment?**

**Torgny Prior:** For us, idea generation starts with having a thorough understanding of business models, strategy and profit and growth drivers of the companies in our investment universe. We tend to focus on changes in any of these factors when making investments, whether the change is a result of internal factors, such as a change of CEO, or a result of external factors, such as changes in

the macro environment, is less important. We tend to invest in companies where we can identify misconceptions in the market about the nature and future prospects of the business. For example, we have for a number of years had a positive view on the prospects for structural changes at Volvo and Sandvik, however the market was for a long time more focused on the then gloomy outlook for truck orders in the US for Volvo and the slow market for mining equipment for Sandvik whereas we saw these as passing issues.

**HedgeNordic: Could you tell us about the geographical diversification of your fund's portfolio? Which regions do you allocate to and how do you determine the exposure to each region?**

**Torgny Prior:** The fund's primary investment universe is the Nordic stock markets. However, we also seek investment in European companies, especially in industries that are hard to find exposure to in the Nordic region. In terms of allocation, we tend to decide this on a company level rather than with respect to certain geographies.

**HedgeNordic: How do you distinguish your fund from peers employing a similar long/short strategy and geographic exposure?**

**Torgny Prior:** We have not done such an analysis regarding our peers, we focus on our strategy and to give our customers a good risk-adjusted return.

**HedgeNordic: As a fundamental investor, how easy is it to identify undervalued stocks in the current era of historically elevated stock valuations?**

**Torgny Prior:** Given that the general stock market valuation is closely linked to global long-term interest rates we would be worried if we saw a sustained upward movement in long-term interest rates. Currently, we see no clear trends in that respect, and we focus our analysis on relative value at the company level, where we still see plenty of opportunities.

**HedgeNordic: Could you share with us your short-term and medium-term outlook on some regional markets you focus on?**

**Torgny Prior:** We have recently taken a more cautious view on Swedish domestically exposed stocks since we believe the construction and housing price led economic boom in the Swedish economy is showing signs of exhaustion. In Europe, we still see good prospects for the economy, and we are actively looking to increase our allocation towards companies with high exposure to the European economy.