

Growth in Nordic Hedge Fund Industry Slows

Stockholm (HedgeNordic) For just over a year now, since January 2017, HedgeNordic has been calculating and publishing the NHX asset growth Index (NHX-AGI), an index computed using an equally-weighted indexed-based compounding methodology in an attempt to representatively measure the development of the AuM of the Nordic hedge fund industry.

The Nordic hedge fund universe consists of a few giants with capital over the \$1 billion mark. The vast majority funds are much smaller, managing capital in the range of \$100 million to \$300 million. If the assets of a very large fund such as Brummer Multi-Strategy, which manages \$4.6 billion as of the end of 2017, 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 in the industry. While the numbers and results would be accurate, we felt this may not be a fair representation of the industry as such. Therefore, we decided to normalize our data on AuM by setting the first value of each series to a baseline of 100.

To construct the NHX-AGI, the amount of assets managed by each representative fund as of the end of December 2009 were converted to an index value of 100, with the last day of 2009 representing the start date of the index. The starting index value for the NHX-AGI was calculated as the arithmetic mean of the index values of all constituents, so the index value of NHX-AGI stood at 100 at the start date.

Under this approach, each fund's AuM, regardless of its size or any other factor, is equal weighted in the index. 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 at the discretion of HedgeNordic. The aim was to have a representative gauge to measure the development of the assets managed by the Nordic hedge fund industry. That said, the selection process aimed at creating a representative basket by taking into account trading style, country representation, and fund size at the start date.

The graph below shows the 15 constituents NHX-AGI and their respective AuM as of the end of 2017, 2016, and 2015. Despite suffering a \$1.5 billion-decrease in assets over the past two years, Brummer Multi-Strategy retains the spot of the largest player in the Nordic hedge fund industry with \$4.6 billion in capital as of the end of December 2017.



SEB Asset Selection, Brummer-backed Nektar, IPM Systematic Macro fund, Danske Invest Hedge Fixed Income Strategies, and Catella Hedgefond are the other Nordic hedge funds within the NHX-AGI managing over \$1 billion in capital as of the end of 2017. IPM Systematic Macro and SEB asset Selection enjoyed the largest dollar-amount increase in assets in the past two years, with the former experiencing a \$699 million increase in capital in the past two years and the latter enjoying a \$552 million increase over the same period. (Only reflecting the one share-class listed in the NHX Composite.)



The graph above compares yearly changes in the NHX AGI with the average return of the 15

members of the index. The annual growth of the NHX-AGI significantly slowed in the past two years, which could partially be explained by the underwhelming performance of the Nordic hedge fund industry in general. Although the NHX-AGI increased by 1.1 percent in 2017, much of the increase could be attributable to the 3.0 percent average performance gain delivered by the 15 NHX-AGI members last year.

The new index admittedly has some imperfections. For instance, the current calculation model does not reflect changes in AuM due to the performance of the underlying funds and fails to capture net inflows and outflows. That said, the next graph reflects the actual volume of combined assets under management of the 15 NHX-AGI components.

Another weakness can be the above-mentioned isolated view to only one share-class of the fund. Total strategy AuM may be much larger across various fund structures, managed accounts etc, again, IPM Systematic Macro and Lynx, among others, being perfect examples highlighting this dilemma.



Collectively, NHX-AGI members managed \$17.1 billion in assets at the end of December 2015, with the volume of assets dropping by approximately \$2.9 billion in the following year. Much of the decrease can be attributed to the drop in AuM for Brummer Multi-Strategy along with the loss of nearly half its assets in Catella Hedgefond. The combined amount of capital managed by the 15 funds increased by \$1.8 billion in 2017.

A group of other hedge funds within the NHX Composite Index, for which HedgeNordic has AuM data going back to December 2009, also experienced a significant increase in assets during 2017. These 13 hedge funds with a collective \$882.3 million at the end of 2015, saw their assets rise to \$1.1 billion by the end of 2016 and \$1.7 billion by the end of 2017, respectively.



This article was written for the Nordic Hedge Fund Industry Report 2018.