

Coeli's new hedge fund hunts for alpha in European small and mid-caps

Since the beginning of this year, Coeli's newly launched hedge fund, Coeli Absolute European Equity, has been running with seed capital waiting for marketing approval from the Swedish Financial Supervisory Authority. As this has now been granted, the fund's portfolio manager, Mikael Petersson made a first unique interview with Hedgenordic talking about his trading approach, what to expect from the new fund and what positions he is currently looking into.

Mikael Petersson (*pictured*) is in Stockholm for a quick visit, he is otherwise based in Malmö from where he manages the newly launched Coeli Absolute European Equity Fund. It is an unusual position for him to be on the ground in Sweden managing his own fund. For many years he was based in London working as a portfolio manager for industry giants such as Kairos Investment Management and Lansdowne Partners where he was their first employee, but spent quite a lot of time travelling between Sweden and the UK.



Mikael Petersson, PM
Coeli Absolute
European Equity

"In retrospect, I don't understand how I could spend so much time travelling, now I just take the car to the office in Malmö and can focus entirely on managing a fund, without any intervention from other people. It is a privilege for me and helps me pursue my passion for the markets."

The hedge fund that he is running focuses on the small- and mid cap space in Europe, using a stock picking approach to find opportunities on both the long and the short side. He describes his approach as being almost entirely inherited from his time at Lansdowne Partners.

"It was at Lansdowne I developed the toolkit for the strategy employed in this fund. I have since developed my own ideas on stock selection and risk management. The approach is very much bottom-up, looking for solid companies that for some reason are mispriced. On the short side, it is all about finding stocks that is far away from fair valuations, which could be a result of investors being

overly exaggerated by growth prospects or companies using aggressive book keeping to make things look better than they are.”

Petersson says he is always net long the market with a net exposure typically ranging from 40-80 percent, he could theroretically be net short but is unlikely to use that option. The goal is to generate a return of 15 percent to a volatility of 10 percent.

“I always say that I am likely to perform in line with the market in bullish scenarios but with some time lag due to more “non-market stocks” and better than the market in bearish environments. In sideways markets I shall manage to stay positive. The overall goal is to generate strong risk-adjusted returns, outperforming the market on average but using less risk.”

Since launching the fund beginning of this year, Petersson has managed to gain approximately 8 percent while European equities, expressed as the Stoxx600 index, has lost about 2 percent during the same time period.

“It has been good momentum for the strategy driven by a number of successful picks on the long side while the core short positions have performed as well”, Petersson says.

Among long positions Petersson mentions the German real estate company Grand City Properties where his fundamental view has paid off properly.

“German properties hold interesting characteristics from an investment standpoint, the demand for property is very high as urban areas are expected to show population growth of more than 20 percent in the coming 10 years. At the same time there is limited new supply. Rents are low and prices remain low. It gives a high yield contribution to the portfolio while low interest rates ensures low cost of capital for property developers.”

As a typical example of a core short position, Petersson mentions the Swedish radiation therapy software provider, Raysearch.

“Earlier this year it had all ingredients required to come under pressure. They adjusted profit estimates downwards while showing earnings multiples contraction. The market expectation was exaggerated while organic growth was coming down. The company also used aggressive book keeping with almost 20 percent of the sales in Q4 being announced already announced in Q1. It could be that they mask lower organic growth with aggressive book-keeping”, Petersson reasons.

The portfolio as it stands today holds 19 long positions and 21 short positions with a net exposure of 65 percent. Since the beginning of the launch, long positions include the Swedish diagnostics company for oncology and autoimmune diseases, Immunovia, as well as a company that Petersson describes as the Cisco of aerospace communication networks – Mynaric.

The overall market will not go anywhere for the rest of the year Petersson believes. However, below the broad indices there has been lots of turbulence, he says.

“The investment community had too much risk in the system in the beginning of the year holding on to its deer cyclical stars. Many bought the dip and got hit a second time. Now people have been under pressure and bought into defensives. With autos and financials more or less on 52 week low combined with a quite strong macro environment it will be interesting to see if the investment community will complete a weak year being whipped a third time. It starts to look interesting.”