

Nordic Hedge Funds Suffer Worst Month in Ten Years

Stockholm (HedgeNordic) - In October, the Nordic Hedge Index (NHX) suffered its worst monthly performance in ten years, recording its third-worst monthly decline on record. Equity-focused hedge funds and trend-following CTAs were hurt the most, as global equity markets experienced a sharp reversal in October and volatility soared.

More than two-thirds of the 151 members of the NHX which reported performance figures for October ended the month in the red. Five members of the index incurred losses of more than ten percent, and performance dispersion was quite significant between the best and worst performers. The top 30 percent of hedge funds in the NHX gained 0.8 percent on average, whereas the bottom 30 percent declined 5.9 percent.

Multi-CTA fund RPM Galaxy incurred a loss of 17.1 percent in October, which brought its year-to-date performance to down 24.6 percent. RPM Evolving CTA Fund, meanwhile, was down 3.5 percent last month and up 3.2 percent year-to-date through the end of October. RPM Galaxy fell victim to a concentrated portfolio. According to Anders Löwbeer, Head of Investor Relations at CTA specialist RPM Risk & Portfolio Management AB, "RPM Galaxy is a much more concentrated fund than RPM Evolving." RPM Galaxy allocates to three CTAs: two trend-followers and one short-term CTA. RPM Evolving, meanwhile, allocates to 13 CTAs: seven trend-followers and six diversifying CTAs.

"The big difference in performance between our funds in October come from the diversifying CTA strategies," explains Löwbeer. "In RPM Evolving, five out of six diversifying managers were up, either from well-timed trades in equities (short-term CTAs), from the pick-up in volatility (VIX-CTAs) or relative-value bets in primarily fixed income (systematic macro/fundamental CTAs). However, in RPM Galaxy, the diversification disappeared in October as the short-term manager also was caught on the wrong foot in the equity reversal and added to losses in October," further adds Löwbeer. Both funds are net short equities at the moment.

Just as RPM's vehicles suffered due to long equity positions, some long-biased vehicles in the NHX took a hit from falling equity markets. Rhenman Healthcare Equity L/S retreated 11.4 percent last month, cutting year-to-date gains to 8.5 percent. The healthcare-focused hedge fund had a net exposure to equities of 132 percent at the end of October (up from 126 percent at the end of September), with the exposure to long positions amounting to 152 percent and the exposure to shorts reaching 21 percent. According to the latest monthly letter, the team at Rhenman & Partners believes "signs of rising inflation are likely to be negatively received by the stock market." As a result, "large, stable companies can, therefore, be expected to remain attractive to owners as defensive investments." "The fund will, therefore, endeavour to gradually increase the percentage of such holdings at appropriate times of rebalancing, hopefully at attractive relative share prices," the letter says.

HCP Quant, a fund that uses quantitative methods to select stocks considered to be undervalued based on several measures, suffered a 12.0 percent loss in October, taking the year-to-date performance into negative territory at 12.8 percent. HCP Focus, which manages a concentrated portfolio of high-quality companies believed to trade at a discount to their estimated intrinsic value, was down 11.4 percent, cutting year-to-date gains to 12.1 percent. According to a Bloomberg article published in mid-October, HCP Focus manages a portfolio consisting of 12 stocks that include names such as Amazon, Facebook, Alibaba, Baidu, among others. The biggest tech stocks suffered sharp

losses in October, led by Amazon's 20 percent decline.

Whereas most members of the Nordic Hedge Index (NHX) ended the month of October in the red, several funds shined in turbulent market conditions. Volt Diversified Alpha Fund, which runs a diversified portfolio of systematic strategies seeking to identify and exploit different sources of alpha in global futures markets, advanced 4.6 percent in October. Atlant Protect, a hedge fund designed to protect against market crashes using derivative strategies, gained 3.1 percent last month.

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