Norron cautiously positioned for market bounce

Stockholm (Hedgenordic) – Norron's portfolio manager Marcus Plyhr (pictured) expects equity markets to bounce following a weak October that saw global equities plunge by 7 percent. That being said, he has shifted out some of small-cap companies, extended portfolio hedges and added to dry powder during the market turbulence.

"We are cautiously tilted towards a positive end to 2018, we simply think the market overreacted in October and expect a bounce in the near term", he outlines in a company blog post when asked to comment on the current positioning of the Norron Select Fund.

Plyhr is the most recently added portfolio manager to Norron's investment team. Having co-managed Norron Select alongside Niclas Granath for more than four years, Plyhr was handed the full responsibility of the fund earlier this year as Granath decided to pursue other opportunities.

In his new role, Plyhr has made some adjustments to the portfolio that he describes as more tactical in nature due to the market situation rather than being reflective of his personal approach to investing. Plyhr's aim is to maintain Norron Select's historical and proven mandate.

"Norron is very much about team effort and frequent dialogues where the overall positionings of the funds are discussed daily and in regular meetings. The changes I have done to the portfolio as of late is a result of market dynamics rather than putting my personal touch to the fund. Norron is very process driven in that sense", he says.

The changes mentioned include:

- A reduced exposure to small-cap companies in exchange for larger more liquid stocks (in case of a general downturn, it's more important not to be part of any liquidity risk, the portfolio manager argues)
- Extending portfolio hedges to protect the portfolio from tail risks, a change that was implemented going into the turmoil in October
- An increase in the cash portion of the fund to allow for buying opportunities should the market rout continue

"We tactically increased the duration of portfolio hedges going into October which paid off nicely. It allowed us to find some opportunities during the month where some stocks were bought on the dip and sold out intra-month", Plyhr explains.

In October, the Norron Select fund also benefited from its position in the gaming and sports betting company Mr Green, which rallied following a bid from William Hill (see previous Hedgenordic story here).

Plyhr remains upbeat about the prospects of industry peers such as Kindred and Kambi and sees possibilities of further consolidation in the industry.

> "We have sold out of Mr Green following the bid, even though there is some speculation about countering bids to come. We see good upside potential in names like Kindred and Kambi with the latter likely to benefit from the lift of the sports betting ban in the US."

Among short positions that the Norron Select fund currently holds are Bilia and Nibe, stocks that Plyhr deems to be too aggresively priced given growth prospects and the underlying market uncertainty.

“Generally speaking, our short book is much more passive in nature compared to the long book and is primarily executed through equity indices. All in all, the short book is around 25 percent of the fund”, Plyhr says adding that it also contains 5–15 outright shorts that are traded more frequently due to specific company events.

Looking ahead, Plyhr feels confident that the fund will be able to do well in a scenario of continued volatile markets as the fund has about 8 percent sidelined in cash, waiting for opportunities to arise.

“Even though we will suffer short-term should the current weakness in equity markets prevail, the fund will be offered very good entry points in a longer term perspective. It is all about managing the downside risk well and stick to your process”, Plyhr concludes.