

# Graal Family of Hedge Funds Untouched by Turmoil

Stockholm (HedgeNordic) – Hedge fund Graal, once Sweden’s largest hedge fund with nearly SEK 12 billion under management in mid-2007 and one of the longest living hedge funds in the Nordics, continues its journey under a portfolio management team who took over the management of the fund in February 2016.

In an interview with HedgeNordic, portfolio manager Philip Wendt (*pictured*) outlines the differences between the three members of the Graal family of hedge funds, breaks down the Graal strategy into smaller pieces, and touches upon the flagship fund’s year-to-date performance.

## **Graal Family: Low-Risk Alternatives for Cautious Investors**

The Graal family – Graal Hedgefond, Graal Aktiehedge, and Graal Offensiv – represents a suite of low-risk products designed to preserve capital in risk-off events. With over SEK 1 billion in assets under management, the Graal strategy is Aktie-Ansvar’s flagship product. In turn, Graal Hedgefond represents the firm’s flagship fund. Graal Aktiehedge is an almost identical version of the flagship fund, but features a different fee model and different liquidity terms. Graal Offensive, meanwhile, is a leveraged version of the flagship fund.

“The only difference between Graal and Graal Aktiehedge comes from liquidity terms and fee structures,” says Philip Wendt. Whereas Graal offers investors monthly liquidity, charges an annual management fee of 0.75 percent, Graal Aktiehedge provides daily liquidity, charges a management fee of 1.25 percent and does not make use of the yearly reboot of high-water marks.

## **Graal’s Investment Strategy and Return Attribution Breakdown of Bond Component**

Portfolio manager Philip Wendt, who co-manages the three funds alongside Maria Ljungqvist since early 2016, aims to deliver a Sharpe ratio of one. “Given Graal’s Morningstar risk rating of three, which corresponds to an implied standard deviation of two-to-five percent, we should generate an average annual return between two and five percent to achieve our target Sharpe ratio,” Wendt tells HedgeNordic.

To meet the objective, Graal maintains a net exposure to equities of 20 percent, with the remaining capital being allocated to fixed-income instruments. The fixed-income portfolio was originally expected to provide a return contribution of 200 basis points, but “that has come down to some 100 basis points” acknowledges Wendt. The diminished return attribution from this portfolio partly relates to a loan used for the levered structure of Graal Offensive.

“The conditions of the loan used for the leveraged version of Graal restrict us from holding more than five percent in high-yield instruments,” explains Wendt. “This loan’s conditions limit the credit risk we can load up on across all Graal products,” hence, the diminished return contribution from the fixed-income portfolio overseen by Maria Ljungqvist. As “Maria has been diversifying away from real estate, which accounts for most Swedish krona-denominated bonds,” the pool of attractive investment opportunities narrowed – yet another reason behind the reduced return attribution.

## **Return Attribution Breakdown of Graal’s Equity-Linked Components**

Apart from the fixed-income portfolio, “the fund has long exposure to stocks of 40 percent and short

exposure of 20 percent,” says Wendt. Explaining the return attribution of long positions, the portfolio manager says “the ambition has been to provide between five and ten percent on an annual basis.” For that reason, “we search for opportunities that can generate around ten percent.” With the long exposure amounting to around 40 percent, “we expect a return attribution of around 300 points per year from the long portfolio,” adds Wendt. “The portfolio of short positions, meanwhile, is expected to generate north of 200 basis points each year.” The Graal funds currently have 25 long positions and 15 short positions in their portfolios, and “almost all of the 15 short positions are paired,” explains the portfolio manager.

The team also writes call options and writes put options to capture some premium during times of tranquillity. “Our ambition has been to gain around ten basis points per month in premiums, which adds another percent per year in returns,” says Wendt. All in all, the three Graal hedge funds are expected to generate around six percent annually before fees, corresponding to a net-of-fees return of around three percent per year.

### **Top-Down Approach to Selecting Investments**

Wendt uses a top-down approach to identify and manage equity investments. “The reason for having more of a top-down approach stems from my experience of living through different episodes that favoured specific factor styles,” he explains. Wendt, Lars-Erik Lundgren (portfolio manager of Aktie-Ansvar’s Swedish-focused equity fund) and Peder Du Rietz (portfolio manager of the firm’s mixed-fund Saxxum Aktiv) frequently discuss and share their views on market conditions and appropriate portfolio positioning.

Following internal discussions at the end of last year, the team at Aktie-Ansvar found it difficult to be enthusiastic about equity markets going higher throughout 2018. “Our view this year has been that the liquidity drain as a result of central bank hawkishness would lead to multiple contractions, especially across the mid-cap names,” Wendt tells HedgeNordic. “It did cost us dearly in the first half of the year, but our view paid off in the second part of the year.” Graal, for instance, lost 2.6 percent in the first six months of 2018 but gained 3.4 percent from the beginning of July through the end of November.

The basket of long positions currently held by the three Graal funds has a defensive tilt, comprising consumer staples, healthcare services and telecom names. “We position ourselves depending on the stage of the market cycle and market conditions. We would rather be along with the market rather than fight the market,” concludes the portfolio manager.