

# Steady Does it for PriorNilsson Yield

Stockholm (HedgeNordic) – On a cold day in Stockholm exactly 16 years after the launch of PriorNilsson Yield, portfolio manager Per-Olof Nilsson (*pictured*) met HedgeNordic to explain the investment approach behind Yield, a low-risk product currently receiving strong interest from Nordic investors looking for capital preservation solutions, and the decision to sit on cash since the summer.

## PriorNilsson's Capital Preservation Fund - Alternative to Cash

According to PO Nilsson, PriorNilsson Yield should be viewed as an alternative home for cash or an alternative for money in the bank. The hedge fund operates as a market-neutral equity fund that maintains a net market exposure between minus ten and plus ten percent. "Most of the time, Yield's net market exposure is close to zero. We want to neutralise the beta exposure," Nilsson tells HedgeNordic.

"The whole concept behind PriorNilsson Yield is that the return originates from the portfolio of long and short positions in Swedish equities," explains Nilsson. The remaining capital, meanwhile, is usually invested in short-term debt securities such as Swedish treasury bills. "But since treasury bills are not providing even a zero return at the moment, we seek for other alternatives such as commercial papers offering a foreseeable outcome," says the portfolio manager. "The duration of our fixed-income portfolio is very short, which means we have good visibility of the returns we receive. We invest in these alternatives to carry the money that is not used," he adds.

## Close to Zero Net Market Exposure Since the Summer

"We aim to return between two and four percent above the risk-free rate offered by short-term certificates," says PO Nilsson, and the primary source of this return stems from the long/short portfolio of equities. At times, however, PriorNilsson Yield's net market exposure is reduced to a minimum. "We are looking to get a good sense of the overall market, and we analyse whether the market environment offers attractive long and short positions or not," says Nilsson about their approach to adjust the market exposure.

"We had a negative view on the market in September, for instance, so we reduced both the gross and net market exposure," he says. The fund's net market exposure hovered between one and nine percent throughout 2017, but the net exposure hardly reached five percent this year. The net market exposure reached a negative one-half of a percent at the end of September, but Nilsson reckons "now is a time to increase the gross exposure again." The net exposure increased to 2.4 percent at the end of last month.

If the market environment is favourable and warrants market exposure, PO Nilsson constructs a concentrated portfolio of heavily-researched larger Swedish public companies. Ideally, these positions exhibit asymmetric return properties – investments with strong upside potential and limited downside risks. Asset management firm PriorNilsson maintains a unified idea generation process for its research-based products consisting of two equity funds and long/short hedge fund PriorNilsson Idea.

The firm's three-member team, comprised of Torgny Prior, PO Nilsson and Martin Lindqvist, uses a fundamentals-based approach to select investments and aims to reduce downside risk by gaining in-depth knowledge of their holdings. "All our funds have the same universe, and we use the same

approach of doing research across the entire range of products. We then pick those opportunities that fit best this specific product,” says Nilsson. “We usually have a select group of ideas in Yield,” typically between five and twelve long positions. As PriorNilsson Yield maintain a market-neutral exposure, the hedging is conducted through various means. “We can hedge through short positions on individual companies, or, we can use futures or put options on the broader market or individual securities,” says Nilsson.

### **Low-Interest Rate Environment Good for Asset Raising**

Currently overseeing SEK 2.14 billion in assets under management, PriorNilsson Yield represents the asset manager’s flagship fund. Partly because of the low-interest-rate environment, the low-risk market-neutral fund saw its assets increase from SEK 284 million at the end of 2011 to SEK 1.38 billion at the end of last year and SEK 2.14 billion at the end of November.

The asset raising-environment for PriorNilsson Yield has been “easier than ever”, reckons Nilsson, arguing that the strong performance of their research-based Swedish equity funds in recent years helped increase awareness of the firm. “The strong performance of our equity funds has shown investors we are good stock pickers, which also attracted interest in our hedge fund products,” says Nilsson. “We have been researching and working with Swedish companies for many years now, and we know the market very well. And with less analyst coverage than in the past, our expertise in the market gives us a competitive advantage,” adds Nilsson.

PriorNilsson Yield generated an annual compounded return of 3.9 percent since launching in December of 2002 but has earned an average return of 1.1 percent per year in the past three years. Although Nilsson is not satisfied with the performance in any of these years, the Sharpe ratio and alpha generation show a different story. “If you look at the Sharpe ratio and the alpha generation in the positions we held, those have been very solid,” says Nilsson. The fund’s Sharpe ratio over the past 36 months equals 2.7. “My biggest mistake in recent years was that I had been too careful about the gross exposure,” he acknowledges. “I should have done the same, but in bigger volumes,” concludes the portfolio manager.