Enough of Bad, Ugly Hedge Fund Performance. The Good:

Stockholm (HedgeNordic) – While the Nordic hedge fund industry performed poorly on an absolute basis in 2018, there were those fund managers that navigated last year's market turmoil quite well. Gladiator Fond, Shepherd Energy Portfolio, and Formue Nord Markedsneutral were just some of the bright spots in what was the Nordic hedge fund industry's worst year since 2008.

The Nordic Hedge Index Composite (NHX) fell by 3.6 percent last year, still outperforming both global and local equity markets. Global equity markets, as measured by the FTSE World Index, declined 4.2 percent last year, while Nordic equities performed even worse. Around 33 percent of the 173 hedge funds currently part of the NHX posted gains for the year, whereas two-thirds of the industry outperformed the FTSE World Index (the MSCI World Index, meanwhile, was down 8.7 percent in 2018).

More than a dozen vehicles included in the NHX registered double-digit losses for 2018, but not all funds performed poorly. The following article puts the spotlight on last year's best performing Nordic hedge funds and shares some insights from top-performing managers on their 2018 journey.

Gladiator Fond (2018 return: 19.7 percent)

The best performing hedge fund in the Nordics last year was Stockholm-based long/short equity fund Gladiator Fond, which returned 19.7 percent. The hedge fund managed by Max Mitteregger posted double-digit annual returns in nine out of its 14 years of existence, generating an average annual return of 12.6 percent since launching in February 2005. Gladiator Fond ended the year with a net market exposure of 12 percent and a gross exposure of 112 percent.

Shepherd Energy Portfolio (2018 return: 13.8 percent)

Second in the performance table is Shepherd Energy Portfolio, a managed futures fund focused on the Nordic power market. The team at Shepherd Energy use fundamental analysis and their long-term experience in Nordic power markets to design strategies that aim to deliver high risk-adjusted returns with limited correlation to traditional asset classes. "We took a long position in medium-range products in February and held this out until the end of the summer," says portfolio manager Arne Österlind. The power contract for delivery in the third quarter, for instance, reached EUR 47.35 per megawatt hour (MWh) on expiry after having doubled in price during the first half of the year. "Power prices surged as a historically warm, dry summer saw hydropower reserves dwindle, coupled with a sharp rally in the EU emission markets," Österlind tells HedgeNordic. "However, the autumn brought wetter weather to the Nordic region at the same time as emission prices pared back, which made the market drop. The fall was more turbulent and we implemented some spread strategies with lower risk, which altogether gave a small positive gain for the portfolio," the portfolio manager adds.

The fund gained 13.8 percent last year and generated a total return of 34.0 percent in the past three years. "We are very happy about our performance in 2018, which is in line with our objective to achieve 10-15 percent annually," COO and risk manager Lina Petrell tells HedgeNordic. The team has a positive outlook for 2019 as well. "A rapidly-increasing share of renewables makes the power system more weather dependent, and this is positive for our strategy. There is also higher short-term volatility, providing good opportunities for higher yield," concludes Österlind.

Formue Nord Markedsneutral (2018 return: 13.6 percent)

The industry's third-best performer was Danish market-neutral fund Formue Nord Markedsneutral with a return of 13.6 percent last year. "2018 has been a great year for Formue Nord Markedsneutral with strong alpha generation," portfolio manager Rasmus Viggers tells HedgeNordic. "We are very pleased that we are able to stay uncorrelated to stock markets even in challenging years such as 2018, and we are working hard to keep up the good momentum in 2019," he adds.

Formue Nord Markedsneutral mainly focuses on providing capital to listed small- and midcap companies on flexible terms but also takes long positions in public companies believed to be mispriced. The fund neutralizes the beta exposure by getting short exposure to a basket of futures on stock market indices. The Formue Nord team was involved in 150 transactions last year, underwriting more than 50 rights issues and providing short-term financing to more than 20 listed companies. "Our goal for 2019 is to keep delivering returns that are uncorrelated to the stock markets and focus on the areas where we believe we have an edge," Viggers comments on the team's plans for this year.

Ress Life Investments (2018 return: 9.9 percent)

Its best annual return since launching in early 2011 put Ress Life Investments in the fourth spot on the performance table for last year. The alternative fund that invests in the secondary market for U.S. life insurance policies gained 9.9 percent last year, "as more policies and larger policies paid off during the year" according to Jonas Mårtenson, Founder and Head of Sales at Ress Capital.

Ress Life Investments purchases unneeded life insurance policies from their original owners and pays premiums as policy beneficiary until the insured person passes away and the policy pays out. The fund targets an annual return of seven percent without any leverage, but Mårtenson reckons they might have been too conservative with their original return expectations. "Last year, we delivered on our promise to provide investors with uncorrelated returns in volatile markets," he tells HedgeNordic. Talking about expectations for the current year, Mårtenson says "just because we had our best annual return last year, it does not mean we have lower expectations for 2019. We might even do better this year."

Adrigo Small & Midcap L/S (2018 return: 8.7 percent)

Launched in November of 2017 as a sister fund of long/short equity fund Adrigo Hedge, Adrigo Small & Midcap L/S returned 15.4 percent since inception and gained 8.7 percent in 2018 alone. The fund performed strongly during its first two months but had a quite tough start to 2018. "After having done further in-depth analysis, including a number of on-site visits, we added to our large positions in Recipharm and Arjo which paid off handsomely in Q2 [the fund was up 13.8 percent for the quarter]," portfolio manager Staffan Östlin tells HedgeNordic.

"After a very strong September, the fund continued to perform well when the markets turned sour in October," he adds. The last month of the year was not as kind to Adrigo Small & Midcap L/S. "December was the most eventful month and despite good performance in our short positions, the fund lost in line with the market," Östlin comments on the December performance. Nonetheless, "the fund has managed to create excess returns in a period characterised by volatility and uncertainty," the portfolio manager concludes.

Completing the Top Ten

Three members of the NHX CTA index also made the list of top ten best performing hedge funds in the Nordic Hedge Index (NHX). Estlander & Partners Presto, which employs short-term trend-following models, gained 8 percent in 2018. Two artificial intelligence-assisted vehicles, Volt Diversified Alpha Fund, and Calculo Evolution Fund, closely followed suit.

Volt Diversified Alpha Fund, which applies machine learning and fundamental input data to capture price moves in futures markets, gained 7.9 percent last year after returning 11.2 percent in the turbulent fourth quarter of the year. “While our performance in the first half of the year was back and forth, in the second half a lot of our fundamentals-based models initiated positions in commodities, currencies, and fixed-income that paid off handsomely,” CIO Patrik Safvenblad tells HedgeNordic. The reason behind Volt’s strong performance in the latter part of the year stems from the learning process of the fund’s machine learning-powered models. “Market conditions are changing, so models have to gradually adjust as well,” CEO Tommi Lindeman adds.

Calculo Evolution Fund, an artificial intelligence-assisted trend-following commodity fund, gained 7.3 percent since launching in August of last year. “The trend-following approach that is assisted by machine learning profited from market volatility especially in energy and metals,” portfolio manager Philip Engel Carlsson tells HedgeNordic. “We would have liked a follow-through in the grain markets with the Chinese buying US soybeans in December, however, we are very satisfied with the overall performance,” he adds.

Scandinavian Credit Fund, which provides direct loans to small- and medium-sized companies, and long/short equity fund PriorNilsson Idea were up 7.3 percent and 7.0 percent last year, respectively. The direct lending fund saw its assets more than double last year from SEK 1.18 billion at the end of 2017 to SEK 2.87 billion at the end of November. PriorNilsson Idea registered its seventh consecutive year of positive returns, generating an average annual return of around 15 percent in the past seven years. The fund earned an average compounded return of 9.1 percent per year since its inception in January 2006.