Catella's Long/Short Equity Vehicle Overhauls Strategy

Stockholm (HedgeNordic) – Catella Nordic Long Short Equity, just like many other long/short equity funds, delivered disappointing performance in 2018 following a challenging fourth quarter. After reshuffling the portfolio management team running the fund (read more details), Stockholm-based asset manager Catella decided to reorganize the fund's strategy as well.

Catella Nordic Long Short Equity predominantly invests in Nordic equities using a combination of fundamental and quantitative approaches. Launched in December of 2010, the long/short vehicle delivered an average annual return of 3.4 percent through the end of February despite experiencing a 13.8 percent decline in 2018. The fund's net market exposure mostly hovered around 50 percent throughout 2018 up until the end of November, when the net exposure started to slide into negative territory.

The reduced net market exposure in the latter part of 2018 was an early sign of coming plans to revamp the fund's strategy. Starting from this year, Catella Nordic Long Short Equity aims to generate returns that are less dependent on the evolution of equity markets and exhibit less concentration of risk by maintaining an enlarged portfolio of holdings. According to Thomas Elofsson (*pictured*), one of the five portfolio managers running Catella's long/short equity fund, "the current focus of the portfolio management team is to increase gross exposure, reduce net exposure and, more importantly, reduce correlation to equity markets."

From a purely risk-return perspective, nothing changes for Catella Nordic Long Short Equity. "The risk-return target remains the same as before, with the fund targeting an annual return between five and ten percent with an annualized volatility in the same range," adds Elofsson. The fund now aims to run a near market-neutral portfolio, with the majority of the risk and return stemming from company-specific risk and individual stock picking rather than market directionality. "Investors should not expect the fund to have a strong long-bias over time," warns Elofsson.

The portfolio management team does not give up on their value-oriented approach to investing, but that does not mean the fund solely focuses on investing in companies trading at low valuation multiples. "We are fundamental investors. For us, the fundamentals are more important than just the numbers," says Elofsson. "Our view of a company's intrinsic value is based on valuation multiples, our views on future growth potential, the development of profit margins and structural changes, all these factors are essential for the fund's positioning."

Commenting on the fund's current portfolio, Elofsson says "we have a diversified portfolio comprised of long positions in companies we believe are attractively valued and short positions in companies with too high valuations." Whereas valuation is an important parameter in the team's decision-making process, "valuation is usually not enough to take a position," reckons Elofsson.

Following the recent adjustments to its strategy, the net market exposure maintained by Catella Nordic Long Short Equity has been fluctuating in negative territory in the past two months or so, which delayed a possible solid recovery after equity markets rebounded strongly this year. The changes, however, are likely to help get Catella's fund back on track, as uncorrelated returns are increasingly sought-after following a decade of rising equity markets.