

# Meet Alcur's Aggressive Comrade

Stockholm (HedgeNordic) – Stockholm-based asset manager Alcur Fonder launched an aggressive small-cap-focused long/short equity fund in the first quarter of last year, more than a decade after starting their flagship hedge fund, Alcur. The younger fund, designed to capture superior risk-adjusted returns with Nordic smaller-cap stocks, earned a cumulative return of around 20 percent since launching last May and came through 2018's turbulent fourth quarter without any deep scratches despite its long-bias. The fund gained about 15.5 percent year-to-date through the end of February.

HedgeNordic met portfolio manager Wilhelm Gruvberg (*pictured*) and CEO Niclas Röken on a sunny (yet, dead freezing) day in Stockholm to understand the strategy employed by Alcur Select, find out the differences between the two Alcur funds, and grasp the young fund's proposition to investors.

## Defensive Small-Cap-Focused Fund or Hedge Fund on Steroids

In a nutshell, Alcur Select is a “long-biased small-cap-focused equity hedge fund focusing on the Nordic region, with more of a tilt towards Sweden” explains Wilhelm Gruvberg, who is responsible for the day-to-day management of the fund. On average, around 70 percent of exposure comes from small-caps, but the fund can also invest up to 20 percent in larger caps. “We mostly invest in larger-cap names for liquidity reasons, but, on certain occasions, we find very attractive risk-reward opportunities in the space that just cannot be ignored,” says Gruvberg.

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Commenting on the difference between Alcur Fonder's flagship fund and its younger comrade in terms of segment focus, Niclas Röken says “the two funds have some shared positions, but Alcur Select is tilted towards smaller-sized companies because we want to capture liquidity risk premia as well.” Discussing the geographical focus, Gruvberg concedes that “our portfolio tends to be dominated by Swedish companies because our experience and expertise are concentrated in the Swedish market.”

The lead portfolio manager and his colleagues already had good knowledge of the local market before the launch. Alcur, the flagship fund launched shortly before the financial crisis, has weathered market turmoil many times. The fund managed by Johan Klevby gained 5.4 percent in 2008 and was up 3.7 percent last year, with its worst annual loss amounting to a mere 0.2 percent. CEO Niclas Röken handed over the day-to-day management of Alcur to Klevby a year ago. Mikael Holm Lorsell joined the firm's portfolio management team after working as a sell-side equity analyst focusing on small-caps at Erik Penser and Swedbank.

## Average Net Exposure and Stock Selection Process

Alcur Select is a long-biased long/short equity fund and “will maintain a net market exposure between 50 percent and 100 percent over a full economic cycle” according to Gruvberg. The net market exposure at any given time is largely dependent on the existing pool of attractive risk-reward opportunities. On the back of the flagship fund's success, Alcur Select aims to offer investors superior risk-adjusted returns from the small-cap space by capitalizing on their proven stock-picking abilities. “Our investors are interested in the long-term return of this asset class [small-sized

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Regardless of the direction of its investments, either long or short, Alcur Select’s underlying strategy lies on its fundamental, bottom-up analysis. Gruvberg applies a flexible, style agnostic approach to investing, but usually prefers to buy dollar bills for 50 cents. As Röken explains, “we look at each position as we always have; each investment opportunity is a risk-reward question than anything else.” Gruvberg seeks to build positions in all types of businesses he understands when these are available at prices significantly lower than their estimated intrinsic values.

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“We like to invest in high-quality companies earning high returns on capital employed at the right price, but we also invest in low-returning businesses that sell well below intrinsic values,” explains Gruvberg. Although the team conducts broader macro analysis, “the bottom-up research process is core to our stock selection process” says the manager. This process involves meeting company management teams, building valuation models, evaluating both upside potential and downside risk, analyzing managerial competence, as well as examining ownership structures. Yet, “the decision to invest or not in a given company comes down to the risk-reward trade-off,” reckons Gruvberg.

### **Premier League, Qualifiers and Shorting**

Maintaining a highly-concentrated portfolio of high-conviction ideas is an integral part of Alcur Select’s investment philosophy. “Our four highest-conviction cases account for a collective 40 percent of our portfolio,” says Gruvberg, adding that they have “another five positions with portfolio weights between five to ten percent.” Alcur Select also maintains 15 to 20 very small positions, so-called qualifiers that can eventually end up in the fund’s “Premier League” basket of high-conviction ideas. “The position sizes are too small to move a needle in the overall portfolio’s returns,” acknowledges Gruvberg. “But this approach forces us to learn more about these companies.”

The approach to shorting companies, meanwhile, does not differ meaningfully from the approach of selecting long positions. “When analyzing both long and short candidates, we put a lot of effort to identify both the upside and downside of each investment,” says Gruvberg. Whereas long positions should have huge upside and limited downside, short candidates should have limited upside potential and huge downside potential. “For Alcur Select, we search for short candidates that can add to returns rather than reduce market exposure,” Röken tells HedgeNordic. The fund’s basket of short positions made four times the money generated by its long positions since its inception.

“To build the portfolio of short positions, we usually look at sectors or companies facing and suffering from structural changes,” explains the portfolio manager. Swedish banks comprised one of Alcur Select’s main short cases so far. Gruvberg has struggled to see any upside for Swedish banks. “Banks are losing market share in every single important product category: the mortgage business, the card business, the asset management business, you name it,” says the manager. “We see no upside, and there is a macro risk on top of that: the Swedish housing and retail market are

deteriorating," he continues. "Here is a structural case in a nutshell."