Alcur Sends Aggressive Sister Fund to the Races

Stockholm (HedgeNordic) – More than a decade after starting their flagship hedge fund **Alcur**, Stockholm-based asset manager Alcur Fonder sends a new fund to the races. The new fund, **Alcur Select**, designed to capture superior risk-adjusted returns in Nordic smaller-cap stocks, was one of last year's more prominent hedge fund launches as the rookie fund was nominated in the "New Fund of the Year" category at the Eurohedge awards 2018.

Portfolio manager Wilhelm Gruvberg *(pictured)* managed to return around 26 percent in less than a year with Alcur Select since launching in May of last year. Alone in the first months of 2019, the fund gained 20.5 percent. Maybe more importantly, the young vehicle came through last year's turbulent fourth quarter without any deep scratches despite its long bias.

10 Year Challenge: Alcur VS Alcur Select

In a nutshell, Alcur Select is a "long-biased small-cap-focused equity hedge fund focusing on the Nordic region, with a tilt towards Sweden" explains Wilhelm Gruvberg, the manager 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.

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."

Whereas Gruvberg joined Alcur Fonder less than two years ago, Niclas Röken and Johan Klevby, who co-founded Alcur Fonder in 2006 and occasionally contribute to Gruvberg's stock selection and decision-making process, built up their expertise of Swedish equities after co-managing their defensive long/short absolute return fund, Alcur, for more than 12 years. Maintaining an average net market exposure very close to zero, Alcur earned an annualized return of 4.6 percent since launching at the beginning of 2007 at an annualized volatility of only 2.4 percent. This translates into an impressive inception-to-date Sharpe ratio of 1.87.

Downside protection is a quintessential attribute of Alcur, the flagship fund launched shortly before the financial crisis. The fund currently managed by Johan Klevby has weathered market turmoil many times, gaining over five percent in 2008 and nearly four percent last year. The only annual loss so far amounted to a mere 0.2 percent. CEO Niclas Röken handed over the day-to-day management of Alcur to Klevby a year ago. The buy-side experience of Klevby, Röken, and Gruvberg has been recently complemented with the sell-side experience of Mikael Holm Lorsell, a sell-side equity analyst focusing on small-caps who joined Alcur Fonder at the beginning of 2018.

Hedge Fund on Steroids and Stock Selection Process

Alcur Select is a long-biased long/short equity fund that "maintains 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 the team's proven stock-picking abilities.

"Our investors are interested in the long-term return of small-sized companies, and our ability to short companies gives investors an additional source of return," says Gruvberg. "Whereas Alcur is shorting companies to bring down the risk and stay in a pre-defined risk spectrum, Alcur Select aims to make money in every short position," Röken outlines the difference between the two funds' approaches to shorting. "Alcur Select seeks an absolute return from all short positions."

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.

"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, analysing 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, Shorting and Fees

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 analysing both long and short candidates, we put a lot of effort to identify both the upside and downside of each investment," says Gruvberg. "For Alcur Select, we search for short candidates that can add to returns rather than reduce market exposure," Röken tells HedgeNordic. "In the Alcur fund, the basket of short positions made almost four times the money generated by its long positions during 2018," he adds.

"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."

Alcur Select's increased aggressiveness vs. the flagship fund does not make it easier to generate performance-related income for itself, as the younger vehicle needs to achieve a not-so-easy return threshold to charge investors performance fees. Charging an annual management fee of one percent, Alcur Select has to reach a benchmark threshold of five percentage points over the three-month risk-free rate (SSVX90) to charge investors a performance fee of 20 percent with a high-watermark. "Over time we estimate that this hurdle represents the expected return on equities," says Röken. "We make money for ourselves only when our investors make money," concludes Gruvberg.