Win the Crowd and Win the Freedom

Stockholm (HedgeNordic) – The long-running market rally we have observed, and some enjoyed since 2009 has translated into impressive returns for long-biased and long-only stock pickers. Max Mitteregger *(pictured)*, the founder and portfolio manager of Stockholm-based long/short equity fund **Gladiator Fond**, managed to beat equity market indices with considerably less market exposure.

Gladiator's Post-Financial Crisis Journey

When loaded up on significant market exposure in a bull market, the laws of chance would permit a few fund managers to turn in strong track records for the past decade. Mitteregger took a different approach to earn market-beating returns. With an annualized return of roughly 16 percent since 2009, Gladiator Fund did turn in a strong record indeed. These impressive results, notably, were achieved with minimal exposure to equity markets.

From a cozy office facing the Berzelii Park in central Stockholm, Max Mitteregger has been keeping Gladiator Fond's average net market exposure at around 15 percent since 2011. After booking a 45 percent return in 2009, which more than recouped the fund's losses in the prior year, and advancing an additional 18 percent in 2010, Mitteregger turned bearish on stocks as a result of the massive central bank money printing. His bearish views helped Gladiator Fond book a ten percent gain in 2011.

"After 2010, I started to become quite bearish on equities. My concerns around the uncertain effects of the printing of money were growing, that's why the fund performed well in 2011 even though markets were down heavily due to the European crisis," says Mitteregger. "Gladiator has been run with a very low net market exposure since then."

"The leverage in the financial system is significantly higher now than in 2008," Mitteregger speaks out his concerns. With the near-zero interest rates and the massive stimulus programs not translating into stronger economic growth, Mitteregger reckons "we are close to the end." The portfolio manager anticipates sluggish economic growth for a long time, "that's why I invest in companies that can grow despite low economic growth."

Effect of Bearish Views on Investment Style

Gladiator is a long/short equity fund maintaining a highly concentrated portfolio, consisting of only 12 to 15 companies in the long book. Each of the fund's three largest holdings accounts for 10-15 percent of the portfolio, with two additional names accounting for around eight percent each. Mitteregger holds the same positions for a very long period. "I don't change the names in the portfolio very often. I stick with the same holdings for many years," he says on his favorite holding period. "If the valuations of my holdings are stretching, I usually sell a little bit. I build up my positions again when valuations become cheaper."

Since turning bearish on equities and major economies in 2011, Mitteregger decided to invest in companies that can grow regardless of where we are in the business and economic cycles. "I like to own companies that can grow at a much higher pace than the global economy, companies with good growth prospects regardless of what the economy does," says Mitteregger. "Although I prefer investing in growing companies rather than cheap stocks such as Swedish banks, I want to buy these growth companies at reasonable price levels."

Gladiator Fond has maintained a low average exposure to the market since 2011 and Mitteregger discloses he has turned "more net short this year than I have ever been." To reduce the market exposure, the portfolio manager keeps "a few individual short positions but mostly hedge the portfolio with OMX30 futures or put options on that index." Around 95 percent of the hedging is done using futures and put options. "Since the OMX30 contains a lot of banks and a lot of cyclical companies, I like to be short the index," says Mitteregger. "I expect my holdings to outgrow and outperform the OMX30 over time; that's my view."

In addition to exhibiting good growth prospects, what all companies in Gladiator's portfolio have in common is trustworthy and strong management teams. "If a company suffers a bad quarter, I am not ditching the holding from my portfolio if the management can provide a reasonable explanation for the poor performance," says Mitteregger. Companies run by good managers allow him to put his trust in management to steer the ship in the right direction should things go wrong.

2018 Performance, Differentiation, and Cap on Assets

Gladiator Fond earned 19.7 percent in 2018, making it the strongest net performer in the universe of 175 funds making up the Nordic Hedge Index (NHX). In the poorest performing year in a decade for the NHX, many other fund managers struggled to find ways to avoid the market turmoil. "Obviously, the main drivers of last year's performance are the five or six biggest names in the portfolio," says Mitteregger. Calming his success last year, the portfolio manager says "it was just a coincidence that a couple of my big names performed extremely well during the year." Last year's performance was not a one-off event though.

The fund delivered an average compounded return of almost 12 percent per year since launching in early 2005. Its performance in the post-financial-crisis period has been even more impressive. Part of that success stems from Mitteregger's skill at identifying high risk-reward opportunities in the biotech space. "I need to make some big bets to generate good returns," says the portfolio manager. "If everyone is saying a biotech's value can go to zero, but I see a 75 percent chance of making four times the investment, I can afford to allocate six or seven percent of capital to that bet."

More importantly, Mitteregger has skin in the game to make such bets. "Almost all my savings are invested in the fund, so I try to manage all investors' money as if it's my own capital." Currently overseeing SEK 4.6 billion in assets under management, Gladiator Fond was closed to new investors at the end of last year. "You don't have to run for all the money; it is not getting easier to get higher returns as assets under management get bigger," concludes Mitteregger.