

Reshuffles Yet to Pay Off

Stockholm (HedgeNordic) – After booking a loss of nearly 14 percent last year, **Catella Nordic Long Short Equity** went under the knife in early 2019. The portfolio management team running the fund was reshuffled, and the strategy turned toward a more defensive approach. In hindsight, the decision to get defensive was not well-timed following a broad-based rally in equities, with the fund incurring a loss of 8.4 percent year-to-date through the end of September.

“First of all, we are not satisfied with the result. The fund should be an absolute return fund,” Thomas Elofsson (*pictured*), Head of Portfolio Management and acting CEO at Catella Fonder, tells AMWatch. “What we have done since the fall of last year, when our performance was awful, is that we have terminated the contracts of two of the managers in charge of the portfolio and put together a new team to manage stock picking,” Elofsson outlines some of the changes undergone by Catella Nordic Long Short Equity.

Starting with early 2019, the fund also employs a more defensive approach in order to generate returns that are less dependent on the evolution of equity markets. As Elofsson previously explained, the “focus of the portfolio management team is to increase gross exposure, reduce net exposure and, more importantly, reduce correlation to equity markets.” Catella Nordic Long Short Equity maintained a slightly negative net exposure to the market throughout most of the year and the net exposure has been hovering around zero since the beginning of September.

On last year’s performance and the fourth-quarter performance in particular, Elofsson tells AMWatch that “the fund’s net exposure was fairly high, and the market was coming down. Our stock-picking on the long side underperformed, and on the short side outperformed the market.” In addition, “the hedge in derivatives was also worse than expected,” says Elofsson, who adds that “the move in implicit volatility was small compared to those of comparable market drops, historically.”

Catella Nordic Long Short Equity is a fundamentals-based long/short equity fund employing a value-oriented approach to investing, with the value tilt in its portfolio partly explaining the recent performance. Catella Nordic Long Short Equity’s performance has been disappointing in 2019, according to Elofsson, who recently said that the main reason behind the underperformance was that “many of the companies we judged to be “cheap” have become even cheaper, and many of the ones we judged to be “expensive” have become even more expensive.”

As Elofsson expects the valuation gap between value and growth stocks to shrink, he anticipates a rebound in Catella Nordic Long Short Equity’s fortunes. “I don’t actually see a reason why it wouldn’t recover after these rearrangements, although this year has been difficult for most value-oriented managers,” Elofsson tells AMWatch.