

Catella Hedgefond Hunts Mispricing



Stockholm (HedgeNordic) - **Catella Hedgefond**, one of the largest hedge funds in the Nordics, was down 2.5 percent in February and down 4.9 percent year-to-date through March 10, but the fund's portfolio managers are ready to capitalize on mispriced opportunities caused by market turmoil. "We are trying to be responsive and pragmatic in the current situation and will hopefully be able to exploit the mispricing that naturally arises during periods of high market turbulence," says fund manager Mattias Nilsson (*pictured*).

Catella Hedgefond mainly invests in Nordic equities and bonds to achieve stable returns at low risk, regardless of market conditions. The fund also uses derivatives to both protect capital against downturns and increase return opportunities. Catella's flagship hedge fund, which manages SEK 6.3 billion in assets, fell by 2.5 percent last month as both equity and fixed-income positions detracted from performance. "The explanation for the weak performance in fixed income was wider credit spreads in the wake of the turmoil around COVID-19 and our short position in interest rate risk, which had a negative outcome as interest rates fell during the month," explains Nilsson.

Catella Hedgefond's long equity positions, including derivatives, detracted 4.4 percentage points from performance in February, whereas short positions contributed 2.4 percentage points. The most significant positive contributors were

short positions in index futures, long positions in Sdiptech (+18.5 percent) and Boozt (+12.8 percent) and a short position in Alfa Laval (-10.3 percent). The biggest detractors from performance were long positions in Ambea (-23.3 percent), Wallenius Wilhelmsen (-30.1 percent) and H&M (-18.1 percent), with these positions accounting for “three-quarters of total losses in the equities portfolio.”

The portfolio management team of Catella Hedgefond have long been warning about the historically strained valuation levels in stock markets. Whereas “the downturn in February has certainly corrected this somewhat,” says Nilsson, “the stock market is not obviously cheap despite the recent large slide.” Anders Wennberg, another member of the team, emphasizes that valuation levels in equity markets were very high when the recent storms triggered by the coronavirus pandemic arrived.

“The multiples were perhaps not the highest ever but high historically, and the economy was not very strong, with concerns about the trade war and other things,” says Wennberg. “The stock market was ripe for a downturn anyway, so it is difficult to divide the slide into how much is due to the stock market being overvalued and how much is due to the coronavirus,” he argues.

According to Nilsson, Catella Hedgefond will seek to “exploit the mispricing that naturally arises during periods of high market turbulence.” The team has not changed its value-oriented approach to investing, but market conditions did. “We are very valuation driven, but the valuation must be set against the fact that estimates are uncertain, as are growth prospects, and the valuation must be seen in relation to that,” explains Wennberg.