

Borea's Sharp 'V-Shaped' Recovery

Stockholm (HedgeNordic) – Norwegian long/short equity fund **Borea Global Equities** did not enjoy a good start to the year, but a sharp reversal in performance almost erased all the losses incurred during the first quarter. Borea Global Equities started the month of April with no short positions and a net market exposure of 113 percent, which led to a gain of 20.2 percent in April. This was the fund's best monthly performance on record.

Confident in the financial standing and the business strength of its holdings, which include Warren Buffett's cash-rich Berkshire Hathaway and Google's parent company, Alphabet, portfolio manager Kjetil Nyland and his team increased the fund's net market exposure to 113 percent at the end of March from 78 percent at the beginning of March. "The companies in the portfolio have solid market positions, strong cash generation and capital structures that make them well-equipped to meet and navigate this downturn," wrote Nyland in a letter to investors about a month ago.

"The road ahead is hardly hassle-free," acknowledged Nyland, "but the best investments are made in the environment we are currently navigating and volatility is an essential ingredient for creating long-term returns." This was the main reason Borea Global Equities increased the net market exposure to over 100 percent at the end of March. After the turbulent month of March, April witnessed a swift market rebound even as the unprecedented COVID-19 crisis comes with a dire economic outlook. The high net market exposure paid off for Borea Global Equities last month.

Borea Global Equities was down 9.7 percent in March, as the positive contribution from short positions and derivative contracts could not entirely offset the value decline of its long portfolio. "The fund was well-positioned for the downturn in terms of exposure and hedging contracts, but this was not enough to abate the fall that hit the fund's positions with energy exposure," Nyland commented on the March performance. The month of March was "as everyone knows, unique and extremely volatile, but at the same time, was a period that created great opportunities."

Borea Global Equities usually maintains a concentrated portfolio of between ten and 15 mispriced businesses with long-lasting competitive advantages that allow them to defy capitalism and mean reversion. At the end of March, the fund's portfolio comprised over 20 long positions. The team managing Borea Global Equities wound down the short positions and hedges in mid-March and "planted several seeds along the way throughout this downturn," according to Nyland. "The results will only be visible when the turmoil subsides," he emphasised.

"The majority of new positions in our portfolio are companies that we had analysed and had on our wish list long before the downturn occurred, but their valuations had never been quite attractive for us," said Nyland. Borea Global Equities delivered an annualised return of 12.2 percent since launching in October 2011, currently ranking among the top best performers of all up and running Nordic hedge funds. Following the gain of about 20 percent in April, Borea Global Equities is now down 1.5 percent in the first four months of 2020.