

Formue Nord Boosts Dry Powder

Stockholm (HedgeNordic) – Hedge funds have faced a challenging asset-raising environment in recent years, which was only exacerbated by lockdown restrictions and social distancing efforts. Some hedge funds, however, have been successful at raising funds despite mounting challenges. **Formue Nord Fokus**, a niche hedge fund offering debt and other financing solutions to smaller companies in the Nordics, has seen its assets under management increase fivefold after raising DKK 200 million in less than three weeks.

Formue Nord Fokus opened to fresh capital in August for the first time since launching in September 2018 in preparation for higher company demand for capital over the autumn. “The goal was to raise DKK 150 million with a fundraising cap of DKK 200 million,” investment manager Mikkel Hagel (*pictured left*) tells HedgeNordic. “Within our market niche, it is not possible to scale indefinitely and scaling takes time, which is why we are very careful about not being overcapitalized,” Hagel points out. “We do not want to dilute the fund’s returns due to overcapitalization.”

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The Formue Nord team led by CIO Rasmus Viggers (*pictured right*), which also runs **Formue Nord Markedsneutral**, planned to keep Formue Nord Fokus open for subscriptions for the entire month of August. The cap of DKK 200 million, however, was reached in less than three weeks. “The fund is now closed for subscriptions until we are certain that we can place more capital within the investment niche again,” Hagel tells HedgeNordic. Both Formue Nord Fokus and Formue Nord Markedsneutral focus on financing smaller companies in the Nordics while hedging the market beta risk with equity index futures and other derivatives.

Formue Nord Fokus, however, generally offers financing solutions with a maturity of at least one year, whereas Formue Nord Markedsneutral engages in transactions with shorter maturities. The strategy employed by Formue Nord Fokus “revolves around debt financing solutions with a time horizon of up to three years,” explains Hagel. “At the same time, Formue Nord Fokus has the capability to partake in various equity financing solutions, enabling the fund to be a flexible financing partner to listed companies within the micro- and small-cap segment.”

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Discussing the fund’s opportunity set, Hagel and his team “see a high demand for one-to-three-year convertible loans with a fixed strike price typically 20-50 percent above the current share price.” According to Hagel, “there is a constant need of capital coming from many interesting development and growth companies in the micro- and small-cap segment, and with our flexible mandate, we feel we are well-positioned to seize opportunities of varying structures.”

Reliable Financing Partner in Tough Conditions

The unprecedented economic slowdown caused by the COVID-19 pandemic has increased the need for capital among many businesses, creating more attractive opportunities for Formue Nord Fokus and its multiple-award-winning sister fund. “The pandemic has had a large impact on our niche,”

Hagel tells HedgeNordic. “We saw a tendency to postpone already-planned equity offerings, with companies seeking debt financing instead,” he continues. The COVID-19 pandemic has been wreaking havoc on the global economy, which “has increased the demand for capital to help companies get through the pandemic.” Formue Nord Fokus wants to continue to serve “as a flexible financing partner,” ready to help stabilize promising companies.

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“We take great pride in being a long-term financing partner to growth companies, and we are glad that our ability to provide capital when companies needed it the most have also benefitted our co-investors by generating a good return,” emphasizes Hagel. Formue Nord Fokus gained 23.4 percent in the first eight months of 2020, ranking among the top ten best performing hedge funds in the Nordic this year. “Fokus’ year-to-date returns have been exceptional so far this year,” Hagel comments on the fund’s performance. “The opportunity set within our niche has been large, partly due to the unfortunate circumstances caused by the pandemic.”

Its market-neutral approach has helped the fund navigate turbulent market conditions and exploit attractive opportunities. “We were able to place capital and execute investments even when the market was at its lowest, because a central part of the investment strategy is to be market neutral,” explains Hagel. “We received an influx of cash from our hedges when markets were tough, and this cash was reinvested into the many interesting companies we are engaged in.”