

Adrigo's Post-Acquisition Story

Stockholm (HedgeNordic) – For some firms, new ownership brings dramatic changes to the way things are run. For others, ownership changes bring an objective eye, fresh energy, and strategic focus. Following East Capital Group's acquisition of Adrigo Asset Management, Staffan Östlin's **Adrigo Small & Midcap L/S** continues to run with the same team and the same strategy – albeit with additional sources of market knowledge, extending its run of good performance.

"From a portfolio management perspective, East Capital Group's acquisition did not really have any major implications," Östlin, who runs Adrigo Small & Midcap L/S alongside Johan Eriksson, tells HedgeNordic. "We are running the fund exactly as we have done over the last three years," he continues. "We are always fine-tuning the strategy, of course, but nothing major has changed after the acquisition when it comes to how we manage the portfolio. And nothing will change going forward either."

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Being part of a larger asset management firm, however, does bring some advantages. One of the obvious benefits of being under the umbrella of a larger firm is the interactions with a larger part of the investment community. "We are part of a larger firm, so we have the opportunity to have more interactions with various portfolio managers and analysts," says Östlin. "Previously we were purely focused on the Nordics, but the opportunity to listen and talk to someone living and working out of Moscow or Hong Kong, for instance, makes a difference," he adds.

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An increasing number of fund managers are incorporating ESG into their investment processes, and Östlin's small- and mid-cap-focused stock-picking hedge fund is no exception. "While corporate governance assessment and close dialogue with the companies we invest in have been an integral part of our strategy since the fund's inception, ESG integration has become even more in focus for us since the acquisition," Östlin tells HedgeNordic. "That has become a considerable focus for us."

The new ownership has also meant the beginning of the end for **Adrigo Hedge**, once the flagship hedge fund of Adrigo Asset Management. The long/short equity fund focused on larger and more liquid companies in the Nordics is scheduled to be merged into the younger, stronger-performing Adrigo Small & Midcap L/S on October 1. "Looking at Adrigo Hedge, it was a fine story for about 14 years, but the performance was clearly not good at all over the last three years," explains Östlin. "There are various reasons behind that, including changes of managers quite a few times, which always has an impact on the overall structure of the portfolio and also on the performance." With only Östlin and Johan Eriksson jumping ship following East Capital Group's acquisition of Adrigo, the decision to merge Adrigo Hedge into Adrigo Small & Midcap L/S was mostly about using available resources efficiently.

Year-to-Date and Inception-to-Date Performance

Adrigo Small & Midcap L/S is a stock-picking equity hedge fund looking for long and short

opportunities in the Nordic small- and mid-cap segment, with its long book comprised of three building blocks: Core Five, High-Potential, and Dynamic. As previously explained by Östlin, the third and last block consists of more opportunistic investment ideas with investment horizons between one and twelve months.

“Our dynamic investments allow us to react when market conditions are changing, which means we can avoid being stuck with one strategy that underperforms in certain market environments,” Östlin previously told HedgeNordic. This building block mainly contributed to the fund’s strong recovery in performance after the turbulent first quarter of 2020. Adrigo Small & Midcap L/S gained over 45 percent from April through the end of September to bring the year-to-date performance well into positive territory at over 20 percent.

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“During the last week of March, we sat down and took the decision to turn around the portfolio by taking some aggressive moves in the dynamic part of the portfolio,” Östlin tells HedgeNordic. “That is why we had a pretty rapid recovery in April and May,” he continues. Looking back at the first quarter, when the fund lost about 17 percent over the span of three months, “we had too defensive bets on the short side,” acknowledges Östlin. “In hindsight, we should have been more proactive and should have been more aggressive on the short side. The February and March period was terrible.”

The fund’s inception-to-date journey can provoke few, if any, criticisms. Adrigo Small & Midcap L/S has delivered an annualized return of 17 percent since launching in November of 2017, hovering above the high-end of the fund’s return ambition. “We have the ambition to return between eight and 16 percent annually, so we are pretty happy,” says Östlin. Highlighting the best stretch of performance, Östlin says that “we did well during 2018, which was clearly a challenging year for small-caps.”

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Östlin, however, is not very happy with how the fund performed in the first quarter of 2020. “We are satisfied with the inception-to-date-performance, but not 100 percent happy.” The team’s focus now is “on merging the two funds, and reaching the three-year mark for Adrigo Small & Midcap L/S,” yet new Adrigo-labelled funds under the East Capital umbrella are not off the table in the future. “The Adrigo hedge funds were the first hedge funds across East Capital Group’s fund range, so launching other Adrigo-branded hedge funds definitely could be of interest going forward,” says Östlin.