Increased Dispersion Good for Alpha

Stockholm (HedgeNordic) – The uncertainties surrounding the coronavirus pandemic has led to increased volatility and dispersion across stocks and sectors, creating a lucrative environment for many long/short equity funds. **Origo Quest 1**, managed by CIO Stefan Roos *(pictured)* and portfolio manager Carl Rydin out of Stockholm, has fared well in this environment after gaining 15.9 percent year-to-date through September.

"Both our long and short positions have contributed positively this year, and this is primarily due to our fundamental analysis, but certainly also due to the fact that stock market volatility has risen to historically more normal levels," Roos tells Swedish business magazine Affärsvärlden. "You get rewarded better for your analysis when not everything goes in the same direction." Origo Quest 1 aims to generate an average annual return of ten percent over a rolling five-year period with significantly lower volatility than the broader stock markets. Since launching in early 2013, Origo Quest 1 delivered an annualized return of 11.1 percent with an annualized volatility of 12.5 percent, resulting in an inception-to-date Sharpe ratio of 0.91.

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Describing Origo Quest 1's investment approach to Affärsvärlden, Roos says that "the most common characteristic is that we buy into the strategy pursued by the board and management or that before making an investment, we identify a problem area that we believe can be solved given a number of measures." According to Roos, "we are extremely company-oriented in our analysis and have a long-term perspective in our approach, so it is natural that we occasionally want to discuss improvement measures." These improvement measures could involve both structural or management issues.

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"We have a strong focus on sustainable business models and also want to see that company managements have conducted their analysis properly both in terms of their own operations and how their products or services meet new customer and societal needs," Roos tells Affärsvärlden. "The transition to a sustainable economy is the most important challenge of our time, but also perhaps the greatest investment opportunity of the next 10 to 20 years."

Origo Quest 1's net market exposure has been hovering between +20 percent and +80 percent since inception. "At the end of April, we thought that many quality small companies became very attractively valued and we increased our exposure to 80 percent," Roos tells Affärsvärlden. "Today, the fund's exposure is just over 60 percent."

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Origo Quest 1 is also well-known in the Nordic hedge industry for the team's success in short selling, including the short position in Norwegian sports retailer XXL, among others. The long/short equity fund currently maintains several short positions in cyclically-sensitive companies such as Hexpol and Cargotec. "Recently, several industries have signalled that demand is on the rise. The second-quarter reports were clearly better than expected for industrial companies, and the shares have bounced up considerably," Roos tells Affärsvärlden. "We are a little more cautious about the recovery after the lock-down period and believe that the unexpectedly strong demand during the second quarter has a lot to do with production starts and inventory effects," he continues. "But what does the actual demand look like when the normalization of inventory levels is complete?" ponders Roos.