

Pareto Twins Move Up in Lockstep

Stockholm (HedgeNordic) – Despite using different legal structures, and thereby different investment rules and limits, and focusing on slightly different market segments, both **Pareto Nordic Alpha** and **Pareto Nordic Omega** moved up in lockstep last month. The two Nordic-focused long/short equity funds run by Christian Nygaard (*pictured*) made last month's top ten list of best performers in the Nordic hedge fund industry, with their September gains taking their year-to-date advance into double digits.

"Whilst both funds use a long/short approach to invest in the Nordic equity market, Pareto Nordic Alpha is a UCITS fund, hence adhering to UCITS rules, and invests primarily in large- and mid-cap Nordic companies," Alexander Münster-Dahl of Pareto Asset Management tells HedgeNordic. Pareto Nordic Omega, on the other fund, "is structured as an Irish QIAIF, and therefore does not have to adhere to the UCITS rules, and invests primarily in small- and mid-cap Nordic companies." Both funds, however, advanced by a similar 4.2 percent in September, with Pareto Nordic Alpha now up 10.2 percent for the year and Pareto Nordic Omega up 12.9 percent. "The quite similar performance of the two funds was a bit of a coincidence," Münster-Dahl points out.

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Senior Portfolio Manager Christian Nygaard relies on Pareto Asset Management's investment philosophy to manage both Pareto Nordic Alpha and Pareto Nordic Omega. "Pareto Asset Management is a fundamental value investor driven by bottom-up stock selection," explains Münster-Dahl. "The long/short equity strategy used to run both funds is based on caution and scenario-defined investment outcomes," with both funds maintaining a concentrated portfolio of 20 to 25 long positions and five to ten short positions. "There is a long investment horizon for long positions, and defined catalysts for shorts," elaborates Münster-Dahl. "The net exposure is a result of the individual stock positions, rather than a top-down approach."

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According to a recent letter to investors penned by Nygaard, the majority of the long holdings across both Pareto Nordic Alpha and Pareto Nordic Omega represent quality companies. "For several years, we have had a large share of our equity positions in companies that are expected to grow more than the sum of the economy as a whole (GDP + inflation)," writes Nygaard. "Most of these have low debt and high return on invested capital. We believe they warrant the epithet "quality"." Münster-Dahl goes on to say that "for long positions, we emphasize a credible long-term growth potential, strong free cash flow generation, a solid balance sheet, high expected return on investments and preferably a board and management with most of their worth invested in the stock."

"What may distinguish us further is how we stress the importance of disciplined capital allocation in the companies," expounds Münster-Dahl. "Good capital allocation is a criterion we attach great importance to in our investment decisions," Nygaard writes in the recent letter in connection with his decision to trim one of the largest positions due to a seemingly overpriced acquisition.

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Discussing the September performance of both Pareto Nordic Alpha and Pareto Nordic Omega, Münster-Dahl tells HedgeNordic that “in short, good stock selection and a favourable Nordic market” explain the strong development. “With net exposure in the fifties, the tailwind from the positive market development was limited, but a number of individual positions, including pair trades, contributed strongly,” continues Münster-Dahl. “Those are positions we have held for a number of years and some of them have developed strongly throughout the year.”