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NORDIC HEDGE FUND INDUSTRY REPORT 2024



INTRODUCTION

HedgeNordic is the leading media covering the Nordic alternative investment and hedge fund universe. The website brings daily news, research, analysis and background that is relevant to Nordic hedge fund professionals from the sell and buy side from all tiers.

HedgeNordic publishes monthly, quarterly and annual reports on recent developments in her core market as well as special, indepth reports on "hot topics".

HedgeNordic also calculates and publishes the Nordic Hedge Index (NHX) and is host to the Nordic Hedge Award and organizes round tables and seminars.

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Editor's Note ...

The Equal Weighted Index Dilemma - Comparing Apples to Oranges?

Nordic hedge funds gained 5.9 percent on average in 2023 as indicated by the equally-weighted Nordic Hedge Index, mirroring the 5.9 percent average decline in 2022. However, how accurately this figure represents the status and performance of the average Nordic hedge funds is widely open for discussion. The way the universe covered by the Nordic Hedge Index is rather top heavy, given the presence of a few multi-billion-dollar-or-euros hedge funds, while about two-thirds of the industry's players manage less than €100 million under management each, with over half managing below €50 million each. An equally weighted index as the NHX, therefore, may distort the picture.

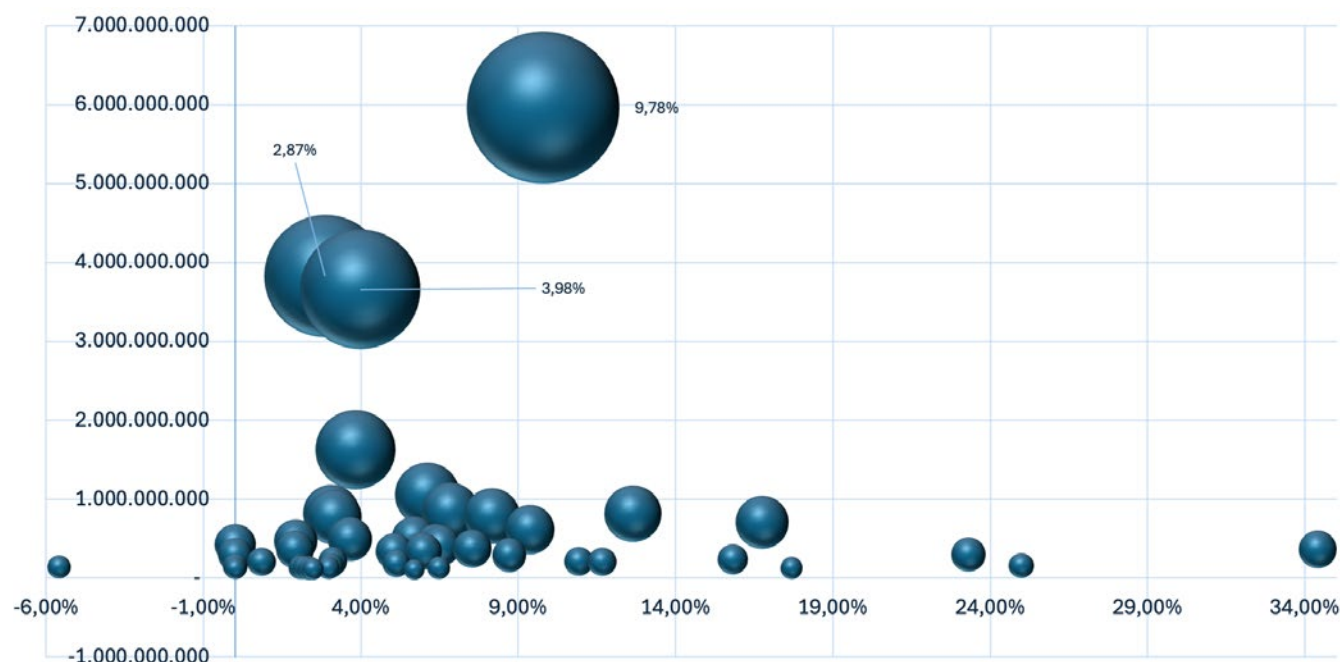
At HedgeNordic, we have long pondered on the benefits and pitfalls of an asset-weighted index to provide a more accurate reflection of performance in the Nordic hedge fund industry. After all, should a rookie hedge fund with less than €10 million under management carry the same weight in the index as a billion-euro hedge fund?

However, constructing such an asset-weighted index presents a challenge in the Nordic hedge fund space,

primarily due to the dominance of a handful of large hedge fund vehicles in the industry. With five billion-euro hedge funds comprising approximately half of the industry's roughly €32 billion under management, one might question the utility of compiling an asset-weighted index featuring 140 constituents, when a mere ten funds could provide an equally accurate performance indicator.

Analyzing performance across different asset size ranges reveals that the Nordic Hedge Index generally serves as a reliable indicator for most of the industry. Beyond the headline performance figure of 5.9 percent in 2023, which slightly surpassed the industry's average return of 4.6 percent, what further insights can we uncover about the industry's performance in 2023? One notable observation is the struggle faced by the exceptionally large funds in 2023, following their solid performance in the challenging market conditions of 2022. Interestingly, large hedge funds, ranging from €300 million to €1 billion in size leading into 2023, experienced a notably strong performance in 2023, much better than the broader industry.

Nordic hedge funds with assets exceeding € 100 million and their 5-year annualized returns



Source: HedgeNordic

The four Nordic hedge funds with assets exceeding €1 billion as of the end of 2022, managing a combined €18.4 billion at the end of that year, suffered an asset-weighted loss of 5.3 percent in 2023. This subset of funds also contributed to the industry-wide decline in assets, which decreased from €34 billion at the end of 2022 to €31.8 billion by the close of 2023. While this trend may appear concerning, it is noteworthy that this subset of funds demonstrated strong performance in 2022, with some within this group starting off 2024 on a very strong note.

A bright spot for the Nordic hedge fund industry in 2023 was the strong performance of large hedge funds with assets ranging from €300 million to €1 billion. This group of 18 funds, managing a combined €9.8 billion going into 2023, achieved an impressive asset-weighted return of 13 percent for the year. This positive outcome is significant for both the industry and its investors. Despite one fund exiting the category of sub-€1 billion funds to increase the number of billion-euro funds to five, there were 19 funds with assets exceeding €300 million at the end of 2023, with an additional one close to crossing this threshold.

The category of Nordic hedge funds, comprising 25 funds with assets ranging from €100 million to €300 million, performed in line with the overall trend reflected in the equally-weighted Nordic Hedge Index. This group, managing a total of €4.4 billion at the outset of 2023, achieved an asset-weighted return of 5.3 percent for the year. Meanwhile, the 35 funds with assets below €100 million enjoyed an asset-weighted return of 6.6 percent. Additionally, the remaining funds with missing AuM data in the HedgeNordic database had an equally-weighted return of 5.3 percent in 2023.

The top-line figure of 5.9 percent in 2023, we feel, accurately represents the performance of most industry players, excluding the largest ones. Our data reaffirms the long-standing observation that a handful of major players wield significant influence in the Nordic hedge fund landscape. Apart from the well-established fact that poor-performing hedge funds face dwindling assets and eventually die out, another noteworthy observation is the presence of a solid and (seemingly) growing group of institutional-sized and hopefully institutional-quality hedge funds in the Nordic region.

HedgeNordic’s Hedge Fund Industry Report features insightful interviews with four institutional investors actively investing in hedge funds. These interviews shed light on their perspectives on hedge funds, their approach to investing within the space, and the intricacies of their manager selection process. The first interview is with Cian Walsh, Head of Hedge Funds and Private Credit at wealth management firm Formue. He discusses Formue’s use of “Hedge Funds as an Alternative, Uncorrelated Return Stream” and explains the rationale for its nonexistent exposure to Nordic hedge fund managers in Formue’s €1.3 billion portfolio of hedge funds.

Having undergone a generational shift within both the portfolio management and operational teams, the team at Rhenman & Partners share their experience of “Embracing Change Amid an Ever-Changing Healthcare Sector.” Ola Björkmo and Jonas Sandefeldt of Meriti Capital provide insights into “The Evolution of the QM Strategy into Meriti Neutral,” discussing their systematic market-neutral strategy focused on capturing fundamental momentum. The investment team at Norwegian fund boutique Sissener, led by Jan Petter Sissener, explain why their long/short equity fund “Sissener Canopus Likes Energy, Shipping, and Financials.”

The publication next features an interview with the team at Finnish pension insurance company Ilmarinen, which has an allocation to hedge funds exceeding €5 billion. Head of Allocation Juha Niemelä and Senior Portfolio Manager Marko Mikama offer a tour “Inside Ilmarinen’s Approach to Hedge Fund Allocation.” PO Nilsson, co-founder and fund manager at Prior Nilsson Fonder, discusses “Market-Neutral Investing in a New Regime,” characterized by healthier volatility for stock returns and higher interest rates for cash management.

Luciana Oliveira of Datia describes “How to Handle the Increasing Workload of Sustainable Reporting” with a case study of Swedish hedge fund house Atlant Fonder. Hanna Persson and Jonas Mårtensson of Ress Capital introduce and explain “Longevity as a Source of Returns and Diversification,” providing insights into investing in life insurance policies.

Michael Levén, portfolio manager at the pension fund serving the employees of Swedish telecoms

company Ericsson, shares details about the “Refined Hedge Fund Strategy Mix at Ericsson Pensionsstiftelse.” Fredrik Carlsson, the founder of Swedish fixed-income specialist Carlsson Norén Asset Management, discusses the opportunity of “Unlocking Equity-Like Returns in the Complex Hybrid Segment.”

Tom Hestnes and Ole Einar Stokstad of Norselab Credit Management present their approach to “Absolute Returns in Impact-Screened High-Yield Market,” while Joakim Hannisdahl then introduces his shipping-focused long/ short equity strategy that has seen “Smooth Sailing in Rough Seas” since launching in mid-2013. Peter Ragnarsson, Head of Alternatives at PRI Pensionsgaranti, concludes by discussing the “Evolution in Hedge Fund Investing with LGT Collaboration,” sharing details about the decision to partner up with LGT Capital Partners to manage its ten percent allocation to hedge funds.

We hope you enjoy reading through this year’s Nordic Hedge Fund Industry Report and find plenty food for thought.

Yours sincerely,

Kamran Ghalitschi
PUBLISHER, HEDGENORDIC



From left to right: Edvard Jansen, Cian Walsh (Head of Hedge Funds and Private Credit) and Trygve Skjæggestad – Formue

Hedge Funds as an Alternative, Uncorrelated Return Stream

By Eugeniu Guzun – HedgeNordic

“An allocation to a diversified hedge fund portfolio is the most liquid and diversified allocation within the alternative asset classes, and is effectively an allocation to ‘active risk’.”

Cian Walsh

Norwegian Formue is the largest privately-owned wealth management firm in the Nordic region, overseeing over NOK 140 billion in assets under management, a team of about 400 employees, and over 20 offices across Norway, Sweden, and Denmark. At its core, Formue is committed to offering institutional-grade solutions to high-net-worth individuals. These solutions are designed using eight building blocks that represent different asset classes. Hedge funds as a group represent one of these blocks, with Formue standing as one of the largest hedge fund allocators out of the Nordic region.

Formue’s portfolio construction process incorporates eight building blocks, spanning real estate, private equity, hedge funds, private credit,

along with traditional asset classes. “The allocation to each bucket is customized and tailor-made based on the risk model and risk preferences of each client,” explains Cian Walsh, Head of Hedge Funds and Private Credit at Formue. This tailored allocation approach not only streamlines Formue’s functions as an allocator but enables clients to benefit from significant cost reduction via fee rebates and/or performance fee netting from the underlying managers in each bucket.

On average, across all client portfolios, Formue allocates approximately eight percent of its NOK 140 billion investment portfolio to hedge funds. However, each client’s allocation to this asset class can vary widely, ranging from zero to 30 percent. “The reality is that everyone is different, with varying age groups,

needs, liquidity requirements, and risk tolerances,” explains Walsh. Each client’s investment mix and allocation to hedge funds is carefully tailored based on their unique liquidity needs and risk preferences. “Some clients prefer to avoid hedge funds altogether, while others seek higher allocations to active risk management (i.e., alternatives) and passive allocations for long only.”

Drawing from his extensive experience in manager selection within the hedge fund space, Walsh views hedge funds as providing “an alternative, uncorrelated return stream.” Traditional long-only exposures to markets have become commoditized, argues Walsh, saying that “if you seek beta exposure to global bond or equity indices, it’s readily available at a minimal cost.” However, investors “seeking uncorrelated

return streams delivering consistent, compounding returns over time need to look towards alternative strategies,” according to Walsh. “An allocation to a diversified hedge fund portfolio is the most liquid and diversified allocation within the alternative asset classes, and is effectively an allocation to ‘active risk.’”

RISK SEEKING AND PROTECTION STRATEGIES

While the global hedge fund industry is a heterogeneous universe with a wide variety of strategies, Formue classifies hedge fund strategies into three main categories: equity, credit, and macro. “The credit and equity-type of strategies are what we classify as risk-seeking strategies,” explains Walsh, who, along with Edvard Jansen and Trygve Skjæggestad, oversees the allocation to hedge funds and private credit. Within the equity category, strategies encompass equity long/short, event-driven, low net, market-neutral, and directional approaches, among others.

Focusing on Formue’s credit-focused hedge fund investments, Walsh points out that “our credit managers operate beyond the limitations of benchmarks and indices, targeting highly specific market segments with minimal reliance on leverage.” Walsh underscores that “their expertise lies in accessing parts of the market that are more difficult to access, which requires skill.” Typically, risk-seeking strategies related to equity or credit constitute 50 to 70 percent of Formue’s allocation in the hedge fund portfolio.

The remaining allocation is directed towards macro strategies, which serve to “play a capital protection role in the portfolio.” This category includes systematic macro funds, discretionary macro funds, trend-following CTAs, and other related strategies. “When things come out of whack, when interest rates are too low, for instance, or equities are too expensive, these strategies can capitalize on mean reversion,” explains Walsh. “This exposure allows our portfolio to weather significant market fluctuations, such as sudden shifts in equity or credit markets. We expect our exposure to macro strategies to deliver positive returns during such volatile periods.”

“The primary purpose of Formue’s hedge fund portfolio is to provide our clients with a complementary and diversified exposure to traditional long-only markets.”

Cian Walsh

DYNAMIC ALLOCATION

The trio overseeing hedge fund allocation at Formue dynamically adjusts exposure to these three broad strategy categories based on prevailing market conditions. A notable example of this adaptive approach is evident in Formue’s shift from nearly 50 percent exposure to equity strategies before the onset of the Covid pandemic and the low-interest, low-inflation environment, to a range of 30-35 percent in a higher interest rate setting. Explaining this shift, Walsh elaborates, “After more than ten years of quantitative easing, we anticipated tighter financial markets. With the tightening conditions following ten years of bumper returns from equity markets, we adjusted our exposure.”

Walsh likens the approach to “stacking the odds in your favor” and “sailing with the wind at your back.” Accordingly, Formue reduced exposure to equity strategies and increased its allocation to credit strategies. “While the wind has slowed for equities, credit strategies, on the other hand, have started to get more wind in their sails,” says Walsh. “Investing in credit today can yield returns of seven to twelve percent with relatively low risk.” This reallocation has resulted in “a still fairly healthy” risk-seeking component of the portfolio.

Additionally, Walsh notes a slight increase in exposure to macro strategies, reflecting a more favorable environment for such approaches. “When significant moves occur in interest rate markets, macro funds tend to perform well.” In summary, Walsh emphasizes, “The primary purpose of Formue’s hedge fund portfolio is to provide our clients with a complementary and diversified exposure to traditional long-only markets.” He goes on to add that “an allocation to hedge funds is a 100 percent allocation to active risk. Inherently this means that the hedge fund portfolio should underperform traditional indices during years of strong equity and bond returns and outperform during weaker return/loss years.”

CONCENTRATION

Despite the abundance of strategies available in the

hedge fund industry, Walsh and his team prefer to maintain a highly concentrated portfolio of hedge funds for their clients. “We aim to avoid over-diversification,” says Walsh. “In academic terms, if hedge funds deliver 100 percent alpha and you over-diversify, you risk diluting the alpha return stream to zero. Alpha is a finite resource, even within the hedge fund universe despite what hedge fund marketers might say otherwise.” Therefore, Formue strives to keep the portfolio focused, with the top twelve manager allocations typically comprising about 80 to 85 percent of the portfolio. “For each manager, we might also have exposure to two or three different products,” elaborates Walsh.

“The remaining portion includes tail managers, closed managers, or managers under evaluation that we are trying out,” explains Walsh. Formue categorizes managers into tiers, with tier-one managers commanding a significant portion of the allocation. For instance, four or five tier-one managers might collectively account for about half of the portfolio. On average, Walsh and his team replace one or two managers each year. “That’s what we call the churn rate, which implicitly means our average exposure to managers is going to be three, four, five years,” explains Walsh.

NORDIC MANAGERS

Formue currently holds no exposure to Nordic managers in its hedge fund portfolio, although it has previously allocated capital to Nordic-based managers. “Broadly speaking, Nordic hedge fund managers do not often meet the institutional standard that we demand for our clients’ investments,” explains Walsh regarding the absence of exposure to Nordic managers. “Many of these managers operate under domestic regulations, which often lack the more robust checks and balances expected from institutional-level hedge funds,” he elaborates. “Although there may be some talented individuals, we all know that an individual does not make a team and brings with it significant key-person risk. There is simply not enough of a talent pool readily available to build out a fully-fledged institutional standard hedge fund – infrastructure, compliance, risk, marketing, investment analysts.”



This is not just a Nordic problem, but a global problem, notes Walsh. “The top-tier hedge funds will continue to be headquartered in the larger population pools around the world in order to secure continual access to human capital and not be over-reliant on one or two talented individuals.”

Walsh also points out that the majority of Nordic hedge funds do not offer the uncorrelated return streams sought by Formue and other large institutional investors. Similar to other European markets in France or Germany, the Nordic region is primarily characterized by smaller and more retail-focused hedge funds, notes Walsh. “We do see them across our desk all the time, and while some may initially seem promising, closer examination reveals inadequate infrastructure, operational shortcomings, and regulatory gaps,” explains Walsh.

“Further, and most often, they simply have enough capital under management for us to consider an initial allocation,” continues Walsh. “Even among the few that show potential, they very often fail to raise enough capital to come beyond what we see to be the breakeven AUM in today’s competitive environment.” Walsh estimates this breakeven point to be around \$250-300 million, essential for providing the hedge fund with the necessary resources to develop their operations, attract and retain personnel, and fulfill all regulatory and compliance requirements. “Seen from a different angle, this is why hedge fund platforms have been so successful in recent years. They attract talented individuals and smaller teams looking to manage \$50-300 million while handling regulatory and compliance matters, business management, and other related activities.”

EXPECTATIONS

Hedge funds have played an important role in the investment portfolios of Formue’s high-net-worth clients across the Nordics. Walsh expects the hedge fund industry to continue to thrive amid changing market conditions. Looking ahead, Walsh anticipates financial markets reverting to the volatility patterns observed prior to the 2008 financial crisis. “It’s not necessarily the hedge fund volatility profile as a collective that will change. It’s more about financial

markets returning to their pre-quantitative easing behavior,” Walsh concludes. “Therefore, I believe this shift alone will be sufficient to support the hedge fund industry further. In addition, with passive management continuing to disrupt and commoditize the long-only space, allocators will increasingly look towards hedge funds and other alternative asset classes for active and unconstrained investment management.”

“The primary purpose of Formue’s hedge fund portfolio is to provide our clients with a complementary and diversified exposure to traditional long-only markets.”

Cian Walsh



“Chance favors the prepared mind.”

Louis Pasteur

Rhenman Embracing Change Amid an Ever-Changing Healthcare Sector

By Eugeniu Guzun – HedgeNordic



From left to right: Kaspar Hällsten, Teresa Isele, Henrik Rhenman, Hugo Schmidt, and Amennai Beyeen – Rhenman & Partners

“It has been an exciting journey, to say the least. The early days were quite nerve-wracking though, to be honest.”

Henrik Rhenman

The largest equity hedge fund in the Nordics with assets under management just shy of \$1 billion, the Rhenman healthcare fund, is only months away from celebrating its 15-year anniversary. Employing a long-biased equity strategy in the healthcare sector, the fund steered by founder and CIO Henrik Rhenman has achieved an annualized return of about 17 percent since its inception. Having undergone a generational shift within both the portfolio management and operational teams, the healthcare-focused fund remains steadfast in its pursuit of capitalizing on the continued growth of the healthcare industry.

“It has been an exciting journey, to say the least. The early days were quite nerve-wracking though, to be honest,” Henrik Rhenman, the founder and CIO of Rhenman & Partners, reflects on the early days of the fund. “When we launched the fund back in 2009, we were still in the middle of the global financial crisis, the healthcare sector was out of favor and we saw a

lot of volatility in those first few years,” he recalls. Yet, navigating through periods when the sector falls out of favor is an integral aspect of Rhenman’s long-term investment approach. “We are long-term investors, so we need to be tolerant during volatile times.”

GENERATIONAL SHIFT AND SECTOR EXPERTISE

Rhenman & Partners has undergone a transformation in recent years, characterized by what Rhenman terms a “generational shift.” Teresa Isele assumed the role of CEO last year, bringing valuable expertise and injecting fresh energy into the team. “Teresa Isele has been a great addition to the team, and we are in a very exciting phase with lots of plans for the future,” notes Rhenman. The portfolio management team has also seen an infusion of new talent. Consisting of four members, the investment team operates under Henrik Rhenman’s oversight, who directs overall

strategy and asset allocation and has the final say on all investment decisions. He collaborates with three portfolio managers – Kaspar Hällsten, Hugo Schmidt, and Amennai Beyeen.

The healthcare industry presents a multifaceted landscape for investors, with numerous sub-sectors requiring specialist knowledge to understand growth drivers and long-term prospects. “Although we operate within a specific sector, the company universe we cover is broad and complex,” Teresa Isele explains the rationale behind the sector focus of the investment team. “To ensure we are in a position to analyze the different areas of the healthcare sector, the team has been structured around the four main subsectors,” she elaborates. Each member of the investment team specializes in a distinct area, with Amennai Beyeen concentrating on biotechnology and pharmaceuticals, Hugo Schmidt on healthcare services, and Kaspar Hällsten on medical technologies.

“To ensure we are in a position to analyze the different areas of the healthcare sector, the team has been structured around the four main subsectors.”

Teresa Isele

“The complexity of the healthcare sector is at an all-time high, and a laser-focused approach within its various subsectors is a necessity,” reiterates Kaspar Hållsten, a member of Rhenman & Partners since 2017. “The healthcare sub-sectors are highly disparate, with distinct and dissimilar characteristics,” he emphasizes. “This is what creates the need for specialization in respective sub-sectors.”

FORMIDABLE FORCE AND INNOVATION

Adopting a bird’s-eye view of the industry, Hållsten underscores that “healthcare has expanded and has become a formidable force in the global economy.” The sector is one of the largest in the world, following closely behind information technology and financials. “The continued expansion of the sector will be fueled by megatrends, such as an aging global population, escalating medical needs, and an increase in healthcare expenditures,” predicts the portfolio manager. “We believe these trends should provide sustainable future growth for the sector.” Despite challenges such as access, affordability, and maintaining high-quality care, when viewed collectively, “these megatrends and challenges provide opportunities for us, as specialized healthcare investors, to find the disruptors and winners.”

“World demographics will continue to increase the rate of chronic diseases and obesity,” Hugo Schmidt reflects on the long-term factors influencing the healthcare industry. “Countries tend to spend more on healthcare the richer they get, in both absolute and relative terms, which should continue to be a tailwind for the sector,” he echoes Hållsten’s sentiment. New technologies and therapies will continue to solve unmet needs, considers Schmidt. While scientific innovation has been driving healthcare advancements for decades, the technological revolution in healthcare is still in its early stages. “Precision medicine, the rise of cell and gene therapies, robotic surgery and care models influenced by artificial intelligence are among the areas that we are excited about,” notes Schmidt.

“The sector has for a long time shown a remarkable ability to identify new treatments and solutions to improve quality of life for patients,” highlights Amennai Beyeen, who spent 12 years at global

healthcare company Novartis before joining Rhenman & Partners. “We see many signs that this will continue,” he emphasizes. “Right from the start, our focus has been on innovation. This means we have been particularly fond of the biotech segment with many small and mid-cap companies,” points out Henrik Rhenman. “Apart from exciting medical breakthroughs and strong financial results from many of these holdings, we have had more than 50 acquisitions in the fund – this is something we are pleased about.”

SECTOR ALLOCATION

Rhenman’s healthcare fund maintains a highly diversified portfolio comprising about 100 holdings. However, a select dozen ‘high conviction’ ideas constitute around 40 percent of its long exposure, with the fund’s more diversified ‘core holdings’ bucket accounting for similar exposure. “To achieve superior results, we must be comfortable with taking concentrated bets where we have high conviction,” emphasizes Henrik Rhenman. Additionally, the fund maintains a diverse pool of fractional positions, ranging from 0.5 percent to one percent in portfolio weight, alongside a selection of candidate holdings.

“High conviction holdings rarely have binary outcomes, whereas fractional positions are by nature stocks with higher risk and potential reward,” explains Beyeen. “We believe that our specialized knowledge of the sector makes us well positioned to assess, manage and take risk in both early and more mature companies.” This specialized sector expertise also informs Rhenman’s allocation decisions among sub-sectors. “Profit momentum, regulatory considerations and the perception of the stock markets participants risk sentiment are all factors that influence the sub-sector exposure decisions,” elaborates Kaspar Hållsten. Historically, biotechnology has dominated the fund’s allocation. However, the more restrained macroeconomic environment in recent years led to a reduction in the allocation to this sub-sector.

Indeed, there is a myriad of macroeconomic and non-macroeconomic factors impacting the pricing dynamics of healthcare stocks. “In the near term, interest rate policy will naturally influence the performance of healthcare stocks, particularly in the biotechnology sector, as their ability to secure

external financing is dependent upon economic conditions,” argues Hugo Schmidt. “We would be amiss if we didn’t mention upcoming elections in the United States,” notes Schmidt. Given the dominance of the US market in the healthcare sector, healthcare policy changes and political leadership changes in the country are important for the sector. This election cycle, however, the political debate around the healthcare sector has been relatively subdued thus far.

LONG-TERM PROSPECTS, EMERGING MARKETS EXPOSURE

However, these factors only represent short-term drivers of performance in the healthcare industry. Longer term, the healthcare industry exhibits promising potential, driven not only by trends in developed markets such as aging populations and technological advancements but also by the growing middle class and rising healthcare demand in emerging markets.

While the Rhenman fund allocates approximately 75 percent to the United States, and the remainder distributed across Europe and Asia, the fund is positioned to capitalize on the growth potential emanating from emerging markets. “Given that most companies in the US have broader exposure to emerging markets such as China, we believe we are in a good position to capitalize on that trend in the coming years,” argues Hållsten. “Today, we believe that the best way for the fund to get risk-adjusted exposure to emerging markets is through a careful selection of multinational companies.”

The outlook for the healthcare industry is promising, and Rhenman & Partners is well-positioned to capitalize on its potential. “We feel confident in our scientifically backed investment process,” concludes Beyeen. “The sector is ever-changing, and it is critical to keep pace with advances within the whole healthcare ecosystem.”



From left to right: Ola Björkmo, Gustav Andåker, Jonas Sandefeldt, and Hans Turitz – Meriti Capital

The Evolution of the QQM Strategy into Meriti Neutral

By Eugeniu Guzun – HedgeNordic

“Historical performance is of little concern to us, the trends are always forward-looking, and we focus on forward estimates. We know that fundamental signals are a very powerful predictor of future returns.”

Ola Björkmo

Ola Björkmo and Jonas Sandefeldt had been running a systematic market-neutral strategy focused on capturing fundamental momentum for over a decade before relaunching the strategy under the Meriti Capital umbrella in late 2023. The process of transitioning the strategy into a new UCITS fund structure provided them with an opportunity to reflect and refine the strategy for its new phase. Meriti Neutral now stands out as “one of the few true market-neutral funds available in Sweden, and the only Swedish equity market-neutral systematic fund in a UCITS structure that we know of, making the strategy unique,” according to Ola Björkmo, CEO at Meriti Capital.

The duo managed the QQM strategy for 13 years, employing a systematic approach to construct a market-neutral portfolio of about 200-300 individual long positions and a similar number of short positions. Their goal was to capitalize on shifting fundamental momentum based on analyst expectations. Björkmo

describes the strategy as akin to trend-following, but with a twist – rather than tracking price trends, they focus on fundamental trends.

“Historical performance is of little concern to us, the trends are always forward-looking, and we focus on forward estimates,” explains Björkmo. “We know that fundamental signals are a very powerful predictor of future returns, so we use different signals and indicators on profitability, analysts’ up and downgrades to identify companies for either positive or negative shifts in fundamental momentum.”

REFINEMENTS

The duo continually honed the strategy throughout their journey, making further refinements for the version operated under Meriti Neutral. “We have made quite a few changes to the model over the years,” says Sandefeldt, Head of Systematic Management at

Meriti Capital. The strategy deployed by Meriti Neutral embodies the 2.0 iteration, aimed at delivering a stream of returns that remains uncorrelated with traditional market movements.

“One of the changes we have implemented is to use volatility-based weights, ensuring that positions with equal signal strength are allocated the same risk budget on a risk-adjusted basis,” Sandefeldt highlights one of the strategy’s modifications. Previously, certain highly volatile stocks tended to exert disproportionate influence on the fund’s performance. By scaling each position based on expected volatility, Sandefeldt anticipates that this new methodology will “mitigate the volatility of the fund’s returns without compromising expected returns.”

“Another notable change is our increased emphasis on sector neutrality, in addition to market neutrality,” continues Sandefeldt. Previously, the portfolio

“With Gustav Andåker managing that part of the fund, we have a skilled bond trader that will add extra yield to the strategy, improving the fund’s risk and return profile.”

Ola Björkmo

management team focused on building market-neutral portfolios across eleven distinct European countries to ensure that no country exposure disproportionately impacted returns. The team has now opted to integrate sector neutrality into their approach.

“At times, significant fluctuations can occur within a single sector,” says Sandefeldt, noting that while the net allocation seldom exceeded 15 percent in any one sector, extreme movements within a specific sector could significantly influence performance. To isolate fundamental momentum at the company level, “we now seek long exposure to the best stocks in every single sector and short exposure to the worst,” states Sandefeldt. “By introducing sector neutrality and restricting exposure per sector, we expect to get a smoother return series going forward.”

THE BIGGEST REFINEMENT OF ALL

Another significant change that can have a significant effect on Meriti Neutral’s return profile is the management of its cash reserves. “Given our market-neutral approach, we are always ‘cash rich’ and a third change is the active cash management,” notes Ola Björkmo. Approximately 15 to 20 percent of the fund’s cash is utilized as collateral for short positions via total return swaps, while the remaining portion is allocated to a new corporate bond portfolio strategy. This shift not only represents a change in the cash management approach but also leverages the expertise and experience brought by Meriti Capital. Gustav Andåker, Head of Discretionary Fund Management, has been tasked with overseeing the cash component of the portfolio.

In general, market-neutral strategies derive returns from three primary sources: the actively managed long and short positions, as well as the cash component. “With Gustav Andåker managing that part of the fund, we have a skilled bond trader that will add extra yield to the strategy, improving the fund’s risk and return profile,” highlights Björkmo. “Given that we incur costs associated with short positions, typically based on Stibor plus a certain number of basis points, our aim in managing the cash portfolio is to target a slightly higher margin than what we pay on the shorts,” further explains Sandefeldt.

Previously, at QQM, the team primarily allocated the cash to government, municipal, and covered bonds. However, this approach resulted in very low returns on the bond portfolio. “Essentially, we found ourselves in a situation where the returns from the bond portfolio were insufficient to cover the costs associated with the short positions,” says Sandefeldt. “Now, our focus is on generating additional returns from the cash portion of the portfolio. We anticipate that our new active bond picking approach will yield incremental returns ranging from half a basis point to one percentage point per year, on top of what we pay for the short selling,” he continues. This shift is expected to enhance Meriti Neutral’s overall returns in the future.

The implementation of the new active bond-picking approach is expected to not only generate additional returns but also enhance the fund’s performance across various market conditions. Sandefeldt recalls one of the drawbacks of the QQM strategy, noting that “even though we had an estimated beta very close to naught, the fund had a negative beta when equities had a very strong month.” According to Sandefeldt, “some of that negative beta will be offset by the bond portfolio since corporate bonds have some correlation with the stock market.” Moreover, Sandefeldt expresses confidence that the low correlation between the market-neutral portfolio and the bond portfolio will persist in the future.

DIVERSIFICATION BENEFITS

Despite improvements in managing the fund’s cash allocation, the primary driver of Meriti Neutral’s returns remains its quantitative strategy that captures fundamental momentum. As a market-neutral strategy, the team aims for zero correlation with broader equity markets. “From a diversification perspective, we can guarantee that the fund will diversify a portfolio,” concludes Björkmo. “The fund has a correlation of nil to both equities and bonds. We see that most investors will benefit from including the fund in their portfolio. The fund will diversify the investor’s portfolio regardless of current exposure,” he continues. This allows investors to maintain a larger position in equities or other riskier assets while retaining the same level of risk in their overall portfolio.

“We anticipate that our new active bond picking approach will yield incremental returns ranging from half a basis point to one percentage point per year, on top of what we pay for the short selling.”

Jonas Sandefeldt



Jan Petter Sissener



Andrew Dobbing

Sissener Canopus Likes Energy, Shipping and Financials

By Hamlin Lovell – HedgeNordic

The award-winning Sissener Canopus, one of the top five largest equity hedge funds in the Nordic region, has had a strong start to the year, making 3.7 percent. From inception in April 2012 to December 2023, the fund compounded up to 281 percent (NOK share class) with less volatility than long-only equity indices. As a result, the fund has regularly received The Hedge Fund Journal's UCITS Hedge performance awards, including most recently the 10-year award for the best performing global equity long-short fund.

The strategy has thrived in bull and bear markets. In 2022, Sissener Canopus made 8.5 percent, of which 7.9 percent came from single stock shorts, including Swedish real estate. Style rotation from growth to value, stock-picking, and tactical index shorts were also helpful in 2022, though index hedges ate into returns in 2023, when the return of 5.5 percent was well below the annualized average of 12.1 percent since inception.

In most years Canopus is basically long-only with hedges. "In 2023, we had 95 percent exposure in single name longs and 5 percent in single name shorts. We learned the hard way that shorts need triggers. The index hedges usually detract from returns during a narrowly rising market like 2023,"

says founder, Jan Petter Sissener. Selling various option structures contributed about 2 percent gross to returns in 2023.

CASH COWS

The 2022 increase in value exposure was well-timed, and despite expected rate cuts in the second half of 2024, Canopus has not yet rotated the portfolio from value to growth. "The emphasis is still very much on cash-generative companies paying dividends. The tech weighting has increased somewhat, but mainly in European names on lower valuations," points out Sissener.

CHEAP ENERGY EQUITIES

Energy equities are the largest long sector at 30 percent. Now, in-house energy expert, Andrew Dobbing, likes oil majors and selected oil services names: "Cash returns of 10 percent, from dividends and buybacks, are growing and dividends could increase 5-10 percent per year, even with a flat oil price. We are confident about earnings upgrades in oil services, which could beat consensus based on orders and pricing power. Moreover, earnings



Nicholas Salbu



Peder Steen

“In 2023, we had 95 percent exposure in single name longs and 5 percent in single name shorts. We learned the hard way that shorts need triggers. The index hedges usually detract from returns during a narrowly rising market like 2023.”

Jan Petter Sissener

visibility is getting better, based on a shortage of subsea vessels and rigs”. He expects that these earnings upgrades are most likely to coincide with valuation multiple expansion: “BP and Shell trade on PE ratios around 4-5, and oil services companies can be on similar EV/EBITDA multiples,” says Dobbing. Elsewhere in energy, the strategy owns two Canadian uranium miners, which benefit from higher uranium prices partly related to the energy transition story.

ESG

The fund reports under SFDR 8. It is comfortable with carefully selected oil and gas companies. “Energy exposure is in firms with more modern equipment that reduces the risk of oil spills in the drilling and transport of oil. Some oil companies with a poor environmental record could be off limits,” explains energy specialist, Andrew Dobbing. Some miners are ruled out by the ESG policy ruling out coal exposure above 30 percent (in line with the Norges Bank Investment Management policy). The fund has owned Swedish miner, Boliden, but now finds the equity relatively highly valued, partly due to its green energy transition metals exposure – 40 percent copper, 40 percent zinc and some nickel and precious metals. “There is also a premium for Nordic and developed market exposure, but equally it has older lower-grade mines, and older smelters that need more capital spending,” says co-manager, Nicholas Salbu. Global diversified miner Rio Tinto is seen as better value for now.

SHIPPING AND TANKERS

Oil tankers are also good value thanks to declining supply. “The supply of vessels is near a 25-year low, with only 4 percent of the fleet replaced each year, and a two-to-three-year building lag, while many are being scrapped. This means that supply is not being replaced fast enough. Replacement ratios (ships on order versus the existing fleet) around 5 percent are lowest for tankers and dry bulk, but much higher for LPG, LNG and car carriers. Aging fleets that increasingly do not meet higher environmental standards, including EU emissions rules, also screen out a large share of fleets,” explains Jan Petter Sissener.

INSURERS AND FINANCIALS

Banks and insurers are also generally valued at a discount. Sissener has held Norwegian insurer, Storebrand, from the start in 2012, and remains constructive: “Storebrand is hugely overcapitalized. It has a 45 billion market cap, is 10-12 billion overcapitalized and will generate 6 billion by 2026. A growing pension market, and inflation, are positive for P&C [property and casualty insurance]. It also owns a small bank. It could be taken over by a Swedish buyer, or another acquirer from Germany or Switzerland, any of which would find asset management synergies,” says Sissener.

In general, both the equity fund and the credit fund have moved to selected larger systemically important banks. There can be small exceptions: a contrarian long position has been taken in a Swedish bank with commercial real estate exposure and high short interest.

GROWTH

Novo Nordisk was also exited for valuation reasons, and Canopus is now tackling obesity from a different angle through healthcare technology company, DexCom. “One perception is that treatments such as Novo’s Ozempic reduce the need for continuous glucose monitor (CGM) systems, monitors and sensors, which provide real time monitoring of blood glucose levels. However, we are of the opinion that taking obesity drugs increases awareness and the desire to track glucose levels,” says Steen.

There is however some appetite for richly valued MAG7. Microsoft is currently the main AI play owned. “It is growing share in cloud, working closely with Open AI and launching a 365 Copilot chatbot with Open AI,” says co-manager, Peder Steen. And Canopus has intermittently traded Nvidia since 2016. “Over that period, it has evolved from gaming GPUs to crypto mining and then AI. Most recently, we owned Nvidia between share prices of 250 and 410 and sold because the valuation did not stack up,” adds Steen.

But generally, European semiconductor makers, such as Norway’s Nordic Semiconductor, the Netherlands’ NXP, and France’s ST Micro, can trade on much lower valuations (e.g. PE of 10 for ST) than US names and

the latter two offer strong exposure to industrial consumer IT such as the autos market.

NORWEGIAN SPECIAL SITUATIONS

More event-driven longs include Oslo-listed classified advertising group, Schibsted, which has for years traded at a discount to its estimated sum of the parts valuation. It has finally divested Adevinta and other units so that news media will be only 10 percent of revenues going forward. Jan Petter Sissener judges that, “The stub of the business, in pure play online advertising, is much easier to analyse, trades at a discount to peers, and we expect a takeover”.

Meanwhile, Norway’s largest salmon farmer, Mowi, has consolidated the sector and benefited from tight supply in the salmon market, which has become much more orderly since the boom/bust days up until 2011/2012. “Though salmon is more expensive than animal meats, it still finds pockets of growth, and has pricing power to pass through grain and wheat costs,” says analyst Nicholas Salbu.

“The emphasis is still very much on cash-generative companies paying dividends. The tech weighting has increased somewhat, but mainly in European names on lower valuations.”

Jan Petter Sissener

Inside Ilmarinen's Approach to Hedge Fund Allocation

By Eugeniu Guzun – HedgeNordic



Juha Niemelä, Head of Allocation
Ilmarinen Mutual Pension Insurance

“We’ve been in a growth mode since 2018. The hedge fund portfolio has grown almost fourfold since the start of this initiative.”

Juha Niemelä

Ilmarinen, in a tight race with Varma as Finland’s largest earnings-related pension insurance company, has emerged as a noteworthy investor in hedge funds in recent years. Partly influenced by the low-interest-rate environment, Ilmarinen has significantly ramped up its allocation to hedge funds, climbing from under two percent in late 2017 to 8.6 percent by the end of 2023. The benefits of this increased allocation were on full display in 2022, as both stock and bond investments experienced significant downturns at the same time.

“We’ve been in a growth mode since 2018. The hedge fund portfolio has grown almost fourfold since the start of this initiative,” states Juha Niemelä, Ilmarinen’s Head of Allocation. Indeed, Ilmarinen’s hedge fund portfolio has expanded from just over one billion Euros in early 2018 to over €5 billion by the end of 2023. Niemelä highlights that the primary

motivation behind the increased allocation to hedge funds “is the traditional aim to achieve diversification benefits for Ilmarinen’s investment portfolio.” However, he also points out that “on a broader industry level, a regime shift in the rates market has been a major driver of hedge fund investing.”

As a large institutional investor with nearly €59 billion in assets under management, Ilmarinen prioritizes maintaining a well-diversified portfolio spanning various asset classes. According to Niemelä, the diversification offered by the hedge fund portfolio arises from “uncorrelated risks with rest of the balance sheet and a positively skewed return profile.” Ilmarinen’s objective with the hedge fund portfolio “has always been to achieve absolute returns while being very mindful of capital preservation,” further elaborates the Head of Allocation. Ilmarinen’s pursuit of absolute returns “leads us to hunt for true alpha

sources that cannot be explained by usual risk factors.”

‘TRUE’ AND ‘MANUFACTURED’ ALPHA

On an annual basis, Ilmarinen’s board of directors approves an investment plan that sets targets for risk-taking, investment allocation, and the distribution of investments across various asset classes. “Our benchmark somewhat dictates the types of strategies we should be looking at any given point in time,” explains Niemelä. The ultimate aim, however, is to construct a portfolio of predominantly alpha-seeking or alpha-driven strategies, with a focus on capital preservation. As the Ilmarinen team seeks true alpha managers to fortify their broader investment portfolio, Niemelä cautions that different strategies may be suited to varying market environments.

“We believe that rare true alpha managers are good all-weather investments that one should stick to over the business cycles.”

Marko Mikama

“We believe that rare true alpha managers are good all-weather investments that one should stick to over the business cycles,” emphasizes Marko Mikama, Senior Portfolio Manager within Absolute Return Investments at Ilmarinen. While Mikama underscores the value of such managers, he also acknowledges the importance of maintaining a tactical mindset to strategy exposure. “There is always a tactical element to the attractiveness of the majority of the funds,” he explains. “Of course, those true alpha managers are always welcome, but we also welcome more manufactured alpha.”

“We try to be active all the time and keep the capability to adjust exposures as opportunities arise,” says Mikama, who is responsible for hedge fund manager selection at Ilmarinen. Mikama highlights their commitment to remaining proactive and adaptable to seize opportunities, including “those more transitional alpha strategies that could emerge from regulatory changes or some other inefficiencies.”

RETURN CHARACTERISTICS AND FEES

In line with Ilmarinen’s focus on alpha-driven strategies with a capital preservation feature, its manager selection team seeks strategies characterized by “high-quality return distribution with a slim left-hand tail,” according to Mikama. “Realized return levels should be well above the risk-free rate and returns per unit of risk measured by metrics like Sharpe ratio or similar should be top of the class,” further elaborates the senior portfolio manager.

Fees can erode the investment returns of any investment product, prompting the team at Ilmarinen to meticulously evaluate hedge fund fees and the associated value of the underlying investments. “In carefully selected cases, Ilmarinen might be willing to accept higher cost structures, but we expect those managers and funds to be exceptional and the net profit to meet high levels,” notes Mikama. He further explains that his team monitors profit retention annually to assess how much of the gross returns they retain. While there are no limitations on profit sharing, Mikama notes that “it’s somewhat worrisome that in some cases investors get to keep below 50 percent of returns.”

REDEMPTION PROCESS AND INVESTING IN NORDIC MANAGERS

While Ilmarinen aims to maintain long-term investments in the hedge funds they select, the team consistently evaluates performance and takes action if returns fall short of expectations. Mikama explains that redemption decisions are usually driven by returns or key personnel issues. “We usually give managers early warning, allowing managers a certain timeframe to do corrective measures before initiating the redemption process,” he elaborates. “If we feel that the manager’s attempts are not enough to turn the ship, we eventually end up signing redemption forms.”

In comparison to its peer institutional investors in Finland, Ilmarinen has at times allocated significant funds to local hedge funds even though this has not been a primary objective. “We have to admit that Nordic funds have not been our core focus,” acknowledges Mikama. While Ilmarinen has done a few incubations in the Nordics over the years, the team’s focus has been on well-established and well-resourced institutional-scale hedge fund managers. “Investing in startups exposes us not only to investment risks but also potential business and regulatory risks, which are not really within our core expertise,” explains Mikama. “Moreover, startup investing requires different resources and target setting from our side.”

MARKET ENVIRONMENT FOR HEDGE FUNDS

The team at Ilmarinen focusing on hedge funds has demonstrated skill in hedge fund allocation in recent years. With returns of 5.3 percent in 2019, 3.7 percent in 2020, and 7.3 percent in 2021, the diversification benefits of Ilmarinen’s hedge fund portfolio were particularly evident in 2022. The year presented significant challenges for most investors, as stock and bond returns were both meaningfully negative for the calendar year. However, Ilmarinen’s hedge fund portfolio returned 8.2 percent for the year, partly reflecting strong performance from trend-following strategies and limited exposure to traditional long/short equity investing.

“We have to admit that Nordic funds have not been our core focus.”

Marko Mikama

Given Ilmarinen’s substantial exposure to equity beta elsewhere in the portfolio, the team maintains limited exposure to long/short equity strategies. “We have to take into account our internal benchmark, which explains why traditional long/short equity investing has a tiny presence in the portfolio,” says Mikama. Other strategies with slim left-hand tails such as trend-following strategies have proven more useful for the portfolio.

“Trend following strategies had a long period of muted returns but were very well-positioned to capture price trends in rates markets,” recalls Mikama. “Inflation and the rise of commodity prices were very conducive for the majority of trend-following programs,” he elaborates. Moreover, volatility in rates has created a more favorable environment for various relative value strategies, notes Mikama. “From a total return perspective, investors have hoarded credit strategies over the last two years, as defaults have been low and distressed situations have remained rare.”

After years of consistent performance from Ilmarinen’s hedge fund portfolio, both Juha Niemelä and Marko Mikama observes an environment conducive to hedge fund strategies going forward as well. “The latter part of the 2010s can be characterized by relatively stable global growth, low inflation, and a low-yield environment. The transition towards higher yield curves and more active central banks can potentially point towards a more volatile macro and financial environment,” concludes Niemelä, Ilmarinen’s Head of Allocation. “In that sense, the opportunities for creating alpha appear reasonably attractive going forward.” Even so, Mikama and his team “still believe true alpha to be rare and only handful managers have the expertise and processes to capture alpha.”



PO Nilsson, co-founder and fund manager – PriorNilsson Fonder

PriorNilsson's Market-Neutral Investing in a New Regime

By Eugeniu Guzun – HedgeNordic

“Just a couple of months ago, when interest rates were virtually zero, achieving returns significantly higher than the short-term rates as an equity market-neutral investor was challenging.”

The normalization of interest rates is expected to induce dispersion among stocks, thereby creating a more favorable environment for stock pickers on both the long and short sides. In theory, this sets the stage for an advantageous environment for equity market-neutral strategies. The same normalization of interest rates enhances the return potential for such strategies, given their cash-rich portfolio enabled by the financing of long positions through proceeds from short sales. PO Nilsson, who has managed equity market-neutral fund PriorNilsson Yield since late 2002, argues that this market environment represents one of the most optimal for such strategies.

Instead of being determined by the direction of markets, the performance of market-neutral strategies is influenced by factors such as stock-picking skill, short-term interest rates, and the level of dispersion among stock returns. “Just a couple of months ago, when interest rates were virtually zero, achieving returns significantly higher than the short-term rates as an equity market-neutral investor was challenging,” asserts Nilsson. “At the same time, the current volatility in the stock market is healthier and can offer more interesting and diverse investment ideas compared to the environment of zero interest rates,” he continues. “This prevailing environment is much better for both our return sources.”

PriorNilsson Yield aims to serve as an alternative to cash or bank deposits by targeting returns ranging between two and four percent above the risk-free rate offered by short-term certificates. “Our goal is to achieve a return of six percent or higher in a year like this one, where interest rates stand at four percent,” explains Nilsson. Setting the return objective aside, PriorNilsson Yield is designed to be a ‘risk-averse’ investment option, aiming to provide investors “a decent return without any major risk,” according to Nilsson. “Investors should broadly have a general understanding of the fund’s day-to-day behavior. They shouldn’t be concerned about a huge gain or loss overnight. This is a product that allows investors to have a clear understanding of what their investment is worth at any given time.”

THE ‘YIELD’ COMPONENT OF PRIORNILSSON YIELD

Given that long positions are largely financed by short sales, market-neutral strategies typically maintain a significant portion of their assets in cash, often allocated to fixed-income instruments. Consequently, a rise in interest rates can amplify absolute returns for most market-neutral strategies. To accommodate portfolio rebalancing, PriorNilsson Yield retains approximately eight percent of its net assets uninvested, with the remaining cash deployed across short-term government bonds (around ten percent), short-term corporate bonds with maturities of up to a year (40 percent), and company certificates with maturities ranging from one month to one year. “We aim to create a diverse mix of these instruments across a huge number of different positions, with none of them holding a sizeable share of the portfolio,” explains Nilsson.

“It doesn’t matter if we encounter issues with a single investment at any given time, which hasn’t been the case so far in our 22 years of investing,” says Nilsson. Nevertheless, PriorNilsson Yield strives to maintain a portfolio size ranging between 40 to 60 positions to minimize individual risk. “We try to diversify exposure within a credit portfolio as much as possible to different sectors, mitigating the risk of overexposure to any particular sector, such as the dominant Swedish real estate sector, for example,”

“At the same time, the current volatility in the stock market is healthier and can offer more interesting and diverse investment ideas compared to the environment of zero interest rates.”

notes Nilsson. While the credit risk associated with PriorNilsson Yield’s fixed-income investments remains very low, the primary risk arises from sporadic bouts of illiquidity in the market.

“We have not experienced any credit defaults or incurred any losses throughout our entire journey of 22 years,” asserts Nilsson. “However, we have encountered occasional pricing irritations due to illiquidity,” he adds. Nilsson’s colleague, real estate-focused portfolio manager Gustav Sällberg, assumes responsibility for managing and overseeing Yield’s credit portfolio. “Gustav and I collaborate closely on credit market-related investments. However, I handle the bulk of the work related to the stock market,” notes Nilsson.

THE SPREAD BETWEEN LONGS AND SHORTS

The equity market-neutral strategy employed by PriorNilsson Yield serves as an additional contributor to returns alongside short-term interest rates. The amount of return generated by the spread between long and short positions is ultimately determined by the skill of the portfolio manager. “The net exposure is close to market neutral, targeting a range of between minus to plus ten percent, no more and no less,” explains Nilsson. “The fund’s returns, therefore, do not come from the beta. The returns are created by the stock picking.”

Established in 2002 by PO Nilsson and Torgny Prior, PriorNilsson Fonder has transformed from a two-person asset management firm into a specialized stock-picking boutique with an expanded team and a wider range of funds. Despite this evolution, the underlying philosophy has remained unchanged. “Fundamentals are the foundation of our approach. They have always been our guiding principle. We don’t do anything without a grasp of the fundamentals and don’t invest in companies without the fundamentals in place,” explains Nilsson. “Our investment philosophy at PriorNilsson revolves around not necessarily picking the winners, but rather avoiding the losers,” he emphasizes. “This sometimes makes us appear a little bit dull. Maybe we don’t follow the trends in certain stocks where fundamental analysis proves

challenging for us. But our approach has paid off over time.”

While different portfolio managers oversee PriorNilsson Fonder’s equity funds, the team maintains a constant flow of idea-sharing and communication. “We have collaborated closely from the very beginning since we started our company,” recalls Nilsson. “We always discuss and exchange different ideas.” Even though decisions may vary across PriorNilsson’s respective funds, dialogue is continuous among all team members. “We talk about everything all the time, every day, all of us. Ultimately, it’s up to each manager to decide whether to act on a particular idea,” he emphasizes. “Discussions are essential because sometimes enthusiasm for an idea can lead to overlooking potential challenges.” By fostering open dialogue, the team can collectively address any concerns that may arise. Communication serves as a vital reality check for each idea proposed.

Operating in a significantly improved environment, PriorNilsson Yield continues its journey of over two decades to outperform the risk-free rate by a few percentage points while maintaining minimal risk and volatility. With enhanced liquidity enabling short positions in smaller-cap stocks, coupled with the resurgence of healthy market volatility and the normalization of interest rates, PriorNilsson Yield finds itself in a favorable environment. “It’s hard to imagine a much better environment than what we are experiencing right now. Both the stock market and credit markets are back to normal, functioning well both fundamentally and in terms of liquidity,” remarks Nilsson. “Now, it’s up to us to do the necessary work and deliver on our objectives.”

Atlant Fonder: How to Handle the Increasing Workload of Sustainable Reporting

By Luciana Oliveira – Datia

Atlant Fonder is a Swedish asset manager with only 10 employees, but you would not have been able to guess it just by looking at their financial products: a total of nine funds, all of them Article 8, and some with a very strong sustainability drive.

You would also not have guessed that all of their sustainability screening and reporting have been crafted in the past years by only one of Atlant Fonder's team members: Peter Beckman, Deputy Managing Director, who has been championing sustainable investment as one of his tasks since 1996.

This article dissects how this army of half a person can successfully manage sustainability reporting at Atlant Fonder with the help of Datia and establish a market position as a provider of sustainability-conscious products in the Nordics.

“Your products have to be at least Article 8 to qualify for big platforms and big fund distribution in Sweden.”

Peter Beckman



Peter Beckman, Deputy Managing Director of Atlant Fonder and
Mattias Gromark, Fund Manager of Atlant Green Tech Metals

THE CHALLENGE: DATA LIMITATIONS AND SUSTAINABLE FINANCE WORKLOAD

All of the nine funds managed by Atlant Fonder invest in a relatively small group of companies (between 150 and 180). The funds share the assets but offer different risk profiles. One could argue it is relatively easy to keep a tab on the sustainability KPIs of these companies over time. But there is one issue: the majority of the companies within Atlant Fonder's portfolios are small Nordic institutions that have not yet published ESG reports following the latest European standards.

Atlant Fonder's second biggest problem was that, because of SFDR requirements, the workload was becoming increasingly larger for the lean team. "Many of my peers in the industry say that the past few years have been all about reporting. And, ironically, there was not enough time left to actually care about sustainability," says Beckman to explain the conundrum.

At the same time, sustainable finance disclosure is "a must-have, not a nice to have," as he describes. "Your products have to be at least Article 8 to qualify for big platforms and big fund distribution in Sweden," says Beckman who also estimates that about 80 percent of the meetings with clients and distributors touch upon topics related to sustainability.

In 2021, Atlant Fonder's team started acting to ensure that their sustainability reporting practices could live up to the new and expanded requirements.

THE SOLUTION: PROACTIVE REPORTING THAT EXCEEDS CLIENTS' EXPECTATIONS

In 2022, Atlant Fonder decided to partner with Datia to solve both challenges: workload and data limitations.

First, Datia has been enabling Atlant Fonder's team to work more effectively. "We now have more time to actually make an impact on our holdings and to work actively with sustainability," explains Beckman. Second, Datia has been supporting Atlant Fonder in filling the data gap through data research and

"We now have more time to actually make an impact on our holdings and to work actively with sustainability."

Peter Beckman

questionnaires sent to investee companies. "We trust Datia to continuously increase our coverage as it has happened since we started working together," says Beckman.

In 2022, Atlant Fonder's team started to present to stakeholders fund-level Principal Adverse Impact (PAI) statements and the entity sustainability reports which include the percentage of AUM contributing to the different SDGs.

"When we present our reports, we always stress that our coverage is not large, given our focus on small and micro-cap companies," adds Beckman. Yet, Atlant Fonder's clients and distributors receive the reporting with great praise.

"If you say you want to promote a climate goal, for example, you need a KPI such as a PAI indicator to measure and to show some progress. And the PAI statement per fund helps us prove that our funds are really delivering on certain sustainability strategies," explains Beckman.

MOVING FORWARD: TACKLING STRATEGIC DECISIONS, SUCH AS UPGRADING TO ARTICLE 9

With a sustainability reporting process in place, the team at Atlant Fonder is ready to discuss challenges of higher order. An example of such is the tradeoffs that must, potentially, be made in a fund's sustainability strategy in order to meet the guidelines for SFDR's Article 9.

This is a topic on Mattias Gromark's agenda. He is the Fund Manager of Green Tech Metals, one of Atlant Fonder's nine funds. It was launched in 2016, pioneering the investment thesis of enabling the green transition through the supply chain of raw materials.

The fund strives to only invest in companies in line with both EU Taxonomy's and the UN's Global Compact criteria. In other words: the investees are responsible companies supplying materials for products such as car batteries and solar panels - certainly, investments contributing to combat climate change.

But, according to SFDR's delegated act, funds focused on mining companies cannot easily qualify for Article 9, as they might find it difficult to meet the "do no significant harm" criteria. "Mining can be seen as a dirty business but it is crucial for the green transition, and we are picking those companies which are doing it in a new and clean way," explains Mattias Gromark who is proud of Atlant Green Tech Metals' sustainability thesis and not willing to change it, despite the growing demand for Article 9 financial products.

Atlant Fonder and Datia will continue following the progress of SFDR and EU Taxonomy and, when the opportunity comes, will certainly be ready to rise to the challenge of disclosing sustainability KPIs under Article 9 as well.

"Mining can be seen as a dirty business but it is crucial for the green transition, and we are picking those companies which are doing it in a new and clean way."

Mattias Gromark

Longevity as a Source of Returns and Diversification

By Eugeniu Guzun – HedgeNordic



Hanna Persson, Head of Sales and Investor Relations – Ress Capital

“The main underlying risk that investors are being compensated for is longevity, which makes it fundamentally uncorrelated.”

Hanna Persson

Risk is not merely an inherent aspect of financial markets; it also stands as a fundamental source of returns for asset classes. Each asset class embodies different risk factors, collectively contributing to its return potential and diversification benefits. While traditional investments compensate for conventional risks such as systematic equity risk, credit risk, or liquidity risk, among others, Ress Life Investments distinguishes itself by offering investors an alternative risk exposure and source of diversification and returns – longevity risk. This entails investing in life insurance policies in the secondary market in the United States.

“Often, investors receive compensation for the risks they are taking when investing, with these risks often tied to some form of economic variables,” explains Hanna Persson of Ress Capital, the investment manager for Ress Life Investments. “In the case of our fund,” she

emphasizes, “the main underlying risk that investors are being compensated for is longevity, which makes it fundamentally uncorrelated.” Despite over a decade of experience in the asset class since founding Ress Capital in 2011, Jonas Mårtensson continues to surprise investors by revealing the existence of additional sources of risk. “It’s quite an unusual risk for investors,” he remarks. “Investors are not used to talking about longevity risk, which often leads to an ‘aha’ moment when speaking about this asset class.”

With a team of five individuals within the portfolio management team, Ress Life Investments aims to capitalize on this longevity risk by identifying policies in the market where there is a mismatch in price and the risk-reward potential. By combining such policies into a portfolio, the team aims to provide a diversified, positively skewed, and uncorrelated stream of returns. The key to successful investing in the U.S. secondary market for life insurance policies lies in accurately estimating an individual’s life expectancy. “When

buying an insurance policy, we need to estimate the life expectancy of the individual who is selling the policy,” explains Persson. “Tons of historical and forward-looking data is taken into consideration to make a good estimate of the duration for which we will continue to pay the premiums. We then do a net present valuation to determine the amount we are willing to pay for each policy.”

With a portfolio comprising over 530 underlying insurance policies, the distribution of probable outcomes follows a bell-shaped curve. This suggests that 50 percent of individuals are expected to outlive their life expectancy, while the remaining 50 percent are anticipated to live shorter than their projected lifespan. “With an average age of 78 years in our portfolio,” notes Persson, “our estimate suggests that, on average, all the individuals are going to live an additional ten years, with an uncertainty interval of around six months.”

Ress Life Investments anticipates a gross annual return exceeding 10 percent at the average estimated life expectancy. However, if the entire group's life expectancy increases at the portfolio level, the expected return of the portfolio decreases accordingly. "The key is to build a large portfolio of policies, and the outcomes align more closely with our estimates as the portfolio grows in size."

THE RETURN, DIVERSIFICATION, AND PROTECTION CHARACTERISTICS

Launched in 2011 as an alternative investment fund, the team behind Ress Life Investments has demonstrated proficiency in accurately estimating life expectancies and generating appealing uncorrelated returns for investors. Targeting a net return of seven percent annually in U.S. dollars, Ress Life Investments has achieved an annualized return of 6.7 percent over the past seven years and 6.0 percent over the past decade. "Our long-term return in recent years was above seven percent until 2023, a year marked by lower-than-average payouts," remarks Jonas Mårtenson. "If we get an above-average return in 2024, we will be returning to our target levels."

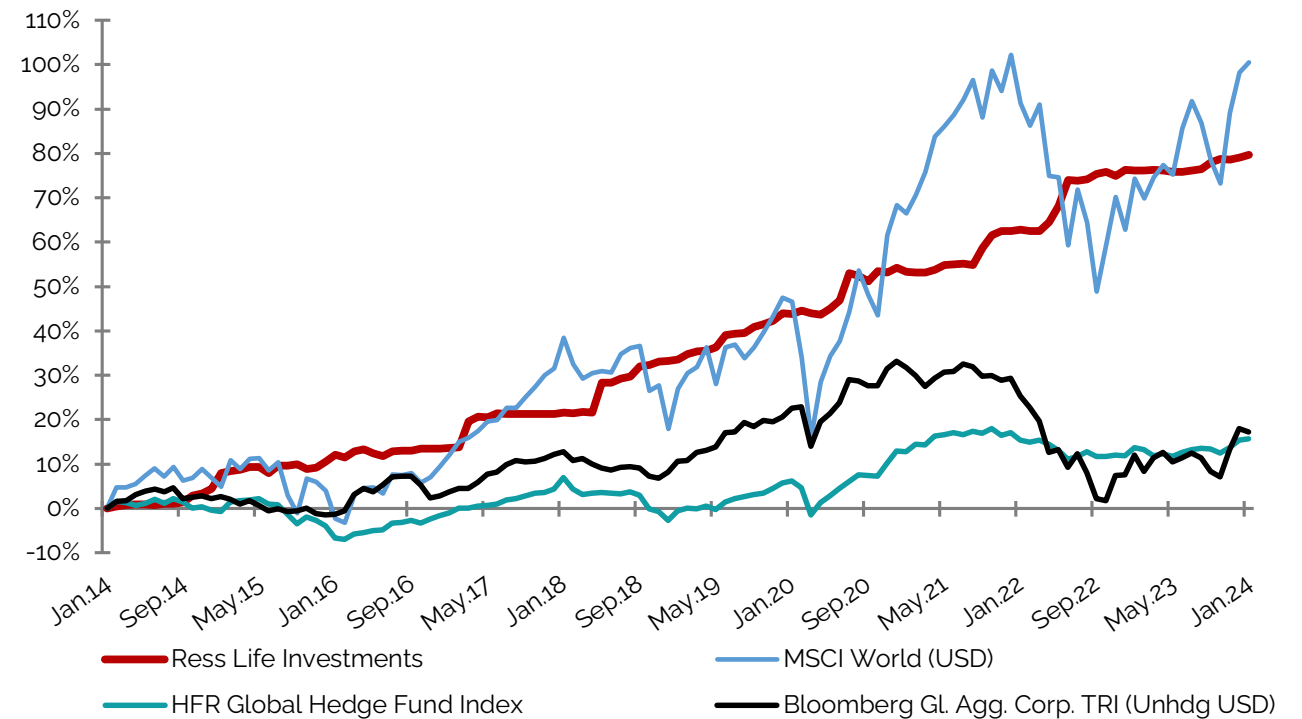
This appealing return stream comes with a blend of uncorrelation and limited downside risk. Over the past five years, for instance, Ress Life Investments has exhibited a negative 0.1 percent correlation with the MSCI World index, nearly zero correlation with bond investments as reflected by the Bloomberg Aggregate Bond Index, and a negative 0.04 correlation with a broad index tracking the performance of global hedge funds. "Throughout the strategy's decade-long journey, it has remained unaffected by external factors that commonly impact most other asset classes," says Persson.

"In addition to the attractive risk-adjusted return, the investment provides capital preservation and diversification benefits," reiterates Persson. Ress Life Investments has shown minimal drawdowns since its inception. Excluding the initial two years, which marked the portfolio's build-up phase when the portfolio was too small in size and policies were purchased with limited payouts, the largest drawdown has been around minus 1.3 percent. The

"In addition to the attractive risk-adjusted return, the investment provides capital preservation and diversification benefits."

Hanna Persson

10 YEAR RETURN COMPARISON



Source: Ress Capital, MCSI, Bloomberg, HFR

investment strategy in life insurance policies entails paying premiums until policies mature and then pay out the insurance amount in one lump sum.

The investment's stability is further evidenced by its low volatility, typically fluctuating within a narrow 3-4 percent range over the past decade, rendering the fund suitable for capital preservation, as highlighted by Persson. Interestingly, the fund's limited volatility in returns does not stem from infrequent valuation, a characteristic common in most other private asset classes. "We perform the mark-to-market valuation of our life insurance portfolio twice per month," notes Mårtenson.

While the value of life insurance investments tends to appreciate with age and can be influenced by mark to market effects due to changes in discount rates, the primary driver of returns for Ress Life Investments each year remains the actual realized value of matured or sold policies. "The value of owning a policy increases over time. This is logical, as we would pay more for a policy with a five-year life expectancy than for one with a ten-year life expectancy," explains Mårtenson. However, the realized returns from sold or matured policies have consistently accounted

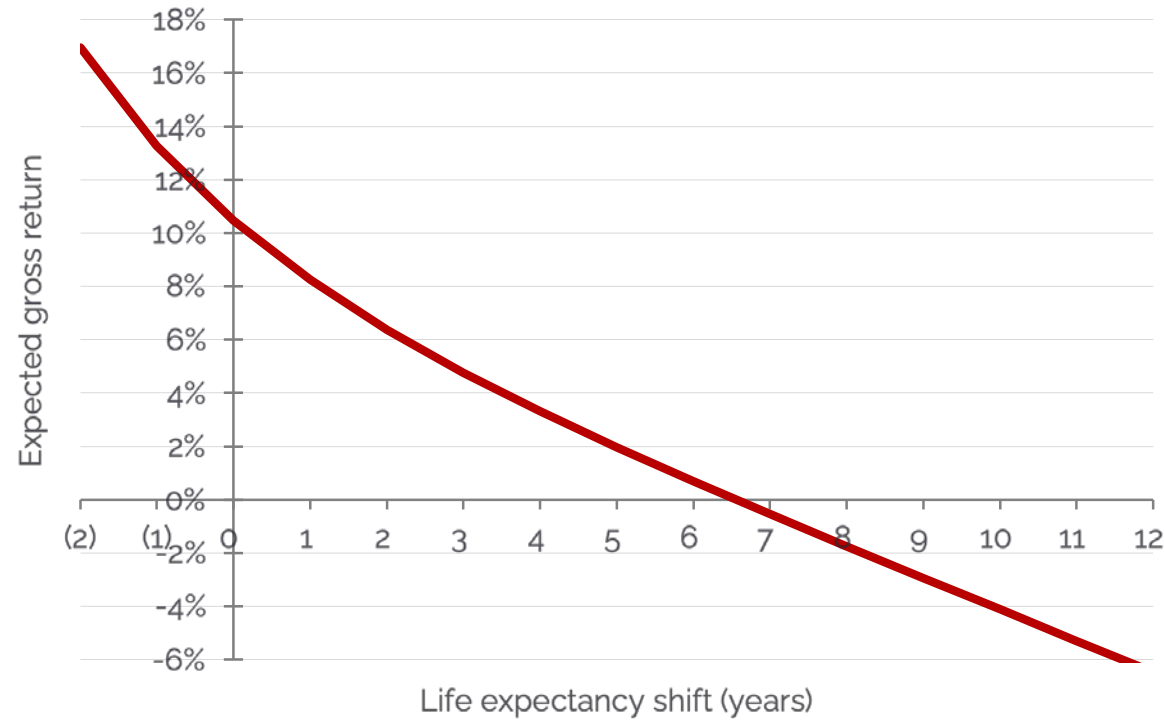
for the majority of the fund's annual returns. "The realized value from matured or sold policies is truly the driver of performance one would want in the portfolio rather than a model-based re-valuation," emphasizes Persson.

LAST YEAR'S RETURN AND FUTURE EXPECTATIONS

After experiencing one of its strongest years in 2022 with a return of 8.5 percent, 2023 presented an anomaly due to the low payouts for Ress Life Investments, resulting in a return of 1.6 percent. "The performance in 2023 reflects a lower-than-expected number of policies paying out," explains Persson. "While still within the confidence interval, indicating it's a plausible event, it was somewhat to the extreme," she elaborates. The performance reflects not only a reduced number of payouts but also the payouts from policies with below-average face values.

The average policy face value in the portfolio stands at \$2.7 million, yet the average policy that paid out in 2023 was less than \$1 million. This lower-than-

LONGEVITY SENSITIVITY



expected occurrence of payouts is expected to result in a higher number of policies paying out in the upcoming years. Gustaf Hagerud, CEO of Ress Capital and Ph.D. in financial statistics, along with his team, expects a reversion to the mean in terms of the number of policies paying out. “We are hesitant to say that the number of policies paying out will be higher this year, but over a longer period of time, these figures tend to regress to the mean,” says Persson. “We anticipate higher numbers of policies paying out over time, whether it’s this year, next year, or within a three-year span. It’s impossible to predict with certainty.”

Mårtenson and his team remain confident that Ress Life Investments is on track to reaching its long-term objective of achieving a seven percent return in U.S. dollars net of fees. “While we may have fallen short of our seven percent target in recent years due to the subdued performance in 2023, we had been above our target for many years,” he notes. Acknowledging that a higher interest rate environment may diminish the attractiveness of this return stream in the short term, Mårtenson highlights its inherent benefits of limited downside, low volatility, and lack of correlation. “Interest rates may come down in the future, but we will continue to deliver seven percent.”

“Interest rates may come down in the future, but we will continue to deliver seven percent.”

Jonas Mårtenson

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Refined Hedge Fund Strategy Mix at Ericsson Pensionsstiftelse

By Eugeniu Guzun – HedgeNordic

The pension fund serving the employees of Swedish telecoms company Ericsson has long been an active investor in hedge funds. However, recent years have marked notable shifts in Ericsson Pensionsstiftelse's hedge fund allocation, partly motivated by disappointing performance in certain strategies. Particularly noteworthy is the move away from long/short equity strategies and fixed-income relative value hedge funds in favor of multi-strategy managers.

The allocation to hedge funds, currently sitting at about five percent of the overall portfolio, resides within the pension fund's Alternative bucket, distinct from the "traditional" alternatives such as private equity, private debt, real estate, and infrastructure. "The aim of the hedge fund allocation is to deliver an absolute return above five percent with a very low risk of tail events," explains Michael Levén, a senior portfolio manager at Ericsson Pensionsstiftelse.

CAUTION WITH LEVERAGE

"During the pandemic and the years leading up to the pandemic, the hedge fund portfolio consisted mainly of fixed-income relative value hedge funds and equity long-short strategies," Levén notes. "Several of these

"The aim of the hedge fund allocation is to deliver an absolute return above five percent with a very low risk of tail events."



Michael Levén, portfolio manager – Ericsson Pensionsstiftelse

funds had problems during 2021 and 2022,” recalls the portfolio manager. One prevalent issue among fixed-income relative value hedge funds was their reliance on high leverage. Levén illustrates this with an example: “During the fall of 2021, a spike in short-term rates resulted in losses for our Swedish fixed income relative value hedge funds, which had taken long positions in covered bonds and short positions in Swedish government bonds.”

In another example, Levén sheds light on the repercussions of Russia’s full-scale invasion of Ukraine in February 2022. “Some hedge funds were long Danish government bonds and short German government bonds,” explains Levén. Following the invasion, Russian government bonds were no longer accepted as collateral by banks and clearing houses, leading to their replacement with German government bonds and triggering a squeeze in the latter. “Those situations were highly exacerbated by the leverage applied in the positions, so we have learned the hard lesson of exercising caution with leverage,” says Levén.

THE STRUGGLE OF EQUITY LONG-SHORT STRATEGIES

As for the challenges faced by equity long-short strategies, investors have been growing weary of their inability to capitalize on bull markets or safeguard capital during downturns. “Unfortunately, we have found many equity long-short managers incapable of both capitalizing on bull markets and protecting capital during downturns,” confirms Levén. Consequently, Ericsson Pensionsstiftelse has chosen to divest all investments in long-short equity managers, except for the exposure included as part of the multi-strategy manager allocation. “We don’t need equity long-short strategies to beat broader equity indices each year,” notes Levén. “However, if they don’t manage to beat them over time and also fail to protect you on the downside, we could not justify having them in our allocation.”

Leading up to 2022, many long-short equity managers contended that very low-interest rates prolonged the survival of weaker companies and made shorting more challenging. “But the changed interest regime over the last couple of years has not led to long-short strategies being much better off,”

“Unfortunately, we have found many equity long-short managers incapable of both capitalizing on bull markets and protecting capital during downturns.”

observes Levén. “The still low equity volatility and a year-and-a-half-long bull market made it hard for long-short managers to prove themselves,” he adds. “Regardless of their efforts to mitigate macro risk, certain environments are more beneficial to their success than others.”

Levén observes a slight change in 2024, where stocks in heavily shorted companies have experienced more significant declines compared to shares in less shorted firms, irrespective of their size or sector. “You hear some analysts referring to the current macroeconomic environment as a ‘hedge fund nirvana,’ marking an end to the suffering of the last decade,” notes Levén. Time will reveal the true outcome, but Ericsson Pensionsstiftelse is avoiding long-short equity strategies for now.

SOURCING AND DUE DILIGENCE

Due in part to its local presence and established relationships, Ericsson Pensionsstiftelse has traditionally maintained a higher exposure to Nordic hedge fund managers. “Sourcing mainly relies on existing relationships and networks,” explains Michael Levén. As a result, “historically, there has been a clear tilt towards Nordic managers who we have known very well,” adds Levén. However, Ericsson Pensionsstiftelse has been increasingly exploring opportunities outside the Nordics to diversify its hedge fund portfolio. “What we have learned over the years is that we have the possibility to invest in the best funds globally, so there is no need to focus on just the Nordic players.”

While the team at Ericsson Pensionsstiftelse primarily sources ideas from existing relationships and networks, they have also engaged external consultants in some cases to conduct a broader search and screening. “Generally, the due diligence (DD) is conducted entirely in-house, but for legal DD, the pension fund either uses Ericsson internal resources or outside legal counsel. In certain instances, we also seek external tax advice,” explains Levén. The DD process involves both qualitative and quantitative analyses, as well as operational reviews. “The process includes the usual steps in evaluating the investment team and the investment process, track record of the fund and the team, risk management, liquidity, third-party service providers,

organizational and legal entity structure, internal policies and legal terms.”

OBJECTIVE AND CURRENT EXPOSURE

The end objective is to find managers and funds with “an absolute return profile generating a yearly return of at least 5 percent with minimal risk of being stopped out due to market squeezes or high leverage,” concludes Levén. “If a manager is not able to deliver on this over a two to three-year timeframe, we generally look to exit that position.” In line with this objective, Ericsson Pensionsstiftelse has recently increased its exposure to multi-strategy managers.

“To minimize the risk of tail risk events, such as those experienced in our fixed income relative value hedge funds, and to diversify away from the equity long-short space, we have shifted our hedge fund allocation into multi-strategy hedge funds,” notes Levén. “These multi-strategy funds have several portfolio managers, reducing key-man risk,” he emphasizes. Additionally, risk allocation is centralized, and the risk function is responsible for setting allocation risk limits.

Moreover, Ericsson Pensionsstiftelse has also added several credit hedge funds to its portfolio, spanning from the more liquid segment of the distressed segment to CLO-focused funds and broader “all-weather” credit hedge funds. Levén and his team are considering adding complementary exposures across other hedge fund strategies. “While the underlying strategies have generally performed well over recent years, portfolio diagnostics reveal a number of closely correlated strategies and a tilt towards a credit factor sensitivity,” Levén points out. Therefore, incorporating differentiated strategies could potentially result in an improved risk-adjusted return and further reduce the expected impact from market shocks.”

Unlocking Equity-Like Returns in the Complex Hybrid Segment

By Eugeniu Guzun – HedgeNordic

Since early 2019, Swedish fixed-income specialist Carlsson Norén Asset Management has managed a fund dedicated to investing in hybrid securities, which combine characteristics of both fixed-income and equity instruments. With five years of track record, Carlsson Norén Yield Opportunity has established a risk-return profile characterized by founder Fredrik Carlsson as “equity-like returns with reduced risk.” During periods of typical volatility and credit spreads, this profile can mirror equity-like returns with volatility levels akin to fixed-income investments.

As with any investment, there is an inherent trade-off between risk and returns. Hybrid securities, ranging from more equity-like preferred stock to corporate hybrid bonds, bank hybrids, and convertibles, typically offer higher yields than traditional fixed-income investments such as corporate bonds. When comparing Carlsson Norén’s portfolio of hybrid securities to the holdings of a traditional high-yield bond fund on the risk spectrum, Carlsson explains

that “we prioritize taking more risk at an individual company level by investing in hybrid securities closer to equity risk instead of purely fixed-income investments.” The primary difference, however, lies in the fund’s focus “on investing in hybrids issued by very good companies, while high-yield investing by design involves investing in financially weaker companies,” according to Carlsson.

“Issuers of high-yield bonds carry poor credit ratings, that’s why their bonds are high yield,” he notes. In contrast, Carlsson Norén Yield Opportunity focuses on investing in the higher-risk, higher-return segments of the capital structure of higher-quality issuers. “We prefer to invest in companies with strong businesses, solid assets, and robust cash flows that can withstand any market conditions,” explains Carlsson. While hybrid securities generally offer greater return potential compared to bonds issued by similarly high-quality issuers, they also come with heightened levels of complexity and risk.

Fredrik Carlsson, co-founder and CEO – Carlsson Norén Asset Management

THE COMPLEXITY

Each hybrid security comes with its own terms and conditions, some of which can span hundreds of pages, requiring expertise to fully comprehend the associated risks and benefits. The expert focused on hybrids within Carlsson Norén Asset Management’s team is Magnus Dahlgren. Despite their varied terms and characteristics, hybrid securities fundamentally blend debt and equity elements. Dahlgren describes these instruments as having bond-like traits, featuring pre-determined coupon payments independent of operational performance, alongside equity-like attributes such as the absence of a maturity date or the potential for conversion into common equities.

“The thing about the hybrid market is that the term sheets can be really, really complicated,” points out Carlsson. “One has to be an advanced investor to be able to assess all the different types of specifics in every issue,” he elaborates. “These term sheets often contain various complexities, such as step-ups if the securities are not called, the optionality related to calls, and many other features. It’s truly complicated at times, requiring thorough scrutiny of all these details.”

As part of the takeover of Credit Suisse by UBS in early 2022, Swiss financial regulator Finma instructed the credit-stricken bank to write down 16 billion Swiss francs of additional tier-1 (AT1) bonds. Finma’s decision to force losses on AT1 bondholders, while allowing Credit Suisse shareholders to receive small payouts from the takeover put the traditional, common-sense pecking order hierarchy in turmoil. “Investors who do not read terms sheets very carefully may not know that they could lose everything before the equity holders,” reminds Carlsson. “This serves as an example of why it’s crucial to have an experienced fund manager conduct such analysis,” he underscores. “For private individuals or smaller institutions, lacking the time, expertise, and wealth, investing in these types of products is challenging.”

Carlsson Norén Yield Opportunity is designed to provide investors with a diversified portfolio of hybrid securities that may be challenging to access independently. “The fund offers a very interesting

“We focus on investing in hybrids issued by very good companies, while high-yield investing by design involves investing in financially weaker companies.”

Fredrik Carlsson

portfolio of 35 to 40 holdings in instruments that you cannot access on your own with a reasonable level of confidence, given the complexity of instruments reflected in their term sheets,” emphasizes Carlsson. More importantly, the appeal of different hybrid securities fluctuates across different market environments, further complicating the task of security selection for novice investors.

PROPERTY COMPANIES LESS RELIANT ON HYBRIDS

Companies issue hybrid securities for various reasons, driven either by regulatory requirements or the aim to improve credit ratings as hybrids carry a partial equity component. “Hybrids are considered part equity by credit rating agencies and can be valuable for companies in strengthening their rating,” explains Dahlgren. These securities usually constitute the most costly form of debt for an issuer. “Despite higher interest rates associated with hybrids, they can lower the total cost of a company’s debt by facilitating a reduction in the interest rate on senior debt.”

Swedish property companies had been active issuers of hybrid securities in a low-interest-rate environment. “In the past, property companies were in expansion mode and required a strong credit rating to borrow at attractive levels and expand further,” explains Fredrik Carlsson. Since the owners of these companies opted against raising equity to avoid diluting their ownership, they turned to hybrid securities to raise capital while enhancing their credit ratings. “By increasing equity through hybrid instruments, they could get favorable ratings and issue senior bonds at highly attractive rates,” Carlsson notes.

“However, with the significant changes in the market due to rising interest rates, expansion is no longer on the horizon,” he emphasizes. “The property sector is now more focused on divestments or consolidation. The importance of the hybrid market is not there anymore.” While the issuance of hybrid securities from property companies is expected to continue to subside going forward, “there will be a consistent issuance of hybrids in other sectors,” argues Carlsson. Hybrids in the financial sector, for instance,

“The thing about the hybrid market is that the term sheets can be really, really complicated. One has to be an advanced investor to be able to assess all the different types of specifics in every issue.”

Fredrik Carlsson

serve as a source of investment ideas for Carlsson Norén Yield Opportunity. Due to regulatory reasons, banks are obligated to issue AT1s, tier 2 and 3 bonds, ensuring a continuous flow of investments in this sector. “We have also seen some issuance in the convertible bond segment, which we have recently participated in, and that is interesting as well.”

With a 6.8 percent increase in the first quarter of 2024, following a return of 11.3 percent in 2023, Carlsson Norén Yield Opportunity has reached new highs after the drawdown in 2022. Since its launch in early 2019, the fund has delivered an annualized return of 4.5 percent over its five-year journey. Despite the robust performance in 2023 and 2024, the current portfolio of Carlsson Norén Yield Opportunity still benefits from an average yield of 12 percent, with a median of 10 percent across all investments. “Yields in hybrid securities remain at elevated levels of 12 percent despite the strong rebound in the market, which is much better than expected equity returns in the near term,” concludes Carlsson. Carlsson Norén Yield Opportunity remains committed to its objective of generating equity-like returns in the range of 7 to 8 percent with lower volatility than equities over time.



Ole Einar Stokstad, Line Tollefsen, Shatthik Barua, and Tom Hestnes – Norselab Credit Management

Absolute Returns in Impact-Screened High-Yield Market

By Eugeniu Guzun – HedgeNordic

“The AIF structure permits more concentration, allowing us to maintain a fundamental approach to investments.”

While many high-yield bond investors prioritize avoiding defaults, there is one team in the Nordics that does not shy away from investing in distressed investments. Managed by Tom Hestnes and co-portfolio manager Ole Einar Stokstad, Norselab Meaningful Impact High Yield aims to generate absolute returns by investing in performing Nordic high-yield bonds, maintaining the flexibility to spice up returns with distressed investments. As an Article 9 fund, all its investments must fall within a pre-vetted universe of high-yield issues approved by Norselab’s four-member impact team.

Tom Hestnes, who has been involved in over 50 restructurings in the Nordics since 2015, joined Norselab in 2022 to launch a series of alternative

investment funds that partially invest in special distressed opportunities. Joined by Ole Einar Stokstad, formerly Head of Credit Research at DNB Markets, the duo has been managing Norselab Meaningful Impact High Yield since December 2022. A year later, amid promising opportunities in the Nordic real estate market, Norselab launched a second high-yield fund structured as an alternative investment fund to invest in Nordic real estate.

AIF ADVANTAGES

With both Hestnes and Stokstad joining Norselab in mid-2022, the team opted for the alternative investment fund structure to overcome structural limitations in the Nordic high-yield market, such as

limited liquidity. “Managing less liquid investments in a liquid structure like UCITS has proven quite a challenge sometimes,” explains Hestnes. “The AIF structure allows for better fund management by offering investors monthly liquidity instead of daily.”

Additionally, the AIF structure permits the use of leverage, with Meaningful Impact High Yield benefiting from a 15 percent credit facility that serves as a liquidity buffer. This structure also facilitates currency risk hedging in the portfolio, particularly important for a pan-Nordic portfolio. “We use that credit facility for margin calls, so external factors like currency fluctuations do not affect the portfolio.”

Equally important, the AIF structure allows the two-person team to maintain more concentration

and focus on a smaller number of issues in the portfolio. “Asset growth becomes your enemy at a certain stage in the Nordic high-yield market,” notes Hestnes. Under UCITS regulations, the maximum investment in a single issuer can reach ten percent of the portfolio. “Once you reach four to five billion Norwegian kroner, you are forced to invest in more companies,” he elaborates. For a two-person team, size becomes an issue at that point. “The AIF structure permits more concentration, allowing us to maintain a fundamental approach to investments.”

100% ALPHA FOCUSED

Norselab Meaningful Impact High Yield adopts a benchmark-agnostic strategy, targeting the highest risk-reward opportunities in the credit segment around B and BB+. “We are 100 percent alpha-focused,” says Hestnes. “We do not benchmark against anyone or anything, and try to deliver the best absolute return in the high-yield space.” However, Hestnes and Stokstad, do not solely seek the best risk-reward opportunities in the market. “With almost all our investments, we like to have expectations of positive triggers or catalysts,” emphasizes Hestnes. “In a flat market with a portfolio yielding 12.5 percent, we seek an outcome closer to 15 percent” due to catalysts driving additional returns.

While the Nordic high-yield market returned 10.5 percent in 2023, Norselab Meaningful Impact High Yield returned 15.7 percent, reflecting the active selection of credits with positive catalysts. “We spice up the returns with distressed and catalyst-driven investments,” explains Hestnes. Active investing in the Nordic high-yield market serves as a tool for generating above-market returns. “We refrain from using the term ‘trading’ because we don’t trade. However, we aim to be active and benefit from large relative value spreads within sectors and risk categories,” he adds. “The beauty of illiquid markets lies not only in their challenges but also the opportunities they present, which we try to exploit by turning the portfolio.”

The team decided to overweight the “investment companies” sector in 2023, as it was heavily impacted in late 2022 due to the rise in interest rates. “This sector

“With almost all our investments, we like to have expectations of positive triggers or catalysts.”

rebounded very strongly in 2023,” notes Hestnes. Underweighting or nearly avoiding investments in real estate in the first half of 2023 also proved to be beneficial for Meaningful Impact High Yield. However, the team started overweighting the sector in August, and September. Amid promising opportunities in the Nordic real estate market, Norselab soon launched a second high-yield fund to invest in Nordic real estate.

ARTICLE 9

Meaningful Impact High Yield is classified as Article 9, designated as “dark green” under the SFDR. While Tom Hestnes and Ole Einar Stokstad form the portfolio management team responsible for selecting investments for Meaningful Impact High Yield, there is a separate team of four impact professionals at Norselab assisting the fund’s journey to Article 9 status.

Meaningful Impact High Yield seeks to invest in issuers that generate a net positive contribution, through their core products and services, to the UN Sustainable Development Goals. “Our internal impact analyst team, currently consisting of four people, have been through the entire universe and identified those companies that contribute to one or more SDGs,” explains Hestnes. “All issuers have passed through the team’s thorough impact assessment process.”

While the team of four continually monitors and updates their recommendations, Hestnes and Stokstad are responsible for picking investments from the pre-vetted universe of issuers. “Our job as portfolio managers is to make the best absolute returns within that part of the universe,” concludes Hestnes.

“Our job as portfolio managers is to make the best absolute returns within that part of the universe [screened by the impact team].”

Smooth Sailing in Rough Seas

By Eugeniu Guzun – HedgeNordic

“Both the fund and the shipping sector present interesting opportunities from a portfolio management standpoint, as their correlation with the broader market is statistically insignificant.”

Gersemi Shipping Fund has emerged as a notable recent addition to the Nordic hedge fund industry. However, the founder and manager of this fund is no newcomer to the industry. With years of experience in equity research and several more years of investing in shipping equities under his belt, Joakim Hannisdahl brings a seasoned and proven approach to steering the shipping-focused long/short equity fund. This wealth of experience and proven approach have translated into a strong start for Gersemi Shipping Fund since its mid-2023 launch, delivering a cumulative return of 29 percent and nine consecutive months of positive performance.

“The journey has been going very well, the progress has exceeded our expectations both in terms of asset accumulation and returns,” Hannisdahl reflects on the journey of Gersemi Shipping Fund. Having employed a similar strategy before launching the fund under his asset management firm, Gersemi Asset Management, Hannisdahl notes, “The strategy has delivered a



Joakim Hannisdahl, founder and fund manager – Gersemi Asset Management

compound annual growth rate of 33 percent since its inception in 2017.” While pleased with the fund’s performance and aiming to maintain similar results in the future, he cautions investors against expecting the same level of returns in the future, adhering to the timeless adage that past performance does not guarantee future results.

However, Hannisdahl emphasizes that investors can expect diversification benefits from investing in Gersemi Shipping Fund and the shipping sector overall. “Both the fund and the shipping sector present interesting opportunities from a portfolio management standpoint, as their correlation with the broader market is statistically insignificant,” notes Hannisdahl, who runs Gersemi Shipping Fund

alongside freshly hired portfolio manager Fredrik Flem. “Furthermore, we have not observed significant correlations with other asset classes or sectors such as oil, gold, and others.”

Hannisdahl’s investment approach involves quantifying and capturing the cyclical expansions and contractions in different shipping segments, which include dry bulk, oil tankers, car carriers, LPG carriers, LNG carriers, and containers. One source contributing to the limited correlation in Hannisdahl’s strategy with the broader market is the absence of correlation between these different sub-segments. “We see the same dynamics within the shipping universe itself, where we focus on six distinct segments, each showing no correlation

with the others,” explains Hannisdahl. “This allows us to maximize returns while minimizing portfolio volatility.”

NICHE FOCUS AND CAPPED AUM

Given the specialized focus of Gersemi’s predominantly equity-driven strategy, Hannisdahl also contends with a relatively restricted pool of investable stocks. “We require sufficient liquidity to execute a light-footed strategy, thus we place a premium on liquidity,” explains Hannisdahl. “Our goal is to be able to liquidate 90 percent of our positions within five to ten business days.” He also insists on basic corporate governance standards from potential investments, which leads to the exclusion of many companies. The total universe of companies across the six targeted sectors amounts to fewer than 50 stocks. Nonetheless, backtests on liquidity instill confidence in his ability to manage a fund with assets under management of up to \$200 million.

Hannisdahl emphasizes that he will never compromise potential returns in favor of managing a larger pool of assets. “We are not here to manage a large fund and earn fixed fees,” notes Hannisdahl, who is the second largest investor in the fund. “The fund is established for the investors, by the investors, and we are in this together,” says Hannisdahl. “If, for any reason, the returns are not as expected during a year, we are not here to earn a lot of money ourselves.”

QUANTIFYING THE CYCLICALITY OF SHIPPING SECTORS

The shipping industry has long been characterized by its cyclical and volatile nature, with each sub-segment experiencing its own independent cycles. “Shipping is very volatile, which underscores the need for a light-footed strategy,” notes Hannisdahl. For that reason, “the backbone of the strategy relies on the historical ability to forecast the cyclicalities of shipping sectors using econometrics,” explains the former shipping analyst turned fund manager. “I have been quite successful forecasting the cyclicalities of shipping sectors in the past, and I expect that to be quite successful going forward as well.”

“The backbone of the strategy relies on the historical ability to forecast the cyclicalities of shipping sectors using econometrics.”

Despite his extensive experience in the shipping industry, Hannisdahl has been taken aback by the recent surge in market volatility prompted by events such as Russia’s invasion of Ukraine, a drought leading to decreased water levels in the Panama Canal, and attacks on vessels in the Red Sea. “The past few months have been quite eventful. It’s been unusually hectic at the office, with much higher turnover than usual,” Hannisdahl remarks. Despite the volatility, Gersemi Shipping Fund has consistently delivered returns every single month since its inception. “We have been very successful at being agile thanks to our light-footed strategy, moving around the market quite fast, going from short to neutral to long positions and back to short positions again.”

Hannisdahl’s successful trading does not hinge on his ability to predict the ebbs and flows of conflicts, such as those in the Red Sea, which disrupted traffic through the Suez Canal – the shortest maritime route between Asia and Europe. “We’re not in a position to forecast the specifics of such conflicts, but we are in a position to know the implications for shipping in the Red Sea,” notes the portfolio manager. “We track every vessel daily, enabling us to anticipate potential implications that we soon see in our data,” he elaborates. “Thus, the Red Sea situation has been, for us, an exercise in risk management.” This preparedness was also evident during Russia’s full-scale war in Ukraine in early 2022, for which Hannisdahl had already devised a strategy to position his portfolio.

LIGHT-FOOTED STRATEGY

As an illustration of the team’s light-footed strategy to navigate the volatile shipping market, Gersemi Shipping Fund, for instance, entered the month of March with 41 percent in cash and exposure limited to just two of the six shipping sub-sectors. “In our strategy, it is very important to not allocate capital for the sake of allocation,” says Hannisdahl. Given the volatility of the shipping sector, it is imperative to identify clear investment opportunities before deploying capital. “While there are occasions when we have clear opportunities across all six segments and may need to optimize allocations, sometimes we are lacking clear investment opportunities to allocate our capital, though these episodes are most often short-lived.”

Since the fund’s inception in mid-2023, Hannisdahl has found dry bulk to be interesting at different times, oil tankers have remained consistently enticing during the entire duration, and LPG carriers have periodically cycled in and out of Gersemi Shipping Fund’s portfolio. Hannisdahl emphasizes the importance of not being fully invested at all times. “From our experience, within just one year, the shipping sector is so volatile that you often get a lot of unexpected investment opportunities,” he explains. “Maintaining available cash at hand allows us to seize these opportunities as they arise, often resulting in lucrative returns.”

“From our experience, within just one year, the shipping sector is so volatile that you often get a lot of unexpected investment opportunities.”

Evolution in Hedge Fund Investing with LGT Collaboration

By Eugeniu Guzun – HedgeNordic

“The benefit for me in this setup is that I can still maintain control of the portfolio – deciding what goes in and how we allocate – while leveraging the entire infrastructure, research team, and resources provided by LGT.”

Since Peter Ragnarsson assumed the role of Head of Alternatives at PRI Pensionsgaranti in 2015, the Swedish pension insurer has significantly increased its allocation to alternatives from 12 percent to about 45 percent. With Ragnarsson overseeing allocations across all alternative asset classes spanning private debt, private equity, infrastructure, real estate, and hedge funds, PRI has chosen to collaborate with LGT Capital Partners to manage its ten percent target allocation to hedge funds.

PRI currently allocates approximately 45 percent of its SEK 37 billion investment portfolio to alternative asset classes. This allocation includes between 15 to 20 percent in private debt, 10 percent in real estate, eight percent to hedge funds, and an equal three percent to private equity and infrastructure, respectively. “During my eight years at PRI, we have increased the allocation to alternatives quite a lot,” reiterates Ragnarsson. “We are a very small team and I am still the only one responsible for covering all alternative asset classes from hedge funds through all private markets,” he elaborates. “I spend more and

Peter Ragnarsson, Head of Alternatives
PRI Pensionsgaranti

“We can scale up and down the allocation to certain strategies more tactically than before.”

more of my time on the private markets portfolio, which takes a lot of time.”

Due to limited human resources, PRI Pensionsgaranti has partnered with LGT Capital Partners to manage its ten percent target allocation to hedge funds. “Even though hedge fund investment is my bread and butter, my area of expertise, I felt that I had less time to be an active allocator in hedge funds,” Ragnarsson explains the rationale behind this decision. “We believed it was a good opportunity and timing to seek a partner to assist us in this area.” As part of this collaboration, PRI has established a fund structure of a fund-of-one with LGT Capital Partners, where PRI is the sole investor and LGT Capital Partners serves as the investment manager.

As part of this partnership, PRI Pensionsgaranti is raising its allocation to hedge funds from eight percent to its long-term target of ten percent. Ragnarsson explains, “We slightly increased the allocation now, as we believed it was the opportune time to reallocate to that level while entering this partnership.” With PRI Pensionsgaranti managing an investment portfolio valued at SEK 37 billion, approximately \$3.5 billion, the pension insurer initiated a \$300 million mandate with LGT Capital Partners at the beginning of December.

The allocation process entails LGT Capital Partners proposing allocations and new funds to Ragnarsson, with PRI’s Head of Alternatives making the final decision on all allocation matters. “The benefit for me in this setup is that I can still maintain control of the portfolio – deciding what goes in and how we allocate – while leveraging the entire infrastructure, research team, and resources provided by LGT,” explains Ragnarsson. “LGT is a prominent hedge fund allocator and also offers favorable fee rebates with many approved funds on their platform, from which I can also benefit,” he notes. “Moreover, they are significant investors through SMAs or managed accounts, which enhances the cash efficiency of the portfolio.”

This partnership also allows Ragnarsson to take a more dynamic and active approach to PRI’s hedge fund allocations. “We can scale up and down the allocation to certain strategies more tactically than before,” he explains. “Previously, our approach to the hedge fund portfolio was more passive,

characterized by a buy-and-hold strategy where we allowed profits to run,” Ragnarsson elaborates. “With this new arrangement, we can be more active in cashing in profits and be more tactical in our allocation decisions.”

STRATEGY EXPOSURE RESHUFFLE

Before partnering with LGT Capital Partners, PRI Pensionsgaranti aimed to maintain an “all-weather” hedge fund portfolio. “The portfolio consisted of a combination of systematic strategies such as CTAs and systematic macro, and higher Sharpe ratio type of strategies like fixed income relative value, long/short credit, discretionary macro, and equity market-neutral,” explains Ragnarsson. “It was a combination of both.”

PRI’s primary goal of investing in hedge funds has been to capture a reliable source of absolute return, uncorrelated to other asset classes in the portfolio such as equities and fixed income. “That has been the primary objective of the hedge fund portfolio,” says Ragnarsson. “If we could also derive some tail protection characteristics from the allocation, that’s beneficial, but it was not as prominent before as it will be now with the new manager lineup,” he elaborates. PRI will continue to adopt an “all-weather” approach to this portfolio but with a greater emphasis on systematic strategies and tail protection strategies.

“We have beefed up the lineup within trend-following CTAs, added exposure to short-term trading CTAs, and introduced two systematic macro funds, which were previously not part of our exposure,” says Ragnarsson. PRI also allocated to a new artificial intelligence machine learning fund. “Overall, we beefed up the systematic side of the portfolio,” he adds. “Those managers tend to be better at capturing, for lack of better words, crisis alpha, and protecting the portfolio during more stressed market conditions. I believe the characteristics of the hedge fund portfolio are the main reason for allocating more towards these strategies.”

While multi-PM hedge fund platforms have gained popularity among institutional investors in recent years, Ragnarsson has chosen to steer clear of these large platforms. “I prefer to construct my own multi-strategy approach in that regard. We prefer single

strategies or specialists,” says Ragnarsson. “We have a combination of smaller, emerging managers in our portfolio and we also have some other large, established names as well,” he continues.

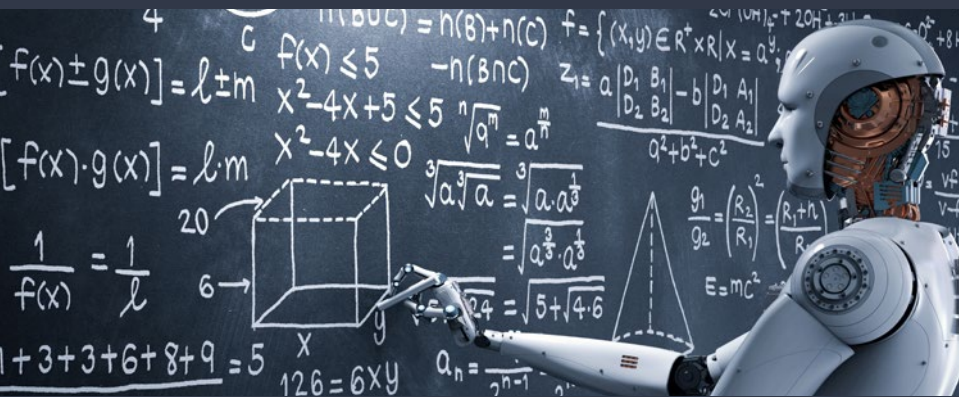
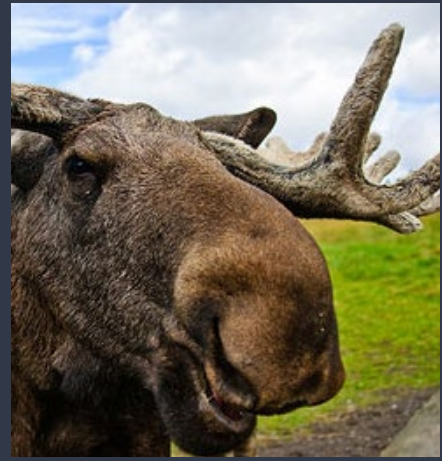
Ragnarsson places significant emphasis on stable teams, track records, and effective risk management, among other factors, when selecting managers. “In essence, we prioritize stable teams with a proven track record,” notes Ragnarsson. “If it’s a newer fund, they should have a track record from a previous employer or a team that I am familiar with, demonstrating the ability to generate alpha and continue to maintain these alpha-generating characteristics.”

SOLID PERFORMANCE AND FERTILE ENVIRONMENT

Solid performance from its hedge fund allocation in recent years has been a key factor motivating PRI Pensionsgaranti to maintain a significant allocation to this asset class. “We have been satisfied with the performance of this portfolio, which is why we are one of the few local institutional investors that have retained a sizable allocation to hedge funds in recent years,” says Ragnarsson. “While we experienced a couple of flat years around 2018 and 2019, our hedge fund portfolio has delivered strong performance over the past few years.”

According to Ragnarsson, the current market environment has become more favorable for hedge funds. “Given the prevailing environment characterized by higher interest rates, as well as increased volatility and dispersion in the markets, hedge funds are well-positioned to thrive,” concludes Ragnarsson. “I am glad that we have maintained our allocation during these years, despite facing some questions about cost considerations as a hedge fund allocator,” he elaborates. “However, we have weathered through that and I believe that the current environment is good for investing in hedge funds moving forward.”

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