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HEDGENORDIC

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NORDIC HEDGE FUND INDUSTRY REPORT 2021

Contents

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.

PUBLICATION PLAN 2021:

April:	Finding Alpha in Equities
May:	Illiquid Strategies
June:	Private Markets
August:	Quant Strategies
September:	Value / Quality Investing
October:	Multi Asset
November:	Alternative Fixed Income
December:	ESG and Alternatives

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Editor´s Note...

Nothing to Write Home About.

Looking back at this last year since publishing our last Nordic Hedge Fund Industry Report in March of 2020, there is really very little to write home about. Not that it was not an eventful year, on the contrary, this one will sure stick in our minds and we will be discussing it for decades to come. It is just, most of us have spent more time than enough at home, so there is probably really not much news to spread in our own four walls.

For the Nordic hedge fund universe however, there are stories to tell a plenty – entire sagas were written and will be sung. As a whole, the industry recorded the best annual performance in a decade and closed at an all-time high. We recorded ten new fund launches, and unfortunately many more closures.

One of the most exciting things I find, is when we "discover" new funds. We received an e-mail for instance from Jonathan Copplestone in the weeks running up to Christmas inquiring whether his fund, Lucerne Nordic Fund, would meet the criteria to be listed in the Nordic Hedge Index. By experience, when the manager asks for index inclusion, we have learned that the track-record typically did not look all that bad.

Then there are those funds which we happen to find by knocking on doors, turning over stones or hearing of elsewhere. More often than not there are hedge fund strategies and funds buried deep in the big banks, SEB and Nordea being prime candidates for such hiding places. They are hard to bring to surface, get access to or even identify the right people or get a hold of the required information. Now, this does not happen all too often, but just last week, we unearthed two new index constituents falling into that category.

On the one hand, it is quite a frustration to learn that there are funds and managers out there that we do not know of, or cannot access or who, for whatever reason, choose not to be listed in the Nordic Hedge Index. At HedgeNordic, we do want to claim to know every Nordic fund and manager and have good, established relations to them.

On the other hand, it is part of the fuel that drives us. It is like a treasure hunt, knowing there are some hidden few out there still to be discovered by us. These random e-mails or calls that come pointing out a new fund. And some of them turn out to be gems we will be looking at in this publication, too.

The 2021 Nordic Hedge Fund Industry Report kicks off with a review of 2020, a tale of two extremes before we turn to "The White Crow," interviewing Jonathan Copplestone who manages the Lucerence Nordic Fund out of New York. In "Fundamentally Driven," we visit Volt Capital Management, a CTA using not price, but fundamental data in their trading models. Staffan Östlin of Adrigo lets us in on how to find "Truly Nordic Hidden Gems" and SEB's team managing Eureka describes how they are "Capitalising on Nordic Market Inefficiencies and Volatility," while Andreas Aaen at Symmetry bets on "Small Compounders."

One of the newer additions to the NHX, St. Petri Capital describes how "Understanding and Capturing Change" leads to the Danish manager's success. Fredrik Sjöstrand is convinced that "Boring is Good" when it comes to the strategies used by their factoring fund or Scandinavian Credit Fund.

"Lynx wins 20 Year Award – but it is not relaxing" tells the tale of the journey behind, and also ahead of one of the Nordic's oldest hedge funds.

For a PhD dissertation, Danielius Kolisovas dissects the equity sub-index to the Nordic Hedge Index and discovers "The Secrets of Long Livers – Crisis Alpha." The CIO of Veritas Pension Insurance, Kari Vatanen asks the all-important question "Where Are the Diversifiers?" while the head of Nordea's multi-asset team is turning to "SuperStrategies."

It has become a tradition that we highlight three new launches in the Nordic Hedge Fund Industry report, and 2021 shall be no different in that aspect and Feature "DNB´s All-in-one," Coeli's Multi-Asset Fund insisting "You Can't Eat a Sharpe Ratio" and Anna Svahn and Martin Sandquist, portfolio managers at Antiloop Hedge, explain "The Multi-Strategy Appeal."

The Nordic hedge fund universe now for many years in a row has seen more graves than cradles, with more funds going out of business than are being launched. Reason enough for our very own Eugeniu Guzun to investigate "The Hedge Fund Pandemic."

KAMRAN GHALITSCHI
CEO & PUBLISHER HEDGENORDIC

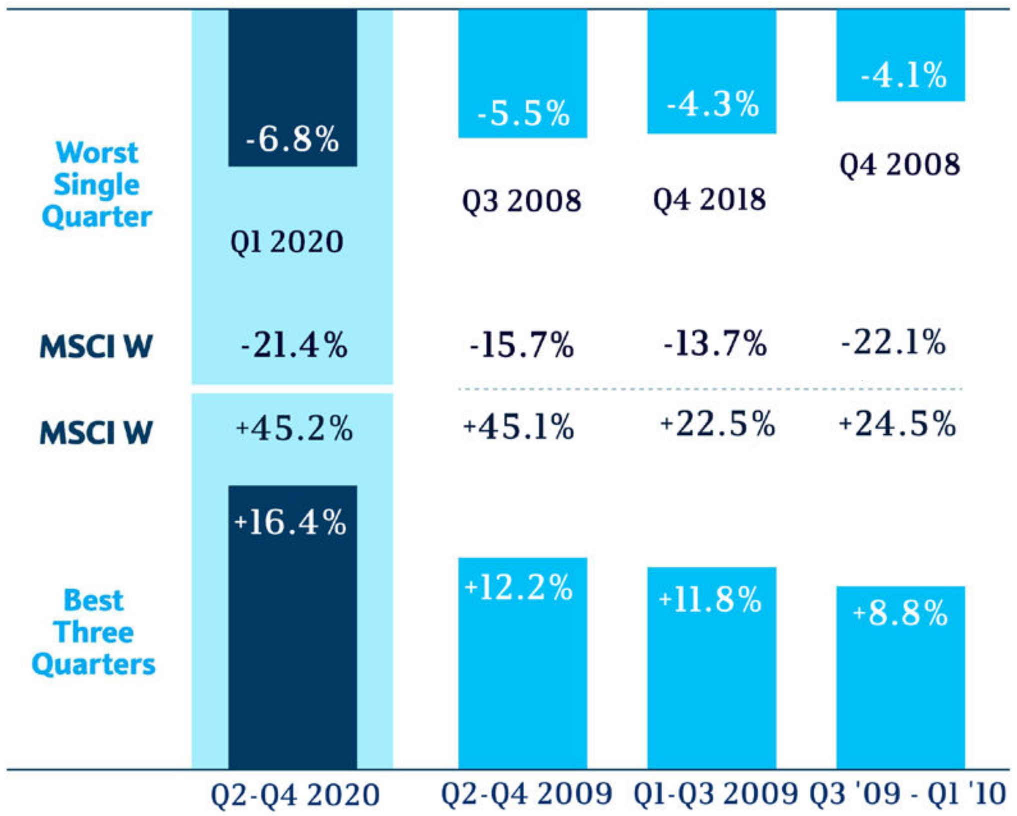
2020: A Tale of Two Extremes

By Eugeniu Guzun – HedgeNordic

2020 was a year of extremes for markets, investors and hedge funds managers alike. For the Nordic hedge fund industry, 2020 could be summed up as a tale of two extremes. The first quarter of last year was exceptionally difficult for Nordic hedge funds, which recorded their worst quarterly decline since HedgeNordic started tracking the industry back in 2005. The industry's sizeable drawdown was quickly offset by strong performance when markets bounced back starting in April. Following the worst quarterly decline on record in the first quarter, the Nordic hedge fund industry went on to enjoy its best three-quarter performance since 2005.

The Nordic hedge fund industry, as reflected by the Nordic Hedge Index, advanced 8.5 percent last year, its strongest annual performance since 2009. Viewed on a standalone basis, 2020 was an exceptionally strong year for Nordic hedge funds. When looking beneath the surface, last year was indeed a tale of two extremes for the industry. The Nordic hedge

Figure 1. A Tale of Two Extremes for Nordic Hedge Funds.



Source: HedgeNordic.

fund industry lost 6.8 percent in the first quarter of last year, its worst quarterly decline on record. The quarterly decline was mainly attributable to the 5.4 percent-loss in March, which was the industry's worst month on record.

Starting with a loss of 1.8 percent in February and then enduring an additional decline of 5.4 percent in March, the Nordic hedge fund industry experienced its second-worst drawdown on record in the first quarter of last year. Drawdowns are peak to trough, what about climbing out from the trough back to a new peak? How long did it take for the Nordic hedge fund industry to recover from its second-worst drawdown? The recovery from the valley of the index to a new high lasted only four months. In the final three quarters of 2020, the Nordic hedge fund industry enjoyed a cumulative return of 16.4 percent, its best three-quarter performance on record.

THE NORDIC HEDGE INDEX OVERCOMES THE SURVIVORSHIP BIAS

Hedge fund indices are often (perhaps wrongfully) associated with exhibiting "survivorship bias," which reflects the tendency of certain data providers to solely reflect the returns only generated by existing funds – thereby, ignoring the performance of already-defunct funds. With no less than 30 Nordic hedge funds delisted from the Nordic Hedge Index last year – funds either closed down or merged into other funds, an inappropriate calculation methodology for the Nordic Hedge Index could have resulted in significant survivorship bias.

The Nordic Hedge Index tackles this bias by reflecting the aggregate performance of both defunct and up-and-running funds. The index was up 8.5 percent last year, but the 138 active Nordic hedge funds returned

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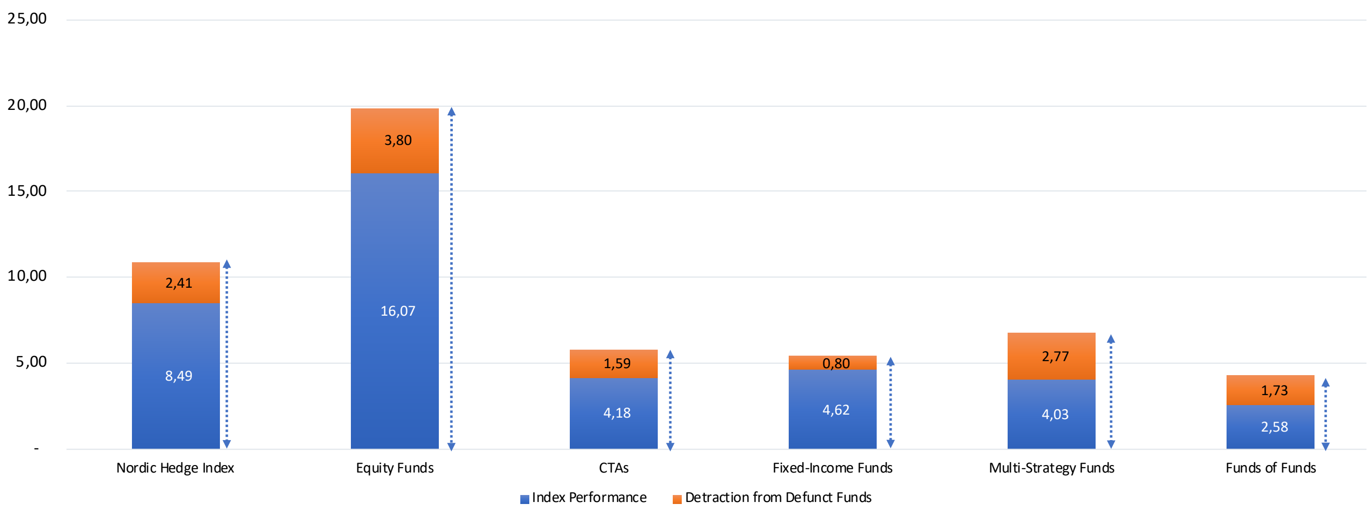
10.9 percent on average last year. The 240 percentage points-difference reflects the performance detraction from the funds that closed during 2020 (which, unsurprisingly, performed worse than the up-and-running funds).

The most noticeable difference between the performance of a sub-index and the performance of active funds underlying that sub-index is observed in the NHX Equities. The 50 up-and-running equity hedge funds within the Nordic Hedge Index gained 19.9 percent on average in 2020, while the NHX Equities was up 16.1 percent as 13 members of this sub-index closed down last year.

Up-and-running Nordic multi-strategy hedge funds returned 6.8 percent on average last year, whereas the NHX Multi-Strategy was up 4.0 percent. This 280 percentage points-difference stems from the worse-than-average performance of the 13 multi-strategy hedge funds that closed down last year. Similarly, the existing funds of hedge funds in the Nordic Hedge Index were up 4.3 percent last year, while the NHX Funds of Funds, which reflects the performance of defunct funds too, gained only 2.6 percent.

Figure 2. Lack of Survivorship Bias in the Nordic Hedge Index.



Source: HedgeNordic.

AVERAGES HIDE DISPARITIES

The Nordic hedge fund industry gained 8.5 percent net-of-fees last year and active Nordic hedge funds were up 10.9 percent on average. While these average figures are useful for comparison, averages do hide disparities. With a return of 98.3 percent, thematic-focused long/short equity fund St. Petri L/S was last year's best-performing member of the Nordic Hedge Index. The worst performing fund that is still part of the index, meanwhile, was down 17.4 percent. The dispersion between last year's best- and worst-performing hedge fund was wide, very wide in fact.

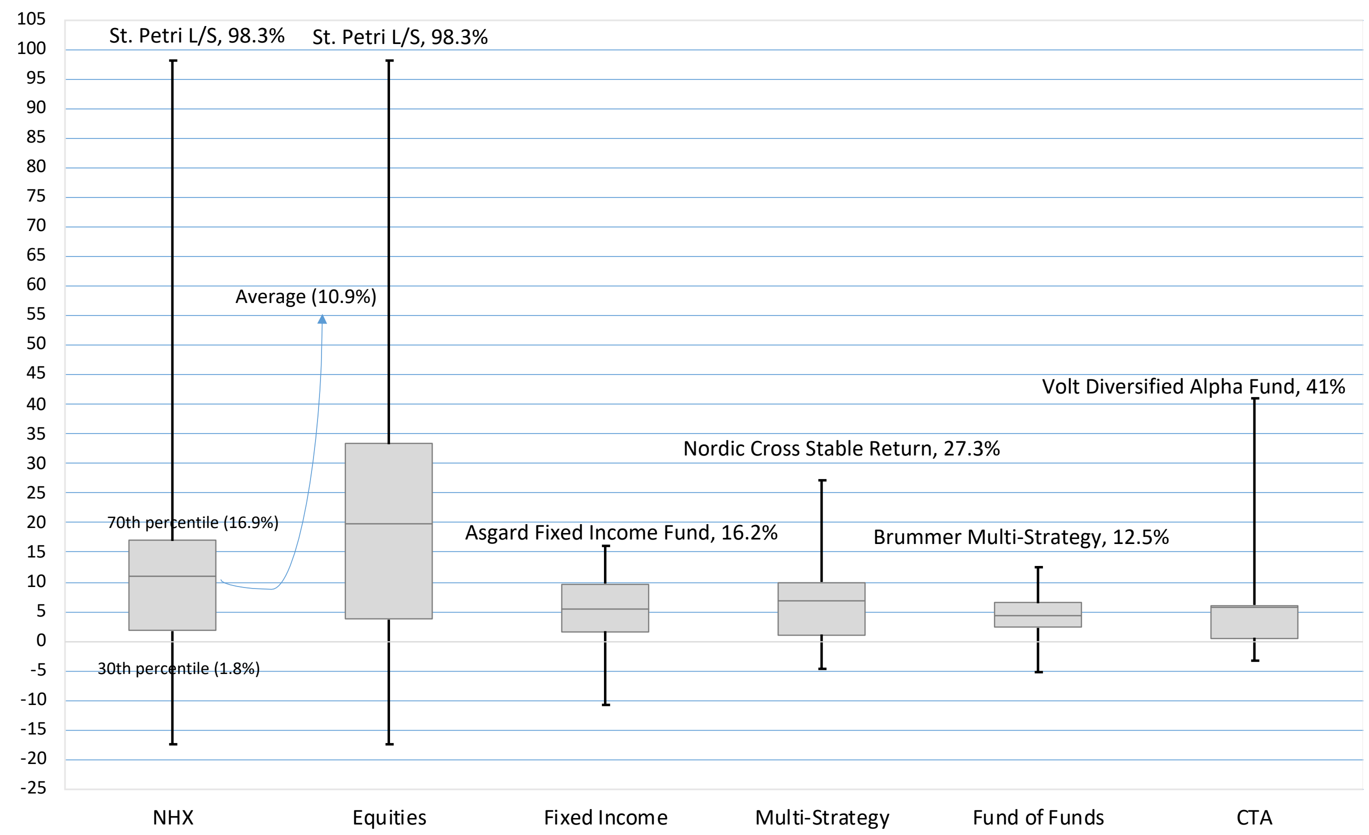
The top 30 percent of all members of the Nordic Hedge Index gained 30.2 percent on average, whereas the bottom 30 percent was down slightly over two percent. The top 20 percent, meanwhile, gained 37.9 percent last year and the bottom 20 percent lost 3.9 percent on average.

In the graph below, the grey boxes show that the Nordic hedge funds that were not in the top and bottom 30 percent in terms of performance returned between 1.8 percent and 16.9 percent last year. About one in every five members of the Nordic Hedge Index achieved a return higher than 16.9 percent in 2020, while eight percent returned above 30 percent. A little more than seven percent of all members returned above 40 percent last year.

About 47 percent of Nordic equity hedge funds outperformed the MSCI World's 16.5 percent-return last year, but one should not forget that most Nordic equity hedge fund maintain a net market exposure below 100 percent. Some members of the NHX Equities employ a market-neutral approach to investing, and some even maintain negative net exposure to the market. The average equity hedge fund in the Nordic Hedge Index was up 16.1 percent last year, but, again, the average hides wide disparities.

The top 20 percent of performers in the NHX Equites returned 63.1 percent on average last year, while the bottom 20 percent were down 6.5 percent on average. The equity hedge funds that were neither in the top 30 percent nor in the bottom 30 percent returned between 3.6 percent and 33.4 percent. In a similar fashion, the great majority of fixed-income hedge funds returned between 1.6 percent and 9.7 percent last year. The top 20 percent, meanwhile, were up 13.8 percent on average, whereas the bottom 20 percent lost 3.0 percent on average. The majority of multi-strategy hedge funds returned between 1.1 percent and 10.0 percent.

Figure 3. 2020 Performance Statistics on the Nordic Hedge Index and NHX Sub-Indices.



Source: HedgeNordic.

The White Crow

By Eugeniu Guzun – HedgeNordic

Jonathan Copplestone, Portfolio Manager – Lucerne Capital Management.

The term "White Crow" is a Russian language-originating metaphor for a person who is different from others, one variant of the "black sheep" metaphor used for someone with exceptional ability and an outsider who does not fit in somewhere. One new member of the Nordic Hedge Index appears to be epitomizing this concept.

The funds included in the Nordic Hedge Index have typically either been managed by Nordic-born managers, have been domiciled in one of the Nordic countries, or have been run by teams out of the Nordic countries. The latest addition to the Nordic Hedge Index has a different claim to being listed. The Lucerne Nordic Fund is a Cayman Islands-domiciled hedge fund run by a Brit out of New York but runs a strictly Nordic investment theme.

> "I have never seen any correlation between managers' location and their performance."

Warren Buffett famously said that allocating money out of Omaha, far away from Wall Street, helped him achieve investing success by being "undisturbed by irrelevant factors and the noise generally of business investments." While Jonathan Copplestone of Lucerne Capital Management lives in New York City in the heart of Wall Street, he is an ocean away from his hunting ground: small- and mid-sized companies in the Nordic region. "One of the most frequent questions that comes up when talking with potential investors is how can you have an investing edge sitting in New York?" Copplestone tells HedgeNordic.

"Part of my answer is that we have better access to management than we would have by sitting in London, Stockholm or other cities because every Nordic company, large or small, comes to New York and we get to talk to them," says Copplestone. Since Lucerne Capital Management is a unique organization in New York because of its pure focus on small- and mid-sized European companies, "we

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> "We have better access to management than we would have by sitting in London, Stockholm or other cities because every Nordic company, large or small, comes to New York and we get to talk to them."

get to see Nordic companies one-on-one when they are in town," according to Copplestone, who was a founding member of Enskilda Securities in London in 1982. "The other part of the answer is that I have never seen any correlation between managers' location and their performance," he continues. "One of best fund shops investing globally that I knew was based in Alaska, and they were absolutely spectacular investors."

Copplestone relies on a bottom-up investment process to build a concentrated portfolio between 20 to 50 names from a universe of around 400 Nordic companies with market capitalizations between $200 million and $5 billion. A fund manager's investing success "is all about the process," considers Copplestone. And his proven and repeatable research process has borne fruit despite him being thousands of kilometers away from the Nordic region. Lucerne Nordic Fund has delivered an annualized return of about 33 percent since Copplestone started managing the fund in early 2015.

BOTTOM-UP FOCUSED, RETURN ON CAPITAL-OBSESSED

"The investment process starts with the companies," says Copplestone, who has more than 30 years of experience working in Nordic capital markets. "I work very comfortably with the broking community in the Nordics, which is of a very high standard," he emphasizes. "But the key aspect of my process is meeting with the company management and meeting with the other stakeholders such as board members to discuss strategic priorities," adds Copplestone. "Those things you don't read in a research report." Regular discussions and meetings with corporate management help Copplestone avoid surprises in the portfolio.

Copplestone regards return on invested capital as one of the best measures of financial success for a business, sharing the same opinion with the likes of Charlie Munger or Terry Smith. "When looking at individual companies, we focus on what they can make on the capital reinvested in the business," Copplestone tells HedgeNordic. "If businesses are deploying a lot of capital now because they are growing and are generating negative cash flows as a result, that's fine," he continues. "I don't need to see cash flows straight away, but I do have to see that in the next few years the companies can get good returns on that capital invested."

"We are fixated on how much capital a business needs, and the potential returns on that capital," elaborates Copplestone. "That doesn't put us in the corner of value investors or cash flow-obsessed investors," he emphasizes. "In a nutshell, we are very much bottom-up focused, return on capital-obsessed," says Copplestone. "If I were to highlight a style preference, I definitely have a skew towards growth, but at the moment, I equally own low-growth businesses because the returns on capital are so good. Adaptability and flexibility are very important, they have served us very well."

UNATTRACTIVE RISK-REWARD FOR NORDIC SHORTS

Despite running the Lucerne Nordic Fund with a net market exposure in the range of 29 percent to 106 percent over the last five years, Copplestone mostly runs a long-biased portfolio. Partly because profitable short ideas are more difficult to uncover but mostly because Copplestone is an "optimist, equity guy" who believes equity markets will continue to rise over time, "I am skewed very long," says Copplestone. "I run a hedge fund and I do short stocks occasionally, but it is so much harder to make money on shorts," he acknowledges. "If you try to make money by shorting, the window of opportunity is very narrow unless you are able to short the right stocks at the exact right time."

"I haven't come across better corporate governance anywhere, including the United States, which is one of the reasons the Nordic markets are so fantastic for investors," says Copplestone. "It is not only the laws but also the culture that supports the laws," he continues. This environment makes shorting in Scandinavia harder than elsewhere, "because underperforming management teams are identified and replaced much more quickly," according to Copplestone. "You don't see those long-lingering decaying businesses where the shareholders are not taking responsibility and not making management changes. It is a smaller pool of opportunities to short in the Nordics." For that reason, Copplestone spends "the vast majority of my limited mental bandwidth looking for longs."

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Patrik Säfvenblad
CIO
Volt Capital Management

Fundamentally Driven

By Kamran Ghalitschi – HedgeNordic

After a period of drought, 2020 was a good year for CTAs. CTA indices advanced broadly, with the CTA sub-index for the Nordic Hedge Index, for instance, advancing by 4.2 percent during the year. In this heterogeneous space with many different approaches, styles, and strategies, some stars shone brighter than others, and some appeared in the sky as high voltage bolts of lightning.

Volt Diversified Alpha Fund returned beyond 40 percent in 2020, over 22 percent in the first quarter, and 11.5 percent alone in March, when many other CTAs struggled. The average CTA would have gone into the volatile period that initially saw global equity indices sharply declining, with strong, long positions. Whereas many funds, hedge funds, and CTAs were caught flat-footed by the coronavirus-fueled market sell-off, Volt Diversified Alpha successfully captured trends triggered by the deteriorating sentiment.

"We are not actively basing our positions on market prices, fundamentals are a far superior indicator to predict market developments."

FUNDAMENTAL EDGE

"When volatility picked up in late February and onward, there were a lot of noisy signals from market prices. If you are price-based, volatility is your enemy," Patrik Säfvenblad, Volt's CIO explains. Market volatility often means that fundamentals have changed, and that markets are searching for a new equilibrium.

In contrast to many other commodity trading advisors, price data is not the key driver for entering or exiting positions for Volt. "We observe market prices, and they help determine things such as timing or stop losses. However, we are not actively basing our positions on market prices," explains Säfvenblad and continues, "fundamentals are a far superior indicator to predict market developments."

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"Getting your stop-losses right, determining which positions to keep or cut is one of the hardest achieved, but most crucial part of the secret sauce to a good risk-return profile."

"In the two major market moves of 2020, the initial crash triggered by the pandemic and the following rally supported by economic stimulus, fundamentals behaved largely normally and we were able to predict moves early, ahead of the curve," Tommi Lindeman, Volt's Head of Business Development observes. Volt, therefore, relies on fundamental data for its trading signals.

The manager's models are classified in five main groups: market fundamentals, economic data, market sentiment, relative value and calendar effects. Market fundamentals host the highest risk allocation based on expected returns and the low correlation to other models. They could include mining output, shipping activity or weather data. An especially wet or hot period in the American Midwest, for instance, during harvesting or planting season may give good indications on the future pricing of wheat, or other grains.

"You can see Volt as a conglomerate of many market specialists. There are many specialist ideas, and key market factors driving individual markets," explains Lindeman. "Some of our modeling would be looking at a market just as a discretionary trader in a specific market might. Weather data is crucial for someone trading grains but largely irrelevant for a metals trader."

The portfolio breakdown, too, shows a sector diversification that is distinct from most peers. Exposure to equity indices, for example, only account for 11 percent of the portfolio, whereas metals, softs, and energy combined account for more than half the portfolio, the remainder falling to fixed income and FX.

Well over 8000 independent, bottom-up signals feed 200 different fundamental models weighted by their expected contribution in the current market regime.

MACHINE LEARNING AND SMOOTH OPERATIONS

Machine learning supports areas such as data collection, signal generation, and real-time execution. Machine learning also evaluates each model and market based on expected contributions in the current environment. "We have an open architecture, and new models coming up from research are straightforward to plug in. However, our machine learning framework will determine if and when these new models will be allocated to, and to what extent," Säfvenblad explains.

Säfvenblad is pleased that operations worked smoothly and uninterrupted even in the volatile markets of last spring and under work-from-home conditions. "It gave us the opportunity to stress test the entire system in a real-life environment, and every part of it worked to perfection," he says. There were also no hiccups with external service providers such as the fund's administrator, Northern Trust, and clearing broker Goldman Sachs. "Here, our investment in a robust infrastructure and an institutional quality operational setup really paid off."

RISK MANAGEMENT IN DNA

Säfvenblad stressed that 2020 was the year of risk management where all could be won or lost, showing that Volt Diversified Alpha was built with risk management in mind, maybe more than anything else. "Risk management is inherent in our DNA," Lindeman explains. "Risk management stretches from a model level, to portfolio construction, trade execution to operation. It covers all areas; from investing in diversified, liquid markets, having a bottom-up view rather than having a biased in-house view, not making use of high leverage, working a disciplined reduction of losing positions with stop-loss in every market and more."

"Getting your stop-losses right, determining which positions to keep or cut is one of the hardest achieved, but most crucial part of the secret sauce to a good risk-return profile," explains Säfvenblad. "Getting stopped out too often can be costly, and then, when do you get back in? The period of March to April was a perfect example of there being no point in getting back in too early."

VIRTUAL PROCESS, REAL INVESTORS

Volt Diversified Alpha Fund, launched in March of 2017, reached its three-year track record last year. This, in combination with the strong performance shown during 2020, has enabled Volt to attract new investors with fresh capital to the fund. "We onboarded new investors and managed to grow assets under management during the year. The entire process from due diligence to investment was done remotely through digital channels," Lindeman explains.

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Truly Nordic Hidden Gems

By Eugeniu Guzun – HedgeNordic

Making money in the stock market sometimes involves going places everybody else is neglecting or outright avoiding. Places such as an unloved company getting its house back in order or a small, little-known company with significant upside potential. Staffan Östlin and his co-portfolio manager Johan Eriksson are focused on finding undiscovered and unloved gems among smaller companies in the Nordics for Adrigo Small & Midcap L/S. Since launching the stock-picking hedge fund back in late 2017, Östlin has found plenty of such gems.

THE CORE

Adrigo Small & Midcap L/S maintains a truly Nordic concentrated, high-conviction portfolio that houses between 25 to 30 long positions allocated across three building blocks: Core Five, Dynamic, and High-Potential. The Core Five block, which "can essentially be called Core Four to Six," accounts for about half of the fund's portfolio over time, with each Core position usually accounting between eight and 11 percent of the entire portfolio. These four to six positions represent core, high-conviction investment ideas in companies undergoing some form of long-term change. "That is really where we take a very long-term view," explains Östlin, adding that "we look for significant change within a company or an industry."

"We like to invest in low expectations, and low expectations could involve a share price that has gone South, a company run by mistrusted management, a company experiencing some problems in a division, or a business with a long history of underperformance, but a new management coming in," Östlin explains the most common traits of the Core holdings. Östlin also emphasizes the importance of aligning his fund's interests with the ones of management teams and other owners in these long-term investments. "It is very important that we have the right owners and also the right management in the sort of long-term cases, really transformation cases, that tend to have

Staffan Östlin
Portfolio Manager
Adrigo.

an investment horizon between two to five years," says the fund manager, who has a little more than 30 years of investing experience.

DYNAMIC

The Dynamic block contains about 15 names and accounts for around 35 percent of the entire portfolio, investments with a shorter investment horizon between one and 12 months. "That is a more trading-intensive part of the portfolio," says Östlin. "We have a good view and understanding of at least 400 stocks from our Nordic universe and quite often we find that, shorter term, the stock market is hammering down some stocks a little bit too much around quarterly earnings releases or other announcements," explains Östlin. "We might use these shorter-term price drifts as opportunities to generate returns," says the architect of the strategy powering Adrigo Small & Midcap L/S. "Our dynamic investments allow us to react when market conditions are changing."

FINDING UNDISCOVERED STOCKS

The High-Potential block includes long-term, high-return potential ideas that collectively account for 15 percent of the fund's portfolio on average. "High-potential investment ideas clearly involve much higher risk levels compared to the Core Five," points out Östlin. "We usually make these investments in very small companies that are below the radar screens of many investors and even many traditional small-cap funds," he continues. "Our high-potential ideas have limited sell-side analyst coverage, strong management teams, and commercially viable products on the market." Östlin expects much higher returns from high-potential ideas than the core five holdings, which are expected to double during their holding periods.

The ability to find high-potential, undiscovered stocks differentiates Adrigo Small & Midcap L/S from other vehicles focusing on the Nordic small- and mid-cap space, considers Östlin. "Investors should expect us to continue to find undiscovered stocks and they should expect us to continue to be very curious," says the fund manager. "We meet around 200 companies per year, and that gives us a very good view of the overall market, of what is happening or changing in the market, and of all new business models coming to the market."

> "It is very important that we have the right owners and also the right management in the sort of long-term cases, really transformation cases, that tend to have an investment horizon between two to five years."

SHORT BOOK

Since launching in late 2017, Adrigo Small & Midcap L/S has maintained a net market exposure between 40 and 50 percent, but "the net exposure varies quite a lot throughout the months," according to Östlin. "The net exposure really depends on the opportunities we find both on the long side and also on the short side," he continues. "The exposure doesn't have too much to do with our view of the overall market." The fund tends to maintain a concentrated portfolio of 25 to 30 long positions, with roughly a similar number of short positions.

The short candidates usually include market darlings near inflection points, companies hurt by structural shifts in their industries, or companies using aggressive accounting. "Like most hedge funds, we look for aggressive accounting or businesses in structural decline," says Östlin. "We are very pragmatic in managing our short book," he adds. "We trade the short book every day, we are very active, but quite often, we are shorting the same names." Östlin occasionally initiates short positions to hedge out some sector risk stemming from the larger positions and also makes use of index futures to adjust the net exposure over time.

PERFORMANCE AND RETURN DRIVERS

Adrigo Small & Midcap L/S has delivered an annualized return of 26 percent since launching in November 2017, accompanied by an inception-to-date Sharpe ratio of 1.36. "We are very happy with the overall annual return we have managed to deliver," says Östlin. "We are also pleased to have avoided a down year so far, and we are very happy that we produced a positive return in 2018, which was a difficult year for small caps," he continues. However, Östlin and his co-portfolio manager, Johan Eriksson, are not satisfied with the drawdowns incurred during a few separate months. "We had two relatively big drawdowns," acknowledges Östlin. "The focus for us now is bringing down the volatility, particularly on the downside."

With a full-year advance of 44.5 percent, 2020 was the fund's best year yet. "We had very good performance from all of the building blocks in our portfolio," says Östlin. "We had good returns from high potentials such vertical farming company Kalera, for example, which was added in late March and started off as a very small position," he points out. "Game-based learning platform Kahoot was more of a dynamic position that started off as a high potential two and a half years ago and performed really well for us," says Östlin. "But we also had good performance from medical technology company Bonesupport, which is clearly among our core five ideas."

Commenting on the fund's strong rebound following the turbulent market conditions in the first quarter of last year, Östlin says that "in late March we decided to turn around both the short side and the dynamic part of the portfolio." The team "added more high beta stocks on the long side, which produced very good returns in April and May, so we quickly recovered from the drawdown experienced in February and March," according to Östlin. "We have also been successful in holding on to the winners," says the fund manager. "It is very easy to sell a stock when you are up a hundred percent, but we managed to hold on to these winning stocks." Overall, "It was really stock-picking that has contributed to our performance both last year and throughout our journey since inception."

Capitalising on Nordic Market Inefficiencies and Volatility

By Hamlin Lovell – HedgeNordic

Tore Davidsen, Bo Andersen, Rasmus Dall-Hansen
Portfolio Management Team – SEB Eureka Fixed Income Relative

The SEB Eureka strategy launched in January 2018 has delivered a double digit return in 2020, including a positive month in March 2020, with low single digit volatility, and has averaged high single digit returns since inception. This matches the expectations of Copenhagen-based Senior Portfolio Manager and CIO, Bo Michael Andersen, who began preparing the launch in late 2016: "I came from a position in SEB Markets where I saw from first-hand experience how tougher bank regulations were increasing volatility and mis-pricings, particularly in Scandinavian markets, which were already less efficient. We find the opportunities are better in our local markets than in global fixed income markets."

The investment universe is mainly 'AAA' rated government and covered bonds in the Nordic countries of Denmark, Sweden and Norway, but also includes interest rate swaps and cross currency basis. The fact that these countries still have their own currencies adds to the opportunities.

Though Scandinavia does boast some of the largest covered bonds markets in Europe, the strategy is about alpha rather than asset gathering. It was seeded with around DKK 1.1 billion by tier one institutions in Scandinavia, such as pension funds, insurers and foundations. Assets are currently DKK 2.5 billion and nearly half of capacity has been taken, given the soft capacity limit of DKK 5-6 billion.

> "We do not automatically trade every two standard deviation outlier. We need to observe why the market has moved. The "why" is as important as the "what"."

Eureka needs to stay nimble to rapidly shift exposures as relative valuations and pricings move around. The investment process starts with quantitative screens, but it is a discretionary process that includes qualitative judgement. "We do not automatically trade every two standard deviation outlier. We need to observe why the market has moved. The "why" is as important as the "what". Then comes the "how" – how we implement it to get exposure, and how it fits into our existing portfolio. We are trying to construct a well-diversified portfolio," says Andersen. For instance in covered bonds, the Eureka team will form a view on variables such as mortgage bond issuance, curvature, hedging instruments, investor demand, money market fixings and derivative flows, based on their market intelligence and proprietary analytics.

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Eureka has delivered on its target to generate not only absolute returns but also lowly correlated returns. "Our institutional investor base are focused on the diversification benefit and want strong risk adjusted returns. We avoid directional exposure and correlation to interest rates, credit and equity," says Portfolio manager, Tore Davidsen. In volatile markets, there is no magic formula that will lead a portfolio to deliver these returns, so diversification, active management and rebalancing are required.

OPPORTUNISTIC SUB-STRATEGY ALLOCATIONS

There are three core return drivers: "on average, one third of returns should come from carry and roll down on covered bonds, one third from active covered bond trading driven by valuation or shifting between Swedish, Danish and Norwegian paper, and one third from the other strategies, including callable Danish mortgage bonds, interest rate swaps and cross currency swaps," says Andersen.

Eureka is highly opportunistic however, so the strategy and performance attribution mix will vary from year to year - and in fact less than half of the 23.11% returns from inception to January 2021 have come from covered bonds, both active management and passive harvesting risk premia. This reflects the opportunity set and also the investment philosophy.

Some fixed income arbitrage hedge funds make the majority of their returns from leveraged carry trades, that often demonstrate a "short volatility" return profile because they are either explicitly selling options such as mortgage prepayment options, or perhaps implicitly selling options on liquidity or volatility or both. Eureka is sometimes earning a reward for liquidity provision, and can have a meaningful sensitivity towards spread widening, which has so far peaked at 33 basis points of fund NAV per spread basis point. But viewing the overall strategy in big picture terms, Eureka has found that market volatility creates better trading opportunities. For instance, the return in 2020 was more than that in 2018 and 2019 taken together and a positive return was recorded in March 2020.

Yet very little of the performance has come from explicitly owning long volatility portfolio insurance, such as tail risk hedges. One possibly surprising aspect of the performance attribution is that the tail risk hedges overlay contributed positively in 2019 - but registered a zero return in 2020. This is actually

> "We do not want to be forced to unwind positions in stressed markets."

quite easy to explain in the context of opportunistic allocations amongst the sub-strategies: "we need tail risk hedges mainly when we have more covered bond exposure. We entered 2020 with very low exposure to covered bonds, because they were expensive, and so did not need to spend money on tail risk hedges," says Andersen.

Diversification and active trading delivered a positive return in March 2020. Though the covered bond sleeve unsurprisingly lost ground in March 2020, the overall return for the month was a positive 1.2% because the losses on covered bonds were outweighed by profits on the other strategies, including relative value strategies in interest rate derivatives and government bonds.

This illustrates one important feature of portfolio construction: the sub-strategies are themselves lowly correlated. That partly explains why the strategy has undershot its volatility target of 4-8%, which the manager admits might be a bit too high.

The strategy has also been less volatile because it used moderate leverage, which also meant that the manager had dry powder to take advantage of the March 2020 selloff and rebuild covered bond exposures at very attractive levels.

LEVERAGE AND LIQUIDITY

In common with strategy and trade selection, leverage is used very opportunistically and varies a lot. Leverage adjusted to ten year bond equivalent has ranged between two times and seven or eight times in gross terms, and net leverage has been much smaller, often near zero.

Leverage is obtained from multiple banks through repos of between two weeks and three months' maturity. "They are not guaranteed but we want to be an attractive client to banks so they are reluctant to pull repos," says Andersen.

Leverage is only one angle of multi-layered risk management, which also includes real time monitoring of risks, limits and stress tests. "We do not want to be forced to unwind positions in stressed markets," says portfolio manager, Rasmus Dall-Hansen. Independent risk management and internal audit, both conducted by the SEB Group, add to the controls.

Leverage also influences the dealing costs of the fund, which has a variable bid/offer spread, based on the costs of building or liquidating the portfolio – essentially the bid/offer spreads on the underlying assets. This protects investors from transaction costs of inflows and outflows, and clearly does not generate any profit for the manager. "The bid/offer spread on underlying instruments is typically 1 or 2 basis points, which multiplies up to 50 or 80 basis points at the fund level after applying leverage".

Some areas of the Nordic fixed income markets have occasionally experienced liquidity and valuation issues, most recently in March 2020 when some funds had to briefly suspend dealing. Andersen does not expect this is likely to happen in his markets: "we are confident about the liquidity of the markets traded – even under Lehman, the Danish market stayed open, and spreads didn't widen that much in March 2020," says Andersen. The Luxembourg RAIF structure fund offers monthly liquidity and publishes daily NAVs.

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Andreas Aaen
CEO and Portfolio Manager
Symmetry Invest.

"Small" Compounders

By Eugeniu Guzun - HedgeNordic

Accountant-turned-fund manager Andreas Aaen is looking for so-called "compounding machines" where few are looking: in the universe of smaller-sized businesses across the Nordics, the rest of Europe and the United States. "We mostly look for what we call small market leaders in expanding niches," says Aaen, who launched his long/short equity fund Symmetry Invest out of the region of Aalborg in Denmark back in early 2013.

"Sometimes investors ask how do we find market leaders by focusing on small-cap companies if market leaders are normally big companies with lots of resources," Aaen tells HedgeNordic. "Although most market leaders are indeed large companies, we have been able to find a lot of smaller-sized market leaders in smaller niches," says the fund manager. "We are mostly focused on finding long-term compounders among smaller-sized companies, and these are normally founder-led companies."

FOUNDER-LED COMPOUNDERS

Andreas Aaen and his co-portfolio manager Henrik Abrahamson, who joined Symmetry Invest during the summer of last year, are predominantly looking for smaller businesses with a sustainable competitive advantage in a small yet expanding market niche. "Most businesses we like operate in a small niche that is expanding, have an edge over the market and have none or reduced analyst coverage," explains Aaen. Such businesses tend to be founder-led companies with a founder that acts as chief executive, president, board member or holds some other position of significant influence.

> "We are mostly focused on finding long-term compounders among smaller-sized companies, and these are normally founder-led companies."

"There are two reasons our strategy focuses on founder-led companies," says Aaen. "One is that statistics show that investors get the best returns from investing in this segment," points out the fund manager. "The second reason, which I have come to appreciate a lot, is that I just have more fund analyzing and looking at founder-led companies," says Aaen. "Running Symmetry Invest is a 24-hour-a-day job, so

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if I have to stay up late at night, I need to have fun doing it," he continues. "Interacting with the founders that have a real passion for their companies and their industries is just what I love to do."

By focusing on founder-led companies, Symmetry Invest tends to invest alongside people who often have a long-term vision and a sense of legacy, have significant "skin in the game," and have incentives aligned with the ones of shareholders. These combined tend to lead to better capital allocation decisions, which is essential for long-term investors such as Symmetry Invest that are looking for "compounding machines." Long-term wealth creation for shareholders, after all, involves reinvesting internally-generated cash or borrowed capital at attractive rates of return.

"Share buybacks, dividends, or merger and acquisition decisions are capital allocation decisions that can create value over time," says Aaen. "But one thing I have come to appreciate is management teams that are really, really good at capital allocation within the company," he emphasizes. Aaen and Abrahamson are increasingly focusing on internal capital allocation, which may involve allocating capital towards marketing activities, training employees, better equipment, technology or user experience, among many others. "We spend a lot more time finding management teams that are really good at these internal capital allocation decisions, because it is much easier to understand whether one should do buybacks or pay out dividends."

CONCENTRATION OF FOCUS

Symmetry Invest is a long-biased long/short equity fund running with a net market exposure between 60 to 80 percent, with the long portfolio housing between 12 to 18 names and the short portfolio including from 15 and up to 40 names. "We just do what has worked so well in the past for famous investors such as Warren Buffett, Mohnish Pabrai and other legends who recommend staying small, concentrated, and invest for the long term," says Aaen. Symmetry Invest maintains a concentrated portfolio to limit the downside effects of over-diversification stemming from the dilution of portfolio manager's attention, knowledge and time, with Aaen focusing on ten names and his partner Abrahamson focusing on five names.

"We just do what has worked so well in the past for famous investors such as Warren Buffett, Mohnish Pabrai and other legends who recommend staying small, concentrated, and invest for the long term."

With Abrahamson joining Symmetry in the summer of last year, "I have become more concentrated within my own portfolio because he takes five positions himself," says Aaen. "I now concentrated on ten holdings instead of 20, which enables me to concentrate more on my best ideas," he adds. "I do not think one can analyze too many companies, I only have real conviction in a small number of ideas," emphasizes Aaen. "If looking at my returns in the past, one can see that my biggest investments have been the best-performing ones."

As bottom-up investors, Aaen and Abrahamson steer Symmetry Invest's net market exposure depending on the opportunity set at a given point in time. "When the market is quite overvalued, it is easier to find short positions, but in a market environment such as the one in March of last year, I had an easier time finding longs," explains Aaen. "We do not try to time the market." The lead generation on the short side, however, is more automated. "We have a lot of data tools and internally-developed systems to get short candidates and then we do the due diligence manually on those leads to decide what to short," says Aaen. "The shorting is more event-driven and the holding period is much shorter."

PERFORMANCE IN FOCUS AND CONSTANT LEARNING

Symmetry Investing has generated an annualized return of 23.3 percent since launching in March of 2013 through February this year, but this "compounding machine" ground to a halt – and rolled backward – in March of last year. With its long book housing founder-led companies characterized by low levels of free float, Symmetry Invest incurred a loss of 37 percent in March, but the fund still ended the year up over 40 percent. "In retrospect, we did all the right things from a stock selection perspective," says Aaen. "We found the right stocks, we bought more of them and we earned a lot of money after the March period all the way through the end of the year."

"From a risk management perspective, I should have done a little better on the hedging side," acknowledges Aaen. "That was something we improved a lot on during the course of last year," he continues. "One thing I believe we are really good at is constantly learning, developing and adapting to the market environment," argues Aaen. "We spent one day a week just reading books or letters instead of doing pure investment work," he adds. "We have been agile around moving to where the opportunity set is, which involves a constant learning process."

Symmetry Invest gained an additional 18 percent in the first two months of 2021, helping the fund keep its status as one of the best-performing Nordic hedge funds in the universe. With an annualized return of over 23 percent, Symmetry Invest has delivered the second-highest annualized inception-to-date return among the funds with a track record exceeding five years. The strong performance in 2021 is "just a continuation of what worked towards the end of last year," says Aaen. "Of course, I will say that I am good at selecting stocks, but it was also a little luck from some positions that just went really well."

Understanding and Capturing Change

By Eugeniu Guzun – HedgeNordic

European stocks have returned an average of 1.3 percent per annum since the end of 1998 in nominal terms, which amounts to nothing when adjusting for inflation. On the surface, the universe of public companies in Europe has been sleepwalking its way through two "lost decades," but in reality, there was a breadth of changes afoot on the continent.

"If you invested a hundred euros in a European stock index 20 years ago, you would still have a hundred euros now," says Michal Danielewicz, who co-founded thematic-focused asset manager St. Petri Capital with Jens Larsson back in 2017. "But if you look beneath the surface, some very powerful seismic shifts have occurred," he emphasizes. Some sectors, such as the European banking sector, have significantly underperformed, but many other industries have evolved, developed, and created significant value over the years.

"Given where we are in the long-term debt cycle, the level of interest rates and the disruption that is going on, we could face a similar scenario going forward, where the overall market doesn't do much, but there is massive disruption beneath," argues Danielewicz. "If you just focus on the index as a whole, you will not be able to capture the disruption," warns the fund manager, who launched a thematic-focused long/short equity fund – St. Petri L/S – in early 2018. "That is the motivation for us to focus on paradigm shifts."

UNDERSTANDING AND CAPTURING CHANGE

St. Petri L/S, which returned 98 percent during 2020, represents "a thematic, unconstrained and uncorrelated hedge fund," according to Danielewicz. "We invest in change, we invest in disruption. Our thematic investment process focuses on change, on understanding change, and capturing change," he continues. "Before we engage with and invest in a company, we try to understand the seismic shifts that are driving and will drive this company

Left: Michal Danielewicz and Jens Larsson, Portfolio Managers and Founders – St. Petri Capital.

"We invest in change, we invest in disruption. Our thematic investment process focuses on change, on understanding change, and capturing change."
– Michal Danielewicz

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and its industry over a longer period of time." At its core, St. Petri L/S is a European-focused long/short fundamental equity fund that utilizes a thematic process for stock picking to capture CHANGE.

At any moment in time, Danielewicz and Larsson maintain a portfolio consisting of eight to 12 investable themes, which collectively house between 50 to 60 positions – half of which are on the long side and the other half on the short side. "The number of names within each theme depends, first of all, on the maturity of the theme," explains Danielewicz. "We believe every theme follows an S-curve and has its own maturity life cycle."

"For younger, early-stage themes, where we do not have much data to build high conviction, we typically have fewer names," elaborates Danielewicz. "For the more mature, more widely-recognized themes, where we have higher conviction, we put both larger positions and more names into them," he continues. "On average, there are five to six positions across each theme, with the younger themes reflecting one or two positions, and the more mature, higher-conviction themes containing between ten to 15 names," says Danielewicz. "Some of the themes only have short positions, and some of the themes will have a blend of both long and short exposures."

CHANGE, EXPECTATIONS, AND TIMING

The idea generation for St. Petri L/S generally starts with company meetings. "Meeting companies is a very good source of new ideas because you can discuss with management teams about their capital allocation priorities, strategic priorities, and company- or industry-specific developments," explains Danielewicz. "That is an excellent source of understanding the background, understanding structural change." The process of understanding change is just one of the three blocks in St. Petri Capital's philosophy: change, expectations, and timing.

> "Given where we are in the long-term debt cycle, the level of interest rates and the disruption that is going on, we could face a similar scenario going forward, where the overall market doesn't do much, but there is massive disruption beneath."
> – Michal Danielewicz

The second block, expectations, involves assessing what market expectations are priced in a company's stock price. "When looking at valuations, you can see what is actually being priced in terms of expectations," says Danielewicz. When analyzing a potential investment opportunity, Danielewicz and Larsson go through "a long list of checkpoints that every fundamental equity analyst considers, which include assessing management quality, scrutinizing the balance sheet and income statements, conducting ESG screening, Porter's Forces and SWAT analysis, all those types of things."

The duo then adds a thematic overlay to their valuation process, which reflects their own expectations about the impact of structural changes on the analyzed business. "We model our own revenue growth rates, margins, capital allocation, among others," explains Danielewicz. "If this process results in a big discrepancy between our own thematic expectations and what the market is currently pricing in, we will typically initiate a position." The last block, timing, relates to portfolio construction. "From idea generation to stock selection and then portfolio construction, the last part focuses around the maturity of a given theme," explains Danielewicz. "We go back to assess our conviction in a given theme, which decides how much we allocate to the theme and the particular idea related to that theme."

EXCEPTIONAL YEAR

St. Petri L/S almost doubled investors' money during the course of 2020, currently enjoying a 14-month string of consecutive positive monthly returns. The fund has now delivered an annualized return of close to 30 percent since launching in March of 2018. "Last year was a very exceptional year, and one of the key factors was that going into 2020, Jens and I were not particularly positive," explains Danielewicz. "When you start with a little bit of a negative mindset and something negative like the Covid pandemic occurs, you are already in a pole position to adjust faster to the Covid tsunami than first starting to convince each other that this is negative and you have to go the other direction."

"The second point is that many of the themes that Covid had an impact on or accelerated had already been in our portfolio as they were initiated a few years back," continues Danielewicz. "Themes such as the online retail transition, all the online, stay-at-home or work-from-home themes, had already been part of our portfolio," he adds. "On the short side, we had already shorted real estate companies before the pandemic," says Danielewicz. "Again, it was just a question of adjusting the right knobs."

Size was also a critical element that enabled Danielewicz and Larsson to deliver a net return of over 98 percent during 2020. "It is quite important to maintain agility and be nimble," argues Danielewicz. "Things that Jens and I can implement in our portfolio is probably a question of days, sometimes just a day. When you work in a big organization and you have a lot of assets, it is quite difficult to adjust." The fund's unconstrained mandate has also enabled the two fund managers out of Copenhagen to achieve an exceptional year. "We are also managing our own money, which means that we are pretty unconstrained to take what we deem necessary positions."

"We define change as a transformative force that will persist throughout many economic cycles, it is structural, not cyclical," says Danielewicz. "These structural changes will transform our lives permanently, so there is no mean reversion and there is no coming back," he continues. "We at St. Petri have dedicated our careers to trying to understand and capture those paradigm shifts and the ripple effects of those paradigm shifts on company cash flows," he adds. "Our process is very well-positioned to capture disruption and capitalize on disruption. Thematic thinking is not new to us because we have been thinking in thematic terms for more than 20 years."

Boring is Good

By Eugeniu Guzun – HedgeNordic

Businesses facing cash-flow problems or working with slow-paying customers often sell their invoices or accounts receivables at a discount to a so-called factor to get cash faster. Whereas factoring does not appear to be a high-return operation at first glance, just a one percent fee with a 30-45-day cycle would result in an annual gross return of 8 to 12 percent for bearing the credit risk of the businesses paying off the invoices.

Relying on its team's expertise and vast experience in credit risk assessment, Stockholm-based Kreditfonden has managed to deliver attractive risk-adjusted returns from the often-boring factoring business through its young Nordic Factoring Fund. The fund was launched in the summer of 2019, but its origins stem from Kreditfonden's flagship direct lending vehicle, Scandinavian Credit Fund I. "The story behind is that we originally had the factoring exposure in the Scandinavian Credit Fund I, but we liked the asset class so much that we decided to launch a separate fund focused entirely on factoring," explains Fredrik Sjöstrand, the founder and CIO of Kreditfonden.

"The Nordic Factoring Fund and Scandinavian Credit Fund I seek to capitalize on distinctive sources of attractive risk-adjusted returns, which is why we prefer to run them in parallel," argues Sjöstrand. "One benefit shared by both these funds, but that is even more pronounced for the Nordic Factoring Fund, represents the uncorrelation to other asset classes," highlights Peder Broms, Head of Origination at Scandinavian Credit Fund I and portfolio manager at Kreditfonden. "With an annual return between six and six and a half percent, the Nordic Factoring Fund is a seriously boring fund," says Sjöstrand. "With tens of thousands of receivables as collateral that generate very high risk-adjusted returns, the whole package offers investors a fixed-income profile that is very hard to replicate in the bond market."

Fredrik Sjöstrand
Head of Investments and PM
Kreditfonden

KREDITFONDEN'S FACTORING OPERATION

The Nordic Factoring Fund runs a typical factoring operation used by traditional factoring companies, but rather than acting as the direct counterparty to the sellers of invoices, the fund uses one factoring company based out of Northern Sweden as an intermediary. "We are buying invoices from one factoring company that has established relationships and administrative processes in place for collecting payments from the invoiced clients," explains Sjöstrand. "The invoices bought then serve as a pledge in the name of the fund, and we share the gross fees with the factoring administrator."

"We have done in-depth due diligence on this factoring administrator, which acts as a platform that sources investment opportunities for the Nordic Factoring Fund," emphasizes Sjöstrand. "We have approved all the instructions, policies, processes, et cetera, of this factoring company," continues Kreditfonden's CIO. "We worked together to improve and adjust all their operational and administrative processes to get them in sync with the demands of our fund." The Nordic Factoring Fund relies on this factoring administrator to enforce the account receivable eligibility criteria, secure and maintain proper documentation and records, as well as maximize timely repayment and contract enforceability in cases of delinquency.

> "The Nordic Factoring Fund and Scandinavian Credit Fund I seek to capitalize on distinctive sources of attractive risk-adjusted returns, which is why we prefer to run them in parallel."
>
> – Fredrik Sjöstrand

The respective factoring company from the north of Sweden mainly focuses on invoice sellers from Finland, with an exposure of about 70 percent to Finnish industrial companies and the remainder to Swedish small and medium-sized enterprises (SMEs). "In Finland, the customers selling invoices are mainly private equity-owned companies, and in Sweden, these are SMEs with an average annual turnover between SEK 20 to 50 million," says Broms.

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"With hundreds of thousands of receivables as collateral that generate very high risk-adjusted returns, the whole package offers investors a fixed-income profile that is very hard to replicate in the bond market."
– Fredrik Sjöstrand

CREDIT RISK ASSESSMENT

Because factors such as the Nordic Factoring Fund extend credit to their clients' customers rather than to their clients, they are more concerned about the credit risk of the business that is paying off the account receivables. Credit risk assessment, therefore, is one of the most important pillars of a successful factoring operation. "The team examines a wider range of criteria when deciding whether or not to include a factoring deal into the fund," explains Broms. "These criteria mostly focus on the credit quality of the end-customers, the businesses that must pay off the accounts receivable."

When buying a collection of account receivables from an invoice seller, "we also require that the book is well diversified," says Broms. "We want multiple account debtors in the portfolio." The Nordic Factoring Fund's portfolio tends to reflect between 70 to 90 corporates that sell their account receivables, but each corporate's accounts receivables reflect the invoices associated with an even higher number of end-customers. Even so, the Nordic Factoring Fund does not solely rely on diversification to dampen the risk of one business failing to pay an invoice. "Apart from that, we also do a direct analysis of all the corporations that sell the receivables, and we then look at all the receivables as well to see if they match our credit criteria," says Sjöstrand.

RETURN DRIVERS AND RISKS

The Nordic Factoring Fund aims to generate between six and six and a half percent per annum with low volatility. These returns reflect several return drivers exclusive to the factoring industry. "The factoring business is, first of all, an arbitrage because you are buying receivables from a smaller corporate, but you are primarily facing the credit risk of that corporate's customers," explains Broms. "This means you can charge or earn a higher interest rate than warranted in the process of financing the customers directly."

Peder Broms
Head of Origination
Kreditfonden

"The second arbitrage or return driver is that in many factoring deals with manufacturing companies, apart from the interest rate, certain fee structures apply especially that focus on late payments or because an invoice is received in paper format or other peculiarities," says Broms. "These details enhance the returns of the factorer," he continues. "If we are comfortable with the credit risk of the end-customer and also the risk of the originator, we can fund those transactions and charge rates that translate into attractive gross annualized returns," says Broms. Because the tenor of accounts receivables is between 30 days and a maximum of 90 days, an appropriate velocity of transactions facilitated by its factoring operator enables the Nordic Factoring Fund to keep the money active and keep delivering attractive risk-adjusted returns for investors.

There are several risks, however, that can eat away from these attractive returns. These include the default of an account debtor and, more worryingly, invoice fraud. "We have a wrapper that protects the seller of the receivables against default by its account debtor, we have a credit insurance wrapper that protects us from the invoiced client failing to meet its payment obligations," explains Broms. "We also have insurance against what we call fraud, which is rampant in factoring and has happened in the factoring market."

In addition to the credit and fraud risk, a third risk – many would like to face – is "that we can get too much money into the fund and we cannot deploy it at the rate corporates sell their account receivables," says Sjöstrand. "In the past, we closed the fund for new investments when we had too much liquidity," he continues. "As it stands today, we have a pretty good pipeline, and we do not see unused cash balances due to limited reinvestment opportunities as a problem today." According to Sjöstrand, "if we were to do nothing from tomorrow, just maintain the portfolio, we would give a return of six or six and a half percent. It is not going to be much more, and it is not going to be less."

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Lynx Wins 20 Year Award – But is Not Relaxing

"IF WE STOP IMPROVING, WE WILL LAG BEHIND"

By Hamlin Lovell – HedgeNordic

From left: Martin Källström, Partner and Senior Managing Director, Svante Bergström, CEO Lynx Asset Management

Lynx CTA, one of Sweden's oldest hedge funds, has just received the prestigious EuroHedge award for "Long Term Performance (20 years)", in the Managed Futures category. Over these past 20 years, Lynx has made multiple advances to its systems and operations but some aspects of the programme - such as the core belief in trend following, the presence of diversifying non-trend models and return optimisation targets - have not changed.

Since Lynx's founders invested "sweat equity" through hard unpaid work in the early years of the new millennium, and partnered up with Brummer & Partners in 2002, the organization has continued to grow its infrastructure, operational processes, staffing, and IT resources.

Lynx's team of over 40 research and development staff have freedom to develop their own ideas and growing computing power has enabled several streams of innovation, including machine learning, which Lynx has been applying since 2011. "Our machine learning models, which make up about 30% of the undiversified risk in the Lynx Programme, require a lot of computing power," says Martin Källström, Partner and Senior Managing Director at Lynx. Various types of data also require the increased IT capacity. Lynx is using larger volumes of data, and more different types of data including non-price data, which it has used since 2015. With shortest holding periods of two to five days, Lynx is certainly not a high frequency trader, but it uses somewhat high frequency data inputs for models. "Models using intraday data need more computer power than old school models. Execution also requires more granular data on ticks, volumes and order books," says co-founder and CEO, Svante Bergström.

MODEL INNOVATION

It is possible to design systematic strategies based on simple formulae, but they may suffer from alpha decay. "Our newer models generally perform better than our older ones," says Källström. Lynx has continued to develop and grow its suite of models: it has refined existing models and both added and retired others over the years. The roster of models is reviewed twice a year.

In general, the strategy, including the core trend models making up over 70% of risk, has evolved to incorporate more inputs. "The models used today are mostly multivariate continuous models. We have developed multiple techniques that mitigate the risk of over-fitting a model to historical observations," says Källström.

From the early days, Lynx was distinguished from 'pure' trend followers by its roughly 25% risk budget allocation to diversifying non-trend models, which have also seen higher model turnover than the trend models. This was partly due to a change of approach from mean reversion or counter-trend models to a wider variety of non-trend models. "In the early years, the diversifying models had a negative correlation to trend following whereas today they are more built around expectations of a low correlation of between 0 and 0.5," says Bergström. The diversifying models now include systematic macro using non-price data, as well as adaptive, machine learning approaches, and some very short term strategy signals.

SHORTER TERM MODELS AND PORTFOLIO PROTECTION

"We are at the faster end of the medium term trend following space. Therefore, we have invested a lot in execution research, which is often overlooked, but is very important especially for faster systems," says Källström. Lynx executes everything electronically, using straight through processing (STP).

Shorter term models have been important to meet Lynx's return optimization targets.

"Though longer-term trend following models have actually performed better since 2009, we have maintained a relatively high exposure to shorter term models which tend to provide more reliable portfolio protection characteristics," points out Källström.

Lynx's return optimization targets have been consistent over the past 20 years. "Our targets for providing portfolio protection, including correlation to the VIX volatility index, and behaviour in different market climates, have been kept fairly constant," says Bergström. Considerable analytical resources are devoted to the optimization process: "it is a complex and non-trivial optimization exercise to optimize a non-convex objective function including metrics of risk adjusted returns, market neutrality, reactivity to trends and various other diversifying characteristics, while allocating to 45 models," explains Källström.

The volatility target of 18% has also remained the same, though this is an average over a cycle and not itself a constant. The 95% one day value at risk has ranged between 1% and 3%, because Lynx is opportunistic in responding to bottom up signals.

"Our objective is derived from the fact that our clients use the Lynx Programme as a diversifier in their overall portfolios," says Källström. "Many of our clients group Lynx with other risk mitigation strategies such as long volatility and tail risk protection. Investors are looking for diversification, especially in a climate of rising interest rates and inflation when bonds may not provide good diversification to equities".

Some 80% of Lynx assets of USD 5.9 billion come from institutions such as pension funds and insurers, while the proportion of assets coming from funds of funds and high net worth individuals has gone down over the years. Lynx opened a New York office in 2014 and nearly half of its assets are investors from North America.

MACHINE LEARNING CARVE OUT

The return objective will however be different for Lynx's pure play machine learning strategy, Constellation, which has been rolled out as a standalone offering. "Constellation targets high risk adjusted returns, with a low correlation to trend following and zero correlation to traditional markets, whereas Lynx is actually aiming at a conditional negative correlation to equities during longer drawdown periods," says Källström.

"We are offering Constellation as an independent strategy because we have excess capacity and there is investor demand," says Källström. Lynx has spent years developing the strategy: "we have a long history of using adaptive machine learning models with good results. It is a very complicated task to train and regularize algorithms to make them robust. We use supervised algorithms and pre-process the data quite heavily before using them," says Källström.

> "Our objective is derived from the fact that our clients use the Lynx Programme as a diversifier in their overall portfolios."

INVESTMENT UNIVERSE AND ESG

The investment universe of liquid equity, fixed income, currency and commodity futures markets traded by Lynx has not changed much. Commodities were added in 2005 after the Swedish FSA permitted the asset class in domestic funds. Though the total number of markets traded has increased from 60 to 100, most of the newer markets added have been sized smaller so the same 60 markets continue to make up the bulk of the risk budget. In any case, the number of markets does not necessarily measure portfolio diversification: "rather than thinking about trading 100 independent markets it is important to understand common forces and factors," points out Bergström.

Some CTAs argue that they need to diversify into non-exchange traded over-the-counter (OTC) or "exotic" markets to maintain portfolio diversification amid rising correlations since 2009. Lynx has not added these markets (which are traded by Brummer & Partners affiliate Florin Court) because Bergström views this approach as, "a different strategy with special operational requirements, which will not necessarily provide the portfolio protection qualities that are sought by Lynx investors".

ESG may however lead to some changes in markets traded. One of Lynx's programs, Lynx Dynamic, has already excluded energy markets after discussions with key clients. Other Lynx programs continue to trade energy.

Elsewhere, an ESG version of Lynx awaits better liquidity in certain contracts and new product launches. CME Group and Eurex both offer ESG equity index futures. "We are aware of such futures, but they are not currently liquid enough," says Källström. Lynx would like to see more ESG friendly instruments on the commodity side, which might specify the provenance of deliverables, so that an "ESG soybean future" could for instance exclude beans grown in areas previously covered by Brazilian rainforests, or other contracts could perhaps rule out metals or minerals extracted in controversial "conflict" zones or disputed territories.

This illustrates how the engagement angle of ESG is different for macro managers and CTAs trading futures rather than investing in individual companies. "We invest in derivatives so we do not have voting rights for companies as shareholders would. But we are engaging with exchanges to encourage them to launch more ESG futures," says Källström.

> "We have a long history of using adaptive machine learning models with good results."

FUTURE RESEARCH AND DEVELOPMENT

Thus far, the machine learning strategy, Lynx Constellation and the long-only Lynx Active Balanced fund are the two new investment programmes (though strategy customization can be an option for larger institutional investors). "Over the next ten years we might offer more carve outs, and develop other quant strategies," says Bergström.

But right now, the research department at Lynx is prioritising four areas to further evolve the existing programmes. "First, we want to improve on our bread and butter strategy of trend following. Second, we want to expand our expertise in machine learning. Our third research priority is using shorter-term intraday data, with or without machine learning. Our fourth research focus is using non-price data, again with or without machine learning," says Källström.

"We must continue to improve all the time not to lose ground. If we stop improving, we will lag behind," says Bergström.

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2020 Nordic Hedge Award

SAME SAME, BUT DIFFERENT!

By Kamran Ghalitschi – HedgeNordic

March is always an exciting period for us at HedgeNordic, as it means we are going into April, which in turn means: it is time for the Nordic Hedge Award. We will get to meet friends, partners and business relations. We shake hands, hug, exchange war stories and business cards, enjoy the traditional hot dogs and pop-corn ahead of the winner announcement and have a good evening overlooking Stockholm harbor over some beers. Expect, this year we won´t.

As so many other things dear to us have fallen victim to the global Covid-19 pandemic, the Nordic Hedge Award will look different this year.

What did not change, is the basic set up and process to determine the winners. The Nordic Hedge Award is set to distinguish outstanding hedge fund managers from, or active in the Nordic region. All funds with a minimum track record of 36 months are that are listed in the Nordic Hedge Index (NHX) for the Nordic Hedge Award.

The winners in the regular categories are determined in a three step process:

Initially, a quantative model compounds various parameters of all funds in the respective subcategories to determine a shortlist. These parameters are taken into consideration both on an absolute basis, as well as relative to the other funds in the same sub-category. The highest scoring FIVE funds per category become the nominees. The model and parameters chosen were co-developed by HedgeNordic in cooperation with Stockholm School of Economics´ House of Finance.

In a second step, a jury typically consisting of institutional investors and asset owners reviews the shortlisted funds for a qualitative screening. Each jury member then awards his or her score for each respective fund. We are delighted to again have a most distinguished jury board Kari Vatanen, CIO at Veritas Pension Insurance, Gilles Lafleuriel, Head of Real Assets and Alternatives at Nordea, Gustav Karner, CEO/CIO at Apoteket's Pension Fund, Helen Idenstedt, Head of External Partnerships and Innovation at AP1, Claudia Stanghellini, the head of external management of AP3, and Christer Franzén, CIO at Ericsson Pensionsstiftelse (pictured below, left to right).

And finally, the quantative and qualtitavie scores are aggregated in an equal weighting to determine the final rankings, and thus the winners and runners up to the Nordic Hedge Award.

There are two extraordinary categories where a different approach is taken to determine the winners:

The Performance award solely compares pure net performance as the one and only factor to determine the ranking. Performance awards are awarded for the highest compound performance over 12, 36 and 60 months.

And finally, the best new Nordic hedge fund is determined by other Nordic hedge fund managers, making the Rookie-of-the-Year Award a peer group distinction.

JURY BOARD FOR THE 2020 ROOKIE OF THE YEAR

Henrik Fournais

Portfolio Manager
HP Fondsmæglerselskab
Rookie of the Year 2019

Martin Estlander

Founder
Estlander & Partners

Mette Østerbye Vejen

CEO
CABA Capital

Michael Ekelund

CEO
Atlant Fonder

Jonas Mårtenson

Founder
Resscapital

The winners of the 2020 Nordic Hedge Award will be revealed during the week of April 19-23 2021 via a series of videos.

Best Nordic Fund of Hedge Fund 2020 presented by RBC
Best Nordic Fixed Income Hedge Fund 2020 presented by SS&C EZE
Best Nordic Multi Strategy Hedge Fund 2020 presented by AMX
Best Nordic Equity Hedge Fund 2020 presented by Northern Trust
Best Nordic CTA 2020 presented by Efficient Capital
Performance Awards presented by SHoF
Rookie of the Year – Presented by Harvest Law
Best Nordic Hedge Fund 2020 - OVERALL presented by CME Group

You can sign up to the premiere broadcast of the 2020 Nordic Hedge fund winner reveal by registering on hedgenordic.com/2020reveal

The 2020 Nordic Hedge Award is supported by:

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Danielius Kolisovas

Secrets of Long Livers: Crisis Alpha

By Danielius Kolisovas

"Most hedge funds fail," says the headline of a Financial Times article back in 2014. With an average life span of about five years and numerous hedge fund closures over the past decade, most hedge funds do fail after all. But what is the secret sauce of the longest-running hedge funds? Thirty-four of the 50 up-and-running Nordic equity hedge funds are older than five years, 27 of them are running for more than seven years, and 22 of them are in business for more than ten years, how do they stay alive for so long?

Insights from my Ph.D. dissertation presented in a forthcoming paper "Determinants of Nordic Hedge Fund Performance," which focuses on the Nordic hedge fund industry, reveal that the longest-running equity hedge funds from the Nordics from 2005 to mid-2020 share one common characteristic: crisis alpha. There is a trend of declining alpha observed after the financial crisis of 2007-2008, with some researchers claiming that positive alpha is becoming a rare occurrence. My Ph.D. dissertation finds that long-surviving Nordic equity hedge funds generated alpha during both crisis and non-crisis periods, particularly during severe crises.

LONG-RUNNING EQUITY HEDGE FUNDS AND THEIR ALPHAS

Whereas my research focuses on the entire Nordic hedge fund industry, the insights discussed in this article focus on 27 equity hedge funds with a track record longer than 100 months from 2005 to mid-2020. So how did these 27 equity hedge funds from the Nordics perform during the crises of the past 15 years? How much alpha did these funds deliver?

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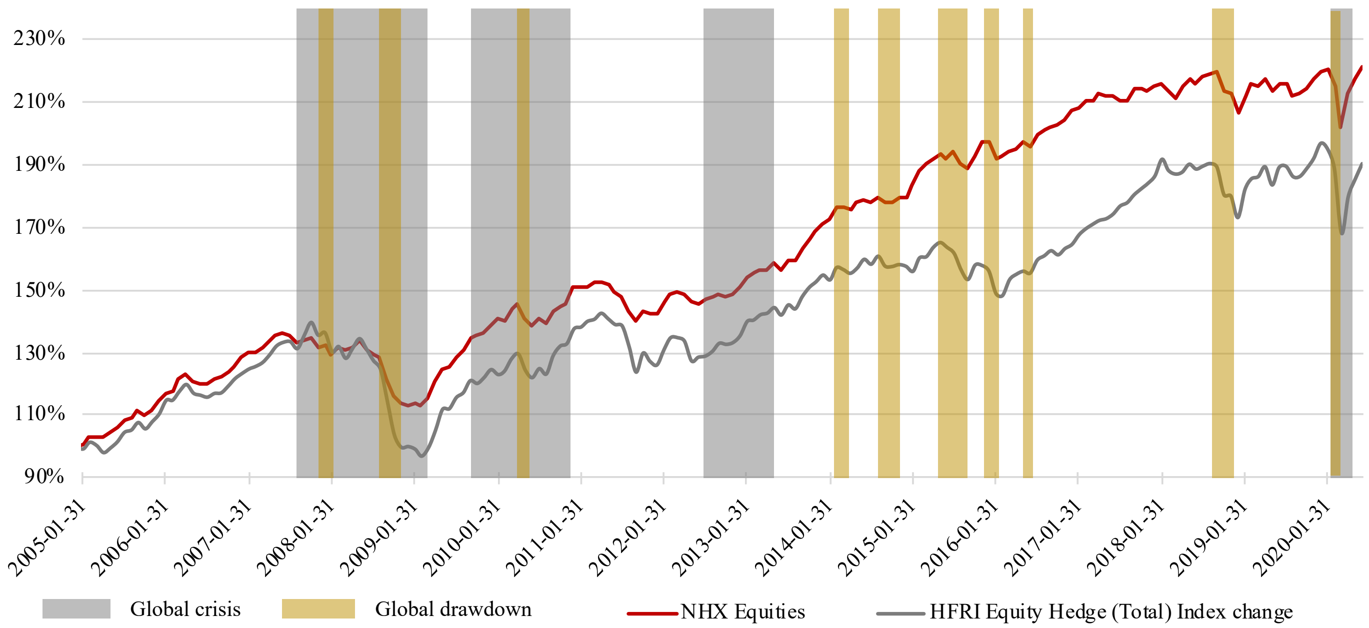
Before delving into how long-running Nordic equity hedge funds performed over the past 15 years, I feel I need to share more details about the approach for estimating hedge fund alpha. Hedge fund performance, in particular hedge fund alpha, is assessed using the most recognized Fung and Hsieh 8-factor model. This model is best known for incorporating asset-based linear return beta factors, and non-linear smart beta and alternative beta factors representing more exotic, alternative sources of risks such as momentum.

The Fung and Hsieh 8-factor model was initially designed to evaluate risk-adjusted hedge fund performance of U.S.-originating hedge funds, which implies that there are challenges in applying this model to other regions such as the Nordics. To overcome those challenges, I made several tweaks to the original Fung and Hsieh 8-factor model. First, stock and bond market factors, represented by U.S. stock market indexes, U.S. small-cap indexes, U.S. government bond yields and U.S. corporate bond yields were replaced with corresponding Nordic country factors. Second, local currency-denominated returns and factors were converted into U.S. dollar-based returns and factors. Third, alternative factors stemming from research by Fama-French, Capocci, Moskowitz, Adrien Verdelhan, Pástor and Stambaugh were also evaluated to find whether they can improve the model. Lastly, commodity market factors were analyzed to find their contribution to the Nordic hedge fund performance, in particular that of CTAs.

The risk-adjusted performance of Nordic hedge funds was analyzed using panel data regression models on panel data of cross-sectional data representing hedge fund returns and country-specific risk factors in the same time-series dimension. The time-series were not split into smaller specific periods, so the results reflect long-term performance measures.

Figure 1. Indices performance and crisis periods



Note: Grey areas highlight the following crises: the global financial crisis that started in 2007, the EU debt crisis with its continuation of Greece defaulting on an IMF loan in 2012 and the Covid-19 crisis. Source: HedgeNordic, HFRI, Evestment, Eurekahedge.

SHOW ME THE ALPHA

The grey areas in Figure 1 highlight the following crises: the global financial crisis that started in 2007, the European debt crisis of 2010, its continuation with Greece defaulting on an IMF loan in 2012, and the Covid-19 crisis in early 2020.

As shown in the table below, the 27 long-running equity hedge funds delivered an equally-weighted monthly alpha of 0.34 percent, translating into an annualized alpha of 4.16 percent. The monthly alpha reaches 0.37 percent during crisis periods, compared to 0.17 percent per month during non-crisis periods.

More interestingly, when splitting the group into Tier I, featuring funds with higher-than-average Sharpe ratios, and Tier II with lower Sharpe ratios, we observe that the weaker-performing pool of hedge funds, on average, delivers no alpha during non-crisis periods. The Tier II funds, however, deliver a monthly alpha of 0.24 percent during crisis periods. The stronger-performing funds provide alpha both during crisis and non-crisis periods. The Tier I funds generated monthly alpha of 0.84 percent during crisis periods, translating into an annualized alpha of 10.56 percent. In non-crisis periods, the Tier I funds deliver a monthly alpha of 0.17 percent.

Figure 2 on the next page presents the risk-return distribution of Tier I and Tier II hedge funds, as well as the NHX equity sub-index, which is located further "north-west" from the supposed efficient frontier of Harry Markowitz's modern portfolio theory (represented with the dashed line). This can be explained by the survivorship bias reflected in the data used for this study, as not all equity hedge funds were included in the study.

Table 1. Summary of multiple regression models

	NHX Equity all funds	Tier I funds	Tier II funds
Mean return	0.0041	0.0069	0.0012
Alpha	0.0034	0.0064	0
Adj. R^2	0.5893 (0.7323)	0.5196 (-)	0.7417 (-)
Alpha during Crisis	0.0037	0.0084	0.0024
Alpha during non-Crisis	0.0017	0.0052	0
Adj. R^2	0.5710 (0.6786)	0.5203 (-)	0.7427 (-)

Note: Adjusted R^2 in brackets () represents the Cross-section weighted Adjusted R^2

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WHAT DRIVES THE ALPHA?

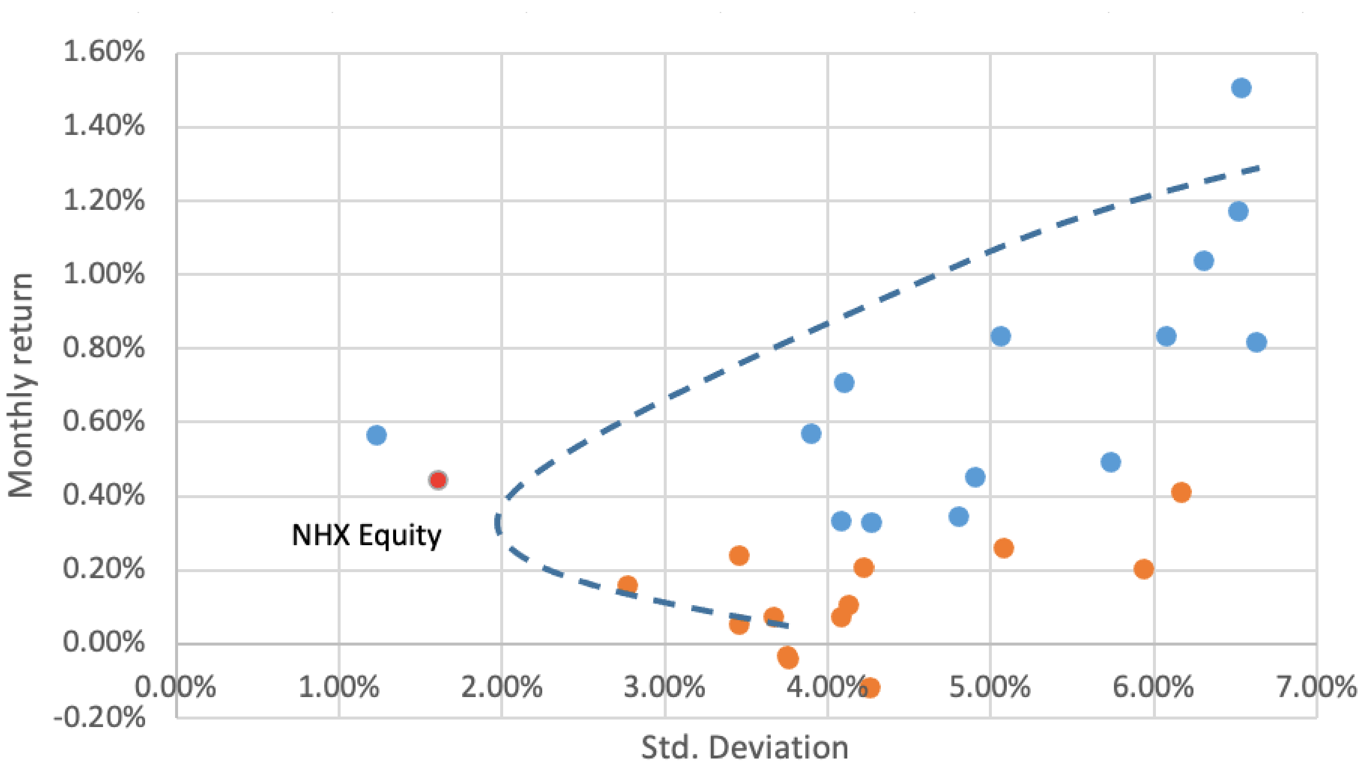
Pricing models normally utilize absolute statistical coefficients, which do not disclose how much each risk factor contributes to the modelled hedge fund return. The "elasticity at means" method allows presenting scaled coefficients, which show how much a given risk factor contributes to the long-term hedge fund performance.

Figure 3 presents alpha's proportion of the mean return and the relatively insignificant contribution from various market beta risk factors (on the left side modelled prior applying crisis factor and, on the right, with applied crisis factor). This somewhat contradicts recent studies showing that hedge fund alpha has disappeared altogether. We need to bear in mind that such long duration time series model diminishes the contribution from smart and alternative beta factors, which fund managers can have different exposures to depending on market conditions, and they can be frequently adjusted depending on the market situation.

CONCLUSIONS

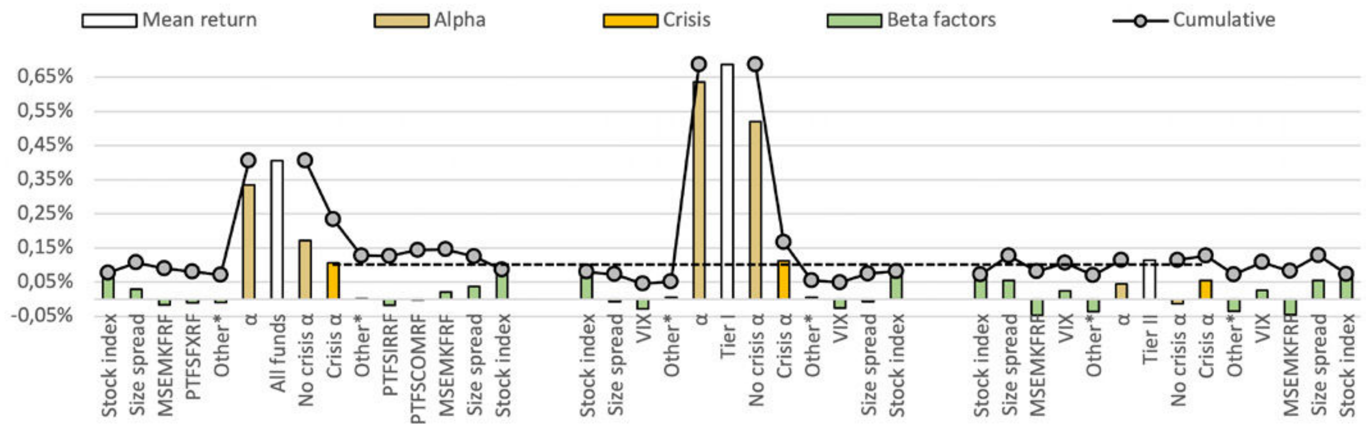
According to a wide body of research, hedge fund alpha may have sharply deteriorated in the decade following the financial crisis. But the hedge funds that survived the longest over the past 15 years did deliver significant alpha. Insights from my research reveal that the portfolio of 27 of some of the longest-running Nordic equity hedge funds delivered significant average alpha both in crisis and non-crisis periods. More importantly, the research presents the positive impact of crises on the long-term alpha. This contradicts some of the researches stating the opposite.

Figure 2. Risk-Return



Note: Blue bullets represent Tier I hedge funds with higher-than-average Sharpe ratios and the brown ones represent Tier II hedge funds. Source: HedgeNordic.

Figure 3. Scaled factors



Risk factors: Stock index – national monthly major stock exchange index return minus the risk-free rate of return; Size spread; MSEMKFRF – the monthly return of MSCI Emerging Market index minus RFRR; PTFSFXRF – the monthly return of the PTFS Currency lookback straddle factor minus RFRR; PTFSCOMRF – the monthly return of the PTFS Commodity lookback straddle factor minus RFRR; PTFSIRRF – the monthly return of the PTFS Short-Term Interest Rate lookback straddle factor minus RFRR.

On the one hand, crisis periods are well-known for causing investors to panic and prompt closing some positions at higher discounts. On the other hand, highly skilled fund managers with solid crisis management experience are taking advantage of the low prices, applying more exotic strategies, and delivering higher returns. All in all, this article presents evidence that long-surviving equity hedge funds from the Nordics generated significant average alpha and crisis alpha during the past 15 years. However, individually the excess returns (alpha) of the hedge funds are more widespread.

Other findings from the forthcoming paper "Determinants of Nordic hedge fund performance":

1. In all NHX sub-strategies (i.e., Equities, Fixed income, CTA, Multi-strategy and Fund of funds), there is a consistent trend of increasing alpha during crisis periods relative to quieter times.

2. The impact of tightening regulatory regimes by implementing the hedge fund-specific AIFMD directive and by changing of regulatory climate measured with World Bank Regulatory Quality Indicators is negative and opposite to the crisis. This supports the conclusion that regulation makes hedge funds more risk-averse, thereby, lowering the excessive return (alpha).

Bio: Danielius Kolisovas is a researcher with over 15 years of risk management experience holding leading positions in Central Bank of Lithuania, investment bank Finasta and crypto company Blockchain.com. Kolisovas advised the Office of the Government of Lithuania and other public institutions. He holds a master's degree in Finance from the University of Greenwich and is FRM certified from GARP. Kolisovas is also PhD candidate in Economics at Mykolas Romeris University where he has been teaching classes on Financial Risk Management and Alternative Investment since 2011.

Where Are the Diversifiers?

By Eugeniu Guzun – HedgeNordic

Kari Vatanen
CIO
Veritas

The heterogeneous nature of hedge funds and other alternatives may complicate the capital allocation process for large institutional investors such as Finnish pensions insurer Veritas. Rather than viewing the universe as a homogenous group and blindly allocating a fixed amount to the space, the €3.9-billion pension fund classifies hedge funds, alternatives and even traditional investments based on their roles in a portfolio.

"We thought carefully last year about the role of alternatives and especially hedge funds from a portfolio construction perspective," says Kari Vatanen, who joined Veritas as its CIO in March of last year after 13 years at rival pension fund Varma.

"We started to move our portfolio during last year into different functional buckets," elaborates Vatanen. These buckets include carry-seeking, diversifying and hedging asset classes or strategies. Hedge funds and alternatives may fit in any of these three buckets.

"We define one bucket as carry-seeking, which include asset classes and strategies with a positive expected return in the longer run," explains Vatanen, who is part of this year's Jury Board for the Nordic Hedge Award. "The disadvantage of these carry-seeking asset classes is that they tend to be highly tail-correlated with each other during crisis events as the one experienced last year due to the Covid pandemic," he continues. This higher return-generating bucket "includes all risky assets and strategies that are highly correlated in difficult market environments." The other two buckets include diversifying and hedging asset classes and strategies.

Whereas the hedging bucket includes strategies that naturally offset the carry-seeking strategies in both good and bad market environments, "the diversifying package includes asset classes that are not highly tail-correlated compared to other asset classes," according to Vatanen. "We do not expect diversifying asset classes to deliver high returns in the future, we expect zero or slightly positive returns over time, but we want them to prove that they really diversify," he emphasizes. "The question, however, is where to find diversifiers?"

"It is difficult to find diversifying asset classes and strategies in this environment."

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WHERE TO FIND DIVERSIFIERS?

"Looking back in history, high-quality government bonds have served as good diversifiers," Vatanen tells HedgeNordic. "And U.S. treasuries were good diversifiers during the first quarter of last year," he points out. "But now, with interest rates close to zero or even in negative territory, it is probable that we will not see a big diversification effect from high-quality bonds," argues the CIO of Veritas. "It is difficult to find diversifying asset classes and strategies in this environment," he continues. "At their best, hedge funds and some other strategies might offer some diversification benefits, but that is a big question mark."

"When it comes to the role of alternatives and hedge funds in a portfolio, it is most important to define how they behave in different market environments," explains Vatanen. "Some alternatives and hedge funds can offer additional carry, additional sources of return, meaning that they belong to the carry-seeking bucket," he continues. "But the expectation is that their return should be high enough, and we know that they are carry-seeking and are not offering any diversification during a crisis."

"Then for our diversifying bucket, we look for hedge funds that really need to prove their diversification characteristics during a crisis," says Vatanen. "We do not expect them to have a high expected return in the future, but we do expect them to prove that they have the right characteristics, that they are diversifying," he elaborates. "That is the key in our thinking."

ROLE ASSESSMENT

Many investors have opted to yank money out of the hedge fund industry in recent years due to a combination of underwhelming performance and high fees. Vatanen has a different take on the industry's journey over the past ten years or so. "Quite many hedge funds, especially at the index level and also in our portfolio, have suffered in the last ten years on two fronts," says Vatanen. "First, they have experienced positive tail-correlation, which means that they are not diversifying and we cannot classify them as having diversifying features during crises."

> "We do not expect diversifying asset classes to deliver high returns in the future, we expect zero or slightly positive returns over time, but we want them to prove that they really diversify."

"At the same time, the average return of the average hedge fund has not been higher than that of a traditional 60/40 portfolio in the last decade," continues Vatanen. If hedge funds were to suffer only on one of these two fronts, the issue on the role of hedge funds in a portfolio might have been settled. "The role of hedge funds in a portfolio is questionable if they cannot give diversification and if they cannot give extra carry, extra return," argues Vatanen. "For our purposes and for our portfolio, it is important for hedge funds to prove that they are either carry-seeking or diversifying."

2020 PERFORMANCE AND CLEANING

Alternative investments, which include hedge funds, alternative risk premia strategies, were a disappointment for Veritas last year. "We reduced our hedge fund allocation last year because hedge funds were disappointing during the pandemic-triggered market volatility," says Vatanen. "You have to remember that I started in March, so everything was collapsing during my first month and hedge funds did not provide any ballast either," he continues. "They did not give any help during that market environment, and also the recovery has been much slower compared to the traditional asset classes such as equities and bonds."

"There are some funds that managed to do the right things," emphasizes Vatanen. "It is not a question of strategies, it is more a question about active management and about how managers had been positioned for the events that happened," he continues. "At index and strategy level, there have been problems across all strategy types."

As a result, the investment team at Veritas headed by Vatanen "made some cleaning in our hedge fund portfolio and alternatives portfolio." Vatanen also believes that "there is no need to reduce the allocation anymore, we might even increase that in the future, but what is more important is that we want to tilt portfolio in the right direction." According to Vatanen, "the main message is that we are planning to be more active in selection, we are not creating broad index-type hedge fund portfolio. We will adjust and tilt the portfolio based on what we believe is best at the total portfolio level in a given market environment."

SuperStrategies

By Eugeniu Guzun – HedgeNordic

Asbjørn Trolle Hansen
Head of Multi Assets
Nordea.

"This fund range uses a number of low correlated investment strategies to provide dynamic exposure to multiple return drivers within a universe consisting of a subset of mainly equities, fixed income and currencies."

For more than a decade, Nordea's multi-asset investment team headed by Asbjørn Trolle Hansen has successfully isolated and captured return drivers across different asset classes. Solid risk-adjusted returns and strong downside protection helped turn their Alpha Solutions into the largest strategy in terms of assets in the Nordic hedge fund universe. Nordea's Alpha family – comprised of Alpha 7 MA, Alpha 10 MA, and Alpha 15 MA – collectively oversees more than €7 billion in assets, so let's meet and learn more about the largest player in our universe.

"The funds are multi-strategy, risk premia-based liquid alternative investment solutions," Asbjørn Trolle Hansen, Head of Multi Assets at Nordea, tells HedgeNordic. "This fund range uses a number of low correlated investment strategies to provide dynamic exposure to multiple return drivers within a universe consisting of a subset of mainly equities, fixed income and currencies," he elaborates. In pursuit of diversification to traditional asset classes, Nordea's multi-asset team is splitting up about 30 different risk premia strategies into six buckets or "SuperStrategies."

SUPERSTRATEGIES

"We harvest risk premia across six underlying SuperStrategies which operate independently as sub-portfolios; each being its own alternative asset class in terms of risk behavior," explains Hansen. "They include multiple different risk premia, we generally employ around five underlying risk premia strategies within each SuperStrategy," he continues. "As a result, the final portfolio shows a very high degree of diversification across the six SuperStrategies and each of them has shown a rather independent behavior to one another over the years."

Four of the six SuperStrategies are built on the risk balancing principle, which involves a combination of both beta and anti-beta risk premia for "all-weather" behavior. These strategies are designed to perform well in both risk-on and risk-off market

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environments. The last two SuperStrategies are directional, comprising momentum and mean-reversion strategies that can capture risk-on and risk-off conditions. "The portfolio construction process is essentially a risk allocation approach, both within and across the SuperStrategies, and different risk and return estimates are used in this process," explains Hansen. "In that way, quantitative inputs are important to the portfolio construction but the risk allocation to the different return drivers is ultimately a qualitative process."

"We have a dynamic allocation process to the different strategies dependent on how attractive they are seen," further elaborates Nordea's Head of Multi Assets. "This means that we are able to flexibly adjust our allocations if deemed necessary and appropriate, either for return generation or hedging." Nordea's multi-asset investment team leverages on 15 years of research to bundle traditional and alternative premia in these six SuperStrategies. "Our recipe is not so secret but rather one of diversification," emphasizes Hansen. "It was very good that we had these very special auto-diversifiers that we have been working on for so long."

Whereas the Nordea multi-asset team constantly works on developing and improving its range of strategies, "we have no intention to increase the number of strategies" reflected in the portfolios of Nordea's Alpha fund family, according to Hansen. "We are typically working with 20-30, a number that has worked well for us over time," he continues. "Recently the behavior of the strategies seems to be quite according to plan, so the research is pretty much following the same thorough trajectory as in the past where good improvements take time."

"The fund's investment approach differs from most other traditional approaches to generate positive absolute returns," emphasizes Hansen. "We are focused on combining both traditional risk premia with hedging and alternative risk premia across different asset classes," he adds. "All of the risk premia used are either backed by extensive academic research and/or have been developed using proprietary tools for our risk premia investing." Investors in Nordea's Alpha family "get dynamic exposures allocated fundamentally to premia that are assessed positively."

> "We harvest risk premia across six underlying SuperStrategies which operate independently as sub-portfolios; each being its own alternative asset class in terms of risk behavior."

2020 IN FOCUS

The three funds in Nordea's Alpha family all share the same investment approach but exhibit different risk-return profiles. The flagship product in Nordea's Alpha family, Alpha 10 MA, ended 2020 up close to eight percent, with the fund gaining 3.3 percent in March and 4.2 percent in April. Alpha 15 MA Fund, the most aggressive member of the family that targets higher returns and exhibits higher volatility, gained 12.7 percent last year, while Alpha 7 MA Fund returned 4.7 percent. Nordea's entire Alpha family was part of a select group of funds that made money in both March and April last year.

"For most of 2020, we have been appreciating the rather consistent return generation throughout a volatile year," Hansen tells HedgeNordic. "The outcome was driven by the portfolio's attractive asymmetric return behavior or our designed positive convexity," he continues. "This was key to navigate the sharp regime changes in the market, with risky assets experiencing one of their worst drawdowns ever and all-time high volatility during the first part of the year before equity markets were rallying towards new records until year-end."

Nordea's Alpha fund family was up in all four quarters of last year, with different strategies contributing to performance at different points in time. "We were quite active in our allocations through these phases because of changed expected return rather than for risk reasons," explains Hansen. "A nice result of effective tail hedging is, of course, that you have the opportunity to apply risk when the market is most dislocated." The contribution to performance from different strategies "will vary over time."

INCEPTION-TO-DATE JOURNEY

Nordea's Alpha 10 MA Fund has generated an annualized return of 2.8 percent since launching in October of 2009. Its recent journey has been even more enjoyable, with the flagship delivering 4.8 percent per annum over the past five years. The Alpha 15 MA Fund, meanwhile, has delivered an annualized return of 6.2 percent since launching in June of 2011 and has generated 7.9 percent per annum on average over the past five years. "Actually, our Alpha Strategies were started up end of 2006 in other wrappers," emphasizes Hansen. "So it has a long history by now. Looking back, it feels like a fantastic journey, mostly in terms of learning but also to see how some of our ambitions and aspirations have worked. So far, so good."

"To give clients that value proposition of capital protection and alternative return generation, trying to bridge quite deep academic theory into a client result is satisfying for me and my Multi Asset colleagues," Nordea's Head of Multi Assets tells HedgeNordic. "We have had our tough times of lacking returns, like in 2010 where I felt everybody was performing better than us. But in hindsight, the long track record looks like something we could have hoped for when we set up the strategy almost 15 years ago."

"From the beginning, the idea was always to provide alternative return generation with downside risk protection when the market deleverages," says Hansen. "Of course, in some periods this has worked better than others. However, even throughout the Financial Crisis, the European debt crises, the COVID-19 phase, and a couple of other deleveraging tests, we have remained around what we see as the standard deviation of returns and with both positive and negative outcomes."

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Anette Hjertø
Head of Absolute Return
Investments - DNB

DNB's All-in-One

By Eugeniu Guzun – HedgeNordic

A well-thought-out multi-strategy fund often relies on "best of breed" investment strategies for a wide array of asset classes and market regimes. In the first quarter of last year, right amid the turbulence created by the coronavirus pandemic, DNB Asset Management launched its own multi-asset, multi-strategy absolute return fund – DNB Fund Multi Asset – that incorporates the asset manager's best-of-class strategies.

"The decision to start the fund actually was made in the fall of 2018, and we have been working actively on the fund since then," Anette Hjertø, Head of Absolute Return Investments at DNB, tells HedgeNordic. "We launched the fund in February of 2020, which was spectacular timing with the volatility in the market that came right after," she continues. "We did take our time to get started," says Hjertø, who is part of a three-member team responsible for top-down risk management and allocation in the fund. "Although some of the strategies in our fund have a very long track record, we also wanted to add a few newer strategies that we needed to test properly before the launch."

NINE STRATEGIES

"DNB Fund Multi Asset is a multi-asset, multi-strategy fund that seeks to combine traditional and alternative return drivers," Hjertø tells HedgeNordic. "The fund does not seek to be market neutral, but it aims to limit beta exposure to traditional asset classes such as equities," she emphasizes. DNB Fund Multi Asset currently allocates across nine strategies, all managed in-house by different investment teams

"DNB Fund Multi Asset is a multi-asset, multi-strategy fund that seeks to combine traditional and alternative return drivers."

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within DNB Asset Management. "All strategies are managed in-house and there is only one layer of fees, so this is not a typical fund of funds," points out Hjertø. A combined 15 portfolio managers are currently responsible for managing the nine strategies.

DNB Fund Multi Asset employs several long-only strategies investing in Fallen Angel bonds, Norwegian bonds, Minimum Volatility equities, and Disruptive equities. The three-member team composed of Hjertø, Lena Öberg, and Kim Stefan Anderson recently implemented a new directional equity strategy named "Disruptive equities" in an attempt to diversify the long equity exposure in the fund and benefit from strong thematic drivers of return in the equity universe.

On the non-directional side, DNB Fund Multi Asset invests across several market-neutral strategies such as a European quant-based market-neutral strategy, a financials-focused market-neutral strategy, a TMT sector-focused market-neutral strategy, as well as a fixed-income carry strategy. "We also have a trend component in the fund that is expected to do particularly well in extended market downturns," says Hjertø.

"We have these long-only strategies in the fund for their return potential over time," explains DNB's Head of Absolute Return Investments. However, these strategies "do not seek to deliver return only from beta exposure but also from alpha through exposure to strategies and sectors that provide good downside protection," she continues. "We also have a long-only fixed-income allocation designed to provide downside protection," says Hjertø. "We are aware of the limited benefits that fixed income will provide in terms of diversification at these levels of interest rates, therefore, the remaining strategies have very low net market exposure and are expected to deliver returns independent of the market direction."

> "DNB Fund Multi Asset builds on the strong competence of the wide-ranging portfolio management team that DNB has."

According to Hjertø, "the portfolio at the fund level is well diversified and our expectation is that all strategies will contribute to returns over time but will do so in different periods." Hjertø and her team expect the fund's allocation to long-only equities to generate the highest return over time, "but in periods of weaker equity markets, we expect the alternative strategies to add particular value," says Hjertø. "These strategies are predominantly market-neutral, and hence their return will come from pure alpha."

ALL KEY STRENGTHS IN ONE PLACE

On average, over time, each of the nine strategies is expected to have roughly equal risk contribution to DNB Fund Multi Asset's portfolio. "We look at each strategy's return potential and volatility, as well as correlations between strategies when deciding on the allocation," explains Hjertø. "We base all our allocations on the medium to long-term potential of the different strategies."

"In the Norwegian market, DNB Asset Management is well-known for its sector focus in equities, such as technologies," says Hjertø. "But we also are Norway's market leaders in portfolio management in the fixed-income area and we have a very experienced quantitative portfolio management team on the equity side, so we wanted to benefit from all our key strengths." DNB Fund Multi Asset, therefore, provides one-stop access to all the strengths of the DNB portfolio management team.

While some strategies reflected in DNB Fund Multi Asset's portfolio are also available as stand-alone investment vehicles, "most strategies are exclusive to the multi-asset product," emphasizes Hjertø. "Only the Minimum Volatility equities, TMT Absolute Return, Disruptive Opportunities and Norwegian Fixed Income are available as stand-alone funds," she continues. "Our allocations to these strategies are for the long term, but that does not exclude us from constantly working on new strategies that we could potentially add to the fund."

"DNB Fund Multi Asset builds on the strong competence of the wide-ranging portfolio management team that DNB has," Hjertø tells HedgeNordic. The fund also applies DNB Group's Standards for Responsible Investments that are seeking to ensure that DNB does not contribute to human or labor rights violations, corruption, serious environmental harm or other actions that may be perceived unethical or unsustainable. "DNB has a strong commitment to ESG, this commitment is very important to clients."

You Can't Eat a Sharpe Ratio

By Eugeniu Guzun – HedgeNordic

Stefan Åsbrink
Portfolio Manager
Coeli Asset Management

When launching Coeli Multi Asset under Coeli Asset Management's umbrella at the end of 2019, Stefan Åsbrink had a goal to deliver a very attractive Sharpe ratio. Coeli Multi Asset, after all, is intended to serve as a portfolio diversifier or as a fixed-income substitute in a 60/40 portfolio or similar.

A little more than a year after the launch, Åsbrink can now use the maximum extent of all the instruments and hedging capabilities he initially intended to use. This enables Åsbrink to now focus on increasing the fund's expected return profile by raising the risk level the strategy bears. "It is nice to have a good Sharpe ratio, but as some say, you can't eat a Sharpe ratio," Åsbrink tells HedgeNordic. "Having a decent Sharpe is still the aim; I still aim to avoid very large drawdowns."

"Going forward, however, I want to increase the expected returns of the strategy, which may result in a slightly lower than previously-targeted Sharpe ratio," continues Åsbrink. "Now I don't have to cry every time the portfolio goes down a little." However, the fund can still be seen as a fixed-income substitute or a portfolio diversifier, albeit with a somewhat higher rate of expected returns than before. To meet the fund's altered objective, Åsbrink still relies on a global long/short equity strategy with an extra feature of global tactical asset allocation and carefully implemented tail risk hedging strategies.

"The problem with most tail risk hedging is that their cost of carry is very high," explains Åsbrink. The high cost of carry can eat away at the fund's returns despite bringing benefits in the form of downside protection. "There are some strategies that don't have such a high cost of carry, which I can combine with strategies with higher costs of carry – but very efficient – at the opportune time," says Åsbrink. "The combination of active hedging and low-cost passive hedging strategies can help hedge out the portfolio

"It is nice to have a good Sharpe ratio, but as some say, you can't eat a Sharpe ratio."

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"The combination of equity long/short with a macro-overlay is fairly uncommon."

for turbulent market environments and increase the expected return profile of the strategy."

ATTRACTIVE COMBINATION

Coeli Multi Asset is based on an "attractive combination" of a dynamic systematic equity long/short strategy and an overlay of uncorrelated systematic global macro strategies. "The combination of equity long/short with a macro-overlay is fairly uncommon," Åsbrink points out. "Most equity long/short managers are focused entirely on company-specific fundamentals and do not focus too much on the macro environment," he adds. "Adding a top-down macro perspective and introducing a toolbox to be able to adapt the portfolio based on that perspective enables me to have the possibility to generate positive returns in all market environments, in a market uptrend, downtrend or a sideways market."

The main strategy powering Coeli Multi Asset is a systematic long/short equity strategy in global equities that seeks to find between 50-60 undervalued quality stocks for the long book and 20-30 low-quality stocks for the short book. "For the quality leg, I am looking for stocks that have an earnings-per-share growth of at least 10 percent," says Åsbrink. "Stable earnings growth is the most important characteristic defining quality for me," he continues. "The growth rate does not have to be extremely high, but rather more consistent over time."

"The shorting candidates tend to have no EPS growth at all, experience structural or other problems, or rely on industries and business models in structural decline," explains Åsbrink. Coeli Multi Asset's main systematic long/short equity strategy maintains an average net market exposure between 20 to 40 percent over time. "But I have the flexibility to be net short from time to time when markets are turbulent," says the manager. Shorting individual names has proven costly for many hedge funds in recent months, so Åsbrink complements his shorting book with index futures to bring down the net exposure. "I combine the short leg with index futures because it is very risky to engage in short selling of individual stocks because short squeezes can be very painful."

EXTRA OVERLAY OF HEDGING STRATEGIES

According to Åsbrink, the long/short equity strategy is an effective way to build wealth over time, whereas the additional hedging capabilities and uncorrelated, alpha-generating strategies can protect that wealth in turbulent market conditions. One such hedging capability is the extensive use of single stock options to capitalize on the "built-in risk management property of options," explains Åsbrink. "When the market approaches overbought territory, I buy out-of-the-money calls on stocks that I like to gain some extra exposure to," explains the fund manager. "If stock prices come down, I only lose the premium," he adds. "That is an in-built risk control feature, which is perfect when markets are strong and trending because options are usually cheap then due to relatively low implied volatility."

Åsbrink, who has a Ph.D. in Econometrics from the Stockholm School of Economics focusing on option valuation, portfolio construction and risk control, has also been investing in options on baskets of securities to generate returns. In particular, Coeli Multi Asset has recently started buying over-the-counter call options on market-neutral baskets of securities. "You have a double risk control in options on market-neutral baskets, with the in-built hedge in the underlier as well as the option protecting against sharp declines in equity markets," explains Åsbrink. "If you know how to construct them, market-neutral baskets also have higher Sharpe ratios than regular long-only baskets. This makes the option position much more cost-efficient than using a long-only basket as underlier," he continues. "That's fairly clever."

Coeli Multi Asset also relies on other uncorrelated systematic global macro strategies that "contribute to returns in bad times or at least help the fund avoid losing money." Some of these strategies include different kinds of hedging strategies as well as carry strategies and value or relative-value strategies across equity, fixed income, credit and foreign exchange markets. "These strategies are sources of extra returns that are not correlated with traditional markets," says Åsbrink. "With these uncorrelated strategies, the risk-return characteristics of the fund get even better."

Anna Svahn, CEO and Portfolio Manager
Martin Sandquist, Portfolio Manager
Antiloop Hedge

The Multi-Strategy Appeal

By Eugeniu Guzun – HedgeNordic

The term "multi-strategy" does not always have clear edges, with multi-strategy funds often coming in many different shapes and colors. Multi-strategy is colloquially used for single-manager or multi-manager approaches, funds of funds, single managers with multiple in-house strategies, or simply as a "box" that characterizes funds that do not fit any other clear classification. But there are, of course, genuine multi-asset, multi-strategy funds, and Anna Svahn's Antiloop Hedge may be one of them.

Last year, Anna Svahn assembled an experienced team of five to launch a multi-strategy hedge fund called Antiloop Hedge. The fund caters to the diversification-seeking investor in an environment where equities and bonds are not expected to offer particularly attractive returns in the immediate future. The team includes Martin Sandquist, one of the co-founders of Lynx Asset Management, and Karl-Mikael Syding, former partner and portfolio manager at Brummer & Partners-backed hedge fund Futuris. "We assembled all these people together to form a unique team with different approaches, but who share the same ideas about the future," Svahn tells HedgeNordic.

> "The Antiloop approach is fairly unique in that all the strategies are managed in-house and are designed to have a low correlation to each other by focusing on different asset classes, time frames, and methodologies."
>
> – Anna Svahn

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"The Antiloop approach is fairly unique in that all the strategies are managed in-house and are designed to have a low correlation to each other by focusing on different asset classes, time frames, and methodologies," says Svahn. In fully-fledged mode, Antiloop Hedge is designed to run eight different strategies that exhibit low correlation between each other and the broader traditional asset classes. "The real idea behind Antiloop Hedge is to offer different strategies with low correlation to each other by investing in low-correlated assets," explains Svahn. Each of the eight strategies reflects the "bottom-up approach from each portfolio manager who used a similar strategy before," elaborates Martin Sandquist.

"The different, individual strategies are stemming from the portfolio managers themselves," continues Sandquist. The multi-strategy investment approach was born out of each portfolio manager's experience rather than the team's top-down view of which strategies would perform better or worse in a given market environment. "We have eight different strategies, but they have no correlation to each other," emphasizes Svahn. "We realized that it would be a good fit to put them all in one multi-strategy approach," adds Sandquist.

"We do that by investing in different assets, different markets, and focusing on different time horizons," says Svahn. Antiloop's entire range of strategies is designed to exhibit limited or even zero correlation between each other, enhancing the risk-mitigation properties of Antiloop Hedge and ensuring that the fund generates attractive risk-adjusted returns in all types of market environments. Antiloop Hedge is, therefore, designed for investors looking for diversified sources of return that exhibit low correlation with traditional assets and potential for alpha without significant beta exposure.

SOFT LAUNCH

Antiloop Hedge had a soft launch at the beginning of November of last year and has so far mainly been running two strategies before the full roll-out of the entire range of strategies. "We really see this as a marathon," Svahn points out. "The whole point with the soft launch was to make sure that we actually grow into it and that all the strategies are working together as they should," she continues. "It could have been a big mistake to roll out everything at once without really testing to see what works and what doesn't work."

The two strategies include the "Cygnus" tactical asset allocation strategy run by Anna Svahn and the long/short equity fundamental strategy managed by Karl-Mikael Syding. "It was a good start with Anna's and Mike's strategies because they are very long-term and not very trading intensive," explains Sandquist. "We had the chance to try out everything, all the connections with the brokers and other service providers to see that everything is working," he continues. "It was nice to start with these two strategies because the rest are more trading intensive."

Syding's long/short equity fundamental strategy "uses a fundamental approach to make bets on the relative value of sectors and the most favorable or unfavorable stocks within those sectors," explains Svahn. The strategy relies on a thematic approach across sectors, with Syding aiming to capitalize on sector spreads by going long two to four sectors and shorting a similar number of sectors. Each sector bet reflects between two to four stocks, with each individual stock given an equal weighting.

"TAA Cygnus allocates capital between stocks, soft commodities and precious metals to take advantage of the low correlation between these sectors," explains Svahn, the strategy's architect. "The approach is based on fundamentals and statistical analysis," she continues. The combination of fundamental and statistical analysis enables Svahn to build a portfolio containing equities, commodities and precious metals using exchange-traded funds (ETFs), futures and single securities.

> "It is a good combination to have both experience and a new perspective on things from the younger team members who can contribute with a new line of thought, which is useful in the current paradigm shift going on in the markets."
>
> – Martin Sandquist

"We have started to implement scaled-down versions of two more strategies in March but with very low overall risk," Svahn tells HedgeNordic. "The plan is for a majority of the strategies to be up and running by April." In addition to the long/short equity fundamental and tactical allocation strategies, Antiloop Hedge's team aims to roll out strategies such as global macro, short-term futures, and short-term equity, among others. "The most prominent theme across the up-and-running strategies is the underestimation and misconception concerning inflation and monetary policies," says Svahn.

"We have a multi-strategy approach because we just don't know which strategies will perform better at any given point in time," says Sandquist. "These strategies tend to perform well at different times and tend to work together to achieve our aim of delivering stable returns," he continues. "We believe the coming decade is going to be favorable to Antiloop's approach given the current high valuation of stock markets, especially when compared to commodities and precious metals," emphasizes Svahn. The aim, in the end, is to deliver double-digit returns between ten to 20 percent, with annual volatility between seven and ten percent. "A Sharpe ratio of 1.5 would be our target, but we are happy with a Sharpe ratio of one as well."

A MIX OF EXPERIENCE AND YOUNG TALENT

The five-member team running Antiloop Hedge has a combination of youth and experience that creates an edge in the ever-changing market environment. "Mike and I are very old school, we have been in business for a long time," says Sandquist. "Our experience is a good mix with Anna and the younger team," he continues. "It is a good combination to have both experience and a new perspective on things from the younger team members who can contribute with a new line of thought, which is useful in the current paradigm shift going on in the markets."

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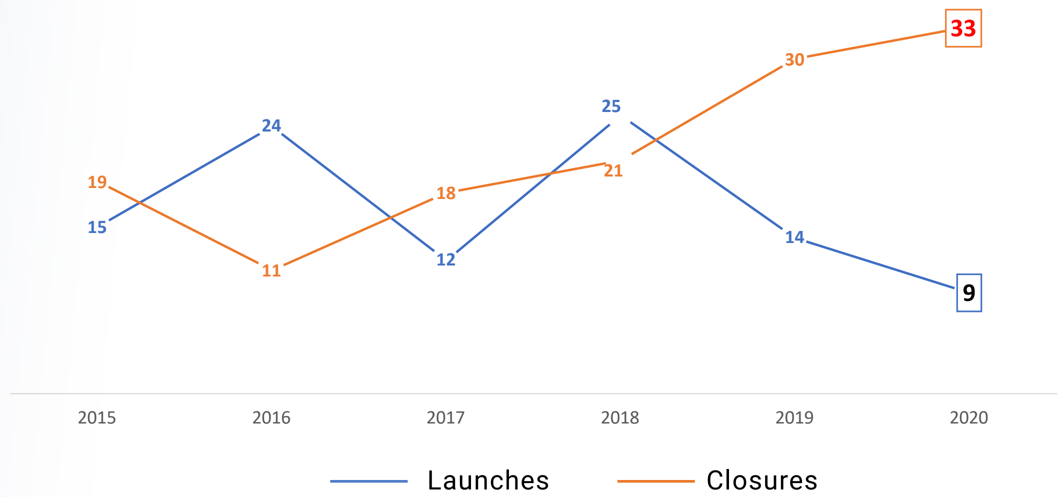
The Hedge Fund Pandemic

By Eugeniu Guzun – HedgeNordic

The global hedge fund industry has been under pressure for years as hedge funds have lagged behind a long-running historic bull market, which forced many managers to call it quits. The Nordic hedge fund universe has not been spared by a great wave of closures either.

A total of 132 Nordic hedge funds tracked by HedgeNordic closed down or merged into other funds in the past six years from the beginning of 2015 through the end of 2020. The industry recorded more closures than launches in four of the past six years, with 2020 being one of the most painful years in terms of closures after an equally painful 2019. An estimated 33 Nordic hedge funds were liquidated during 2020, up from 30 closures in 2019.

Number of hedge fund closures and launches in the nordic

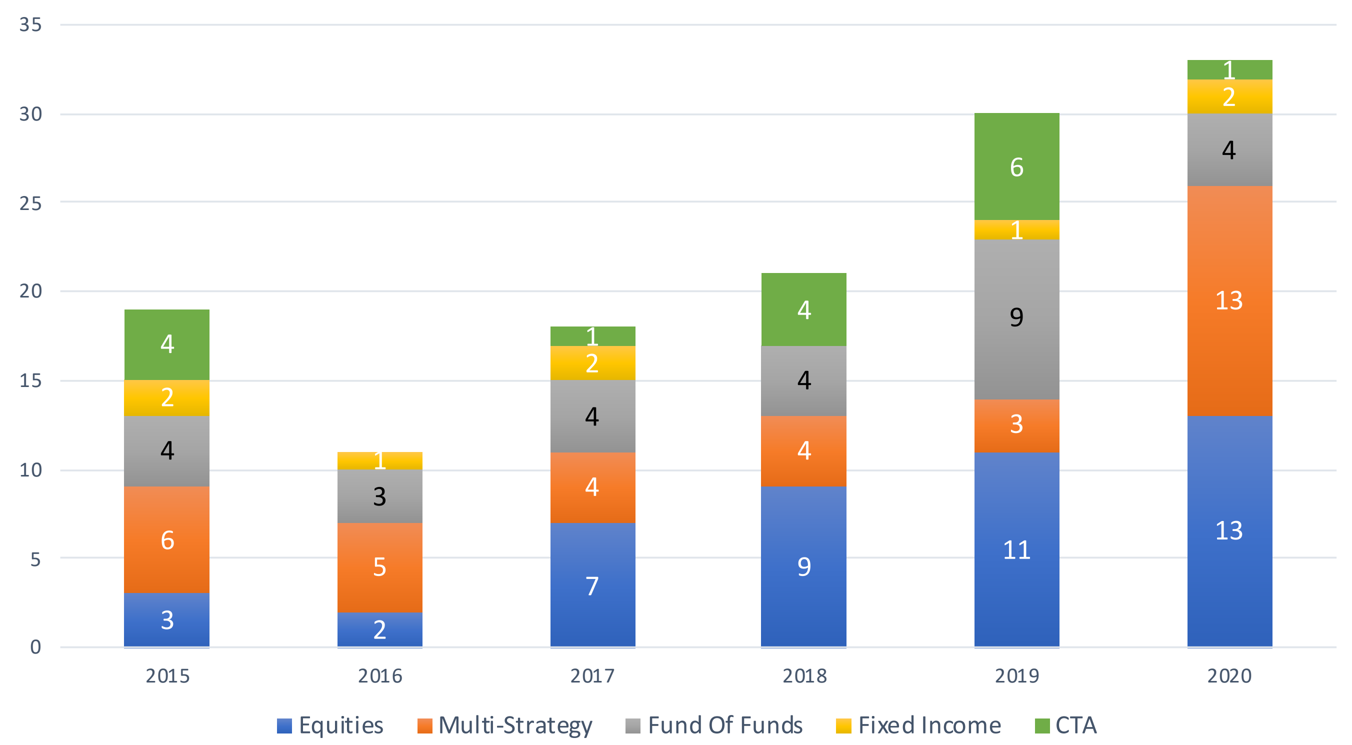


ORBITUARIES

Of the 132 Nordic hedge funds that shut their doors during the past six years, 45 used equity strategies and 35 employed a multi-strategy approach to investing. Over the past six years, equity hedge funds accounted between 35 percent and 40 percent of the Nordic hedge fund industry. The fraction of closures in this strategy group out of the total number of closures ranged between 36.6 percent and 42.9 percent in each of the past four years.

Multi-strategy funds, meanwhile, constituted between 20 percent and 25.5 percent of the industry. The number of closures for this strategy group last year accounted for roughly 39.4 percent of all closures, marking a difficult year for multi-strategy hedge funds in terms of closures. The fraction of closures in this strategy group out of the total number of closures ranged between as low as ten percent to as high as 45.5 percent during five years between 2015 and 2019. Given the relatively high number of Nordic hedge funds categorized as either pursuing equity and multi-strategy approaches to investing, the number of closures in these two strategy groups is not exceptionally high.

Hedge fund closures in the Nordics by strategy



GRIM PICTURE OF CTAS AND FUNDS OF HEDGE FUNDS

The picture becomes grimmer for funds of hedge funds and CTAs. The number of active funds of hedge funds in the Nordic declined in each of the past six years, from 31 funds at the beginning of 2015 to 25 at the end of 2016, 19 at the end of 2018 and only eight funds at the end of 2020. Over the past five years, a total of 28 Nordic funds of hedge funds closed down, with nine of those closures taking place in 2019 alone. An additional four funds of funds closed down last

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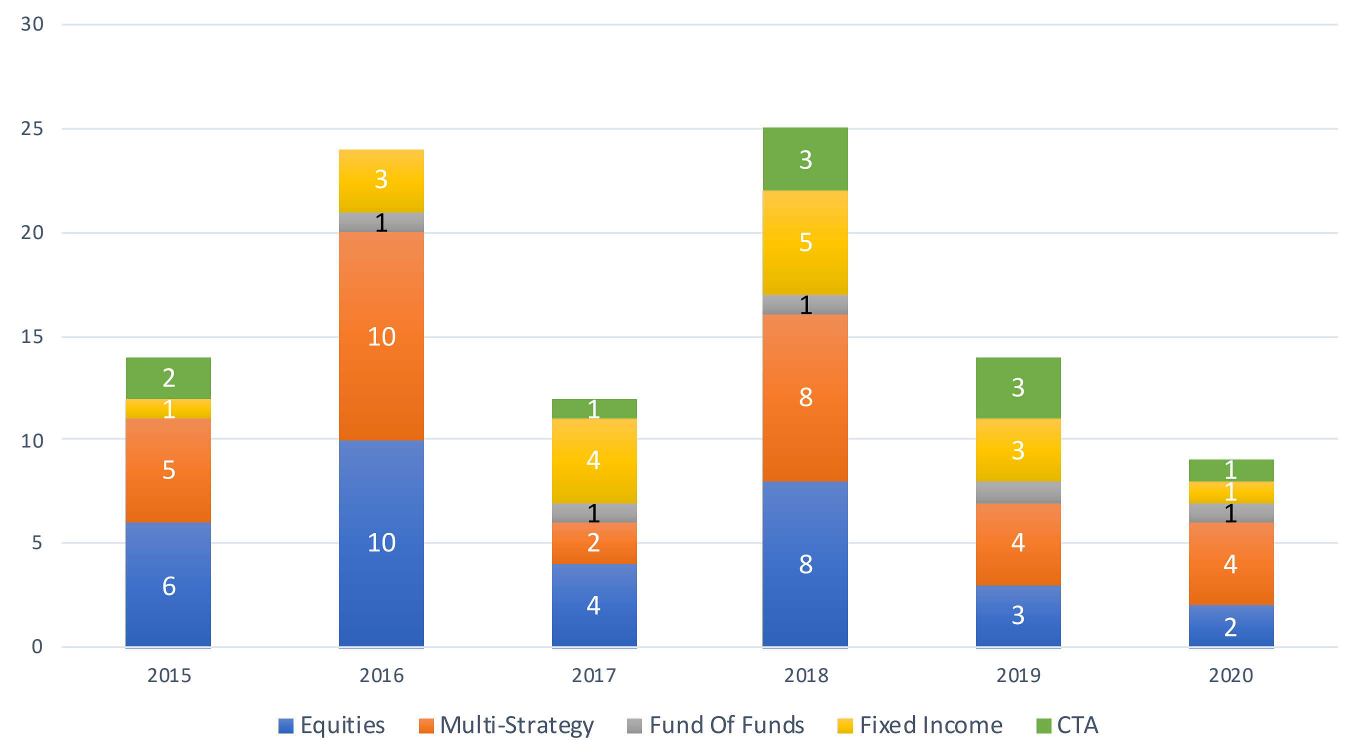
year. The business model of funds of hedge funds has long been challenged because of the double fee-layer and underwhelming performance.

Based on the NHX Fund of Funds, which reflects the aggregate performance of both defunct and up-and-running funds of hedge funds in the Nordics, the group delivered zero returns to investors over the past five years. The survival of the fittest has reduced the number of active funds of hedge funds in the Nordics, with the still up-and-running funds of funds demonstrating an ability to deliver stable and consistent returns over the years. As a group, the six oldest up-and-running members of the NHX Fund of Funds sub-index – out of its eight members – delivered an annualized return of 2.9 percent on average during the past three years and an average Sharpe ratio of 0.58. Their inception-to-date annualized returns and Sharpe ratios stand at 3.6 percent and 0.82, respectively.

The Nordic hedge fund industry is known for housing some of the world's largest, oldest and best established CTAs, including Lynx, SEB Asset Selection, Estlander & Partners and IPM, whose systematic macro strategy is included in HedgeNordic's CTA sub-index. Following several years of not-so-great performance for Nordic CTAs, the number of funds

Hedge fund launches in the Nordics by strategy



using this approach declined from 22 at the beginning of 2015 to 16 at the end of last year. A total of 16 CTAs closed down during the past six years, with the industry recording six closures in 2019 and an additional closure last year.

The Danish-dominated segment of the Nordic hedge fund industry focusing on fixed income has been in a very healthy state for several years, as reflected by performance figures, the number of new launches and the number of closures (or the lack thereof). The fraction of fixed-income hedge funds out of the

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total number of active funds increased from about 14 percent at the beginning of 2015 to 20 percent at the end of 2019 and 23 percent at the end of last year. The total number of closures in this strategy category amounted to eight in the past six years, with only three closures recorded in the past three years.

MEET THE ROOKIES OF 2020

Hedge fund closures outpaced launches in four of the past six years, but there have been new launches in the Nordics too last year. While only nine new hedge funds were launched in 2020, the year with the lowest number of launches in the past six years, a total of 99 funds kicked off operations during that timeframe.

Six of the nine funds launched last year set sail in the first quarter of last year, the busiest in terms of new launches. Relative-value fixed-income hedge fund Frost was launched under the umbrella of Brummer & Partners in January of last year. Paradigm-focused long/short equity fund Adaptive Paradigm Alpha, managed by Linköping-based fund manager Alexander Hyll, and Coeli Multi Asset, a long/short equity fund with an extra feature of global tactical allocation, were both launched during the first month of last year.

DNB's multi-asset, multi-strategy fund, DNB Fund Multi Asset, and NS Quant, a vehicle launched by Finnish asset manager Northern Star Partners to capture price trends early across several asset classes, were launched during the month of February. Oslo-based multi-strategy hedge fund Polar Multi Asset gained 20.5 percent in its first month of operations in March, and delivered a cumulative return of 6.4 percent through the end of October, when the fund's strategy was relaunched in a new fund shell with more restrictions and limitations to reduce uncertainty and volatility for investors. Polar Multi Asset's founders, Ole Christian Presterud and Kent Torbjørnsen, launched Polar Value in November of last year to keep running the same strategy that delivered a gain of almost 21 percent during the month of March.

Fund	Inception-to-date return	Period
Frost	12,45	Jan 2020 - Feb 2021
Adaptive Paradigm Alpha	12,19	Jan 2020 - Feb 2021
Polar Value	9,87	Nov 2020 - Feb 2021
Othania Bæredygtig Makro	9,75	Sep 2020 - Feb 2021
NS Quant	5,98	Feb 2020 - Feb 2021
Coeli Multi Asset	3,19	Jan 2020 - Feb 2021
Antiloop Hedge	0,70	Sep 2020 - Dec 2020
DNB Fund Multi Asset	-4,02	Feb 2020 - Feb 2021

Anna Svahn co-founded multi-strategy, multi-asset hedge fund Antiloop Hedge in September of last year alongside Martin Sandquist, one of the co-founders of Lynx Asset Management, and Karl-Mikael Syding, former partner and portfolio manager at Brummer & Partners-backed hedge fund Futuris. During the same month, Danish boutique asset manager Othania launched a fund of funds – Othania Bæredygtig Makro – that represents a "one-stop" solution providing access to a wide range of asset classes via investments in its own hedge funds, as well as other hedge funds, alternative investment funds, and exchange-traded funds (ETFs).

ORIGIN AND STRATEGY OF NEW LAUNCHES

Swedish hedge funds account for the largest portion of the Nordic Hedge Index, with more than half of existing constituents being based in Sweden or having Swedish origins. Four new Swedish hedge funds joined the Nordic hedge fund arena last year, making this the largest group among the Nordic countries. Two Norwegian, one Danish and one Finnish hedge fund picked up operations last year.

Of last year's nine new launches, three vehicles employ a multi-strategy approach to investing. Two of the new launches invest mainly in equity markets, and one new vehicle invests in fixed-income markets. One new trend-following CTA and one new fund of funds also joined the Nordic hedge fund universe.

PERFORMANCE, AND SIZE

Most of last year's rookies had a good first year of operations despite launching during a highly-unusual and volatile economic and market environment. Frost, the relative-value fixed-income hedge fund managed by Martin Larsén and Anders Augusén, had nearly €440 million under management at the end of February this year after a very successful first year. The fund gained 10.6 percent during the entire 2020 and is now up 12.5 percent since inception through the end of February.

Alexander Hyll's Adaptive Paradigm Alpha also enjoyed a strong first year of operations after gaining 10.3 percent last year and recording positive returns in 13 out of its 14 months of operations. Othania's fund of funds, Othania Bæredygtig Makro, advanced 8.4 percent in the last four months of 2020 and gained an additional 1.2 percent in the first two months of 2021. Stefan Åsbrink's Coeli Multi Asset returned 4.7 percent during 2020 after finishing the first quarter in positive territory.

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