June 2017

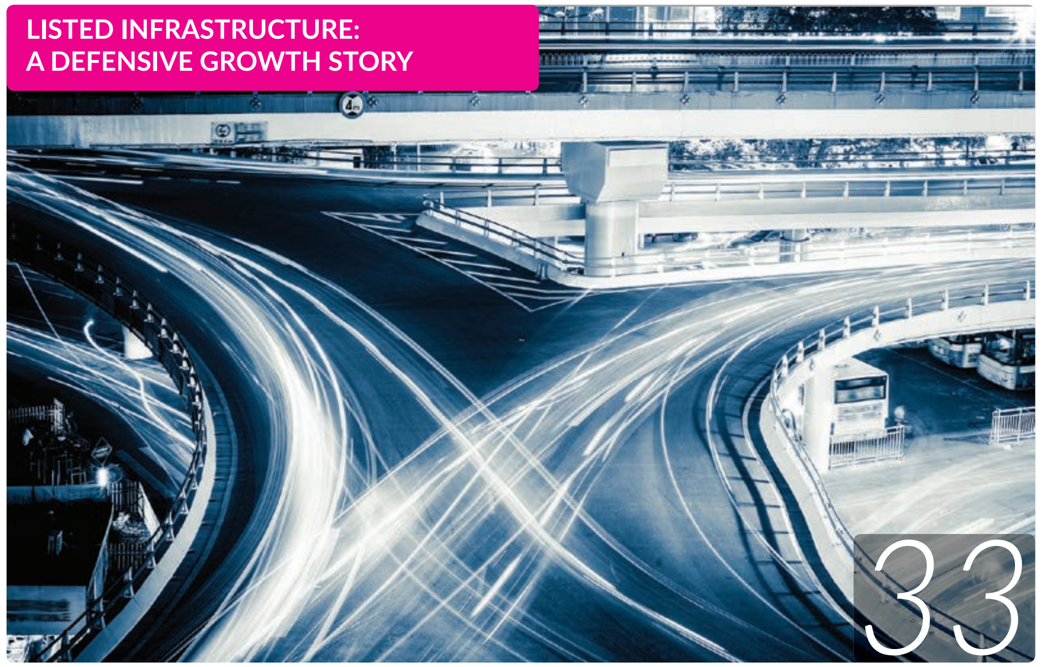
PROMOTION. FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR PUBLIC DISTRIBUTION

Nordic Hedge Fund Industry Report ´17
The Sports Edition

Contents

PROMOTION. FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR PUBLIC DISTRIBUTION

LISTED INFRASTRUCTURE:
A DEFENSIVE GROWTH STORY



BODENHOLMS KEY
LEARNINGS

HARNESSING THE VOLATILITY RISK PREMIUM
TO IMPROVE RISK-ADJUSTED INVESTMENT RETURNS

ORIGO:
WITH A CHERRY ON TOP

NEW LAUNCH:
PACIFIC PRECIOUS

ALTERNATIVE RISK PREMIA:
AN ALTERNATIVE
TO HEDGE FUNDS?

STRATEGY MATTERS -
SHORT-SELLING EXPLAINED

ASGARD CREDIT
FUND MAKES A STRONG START

ALCUR – WHERE
CONSISTENCY COUNTS

THE ART OF CURRENCY INVESTING

WHAT PROFESSIONAL POKER PLAYERS BRING TO THE HEDGE FUND INDUSTRY

HEDGENORDIC

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.

HedgeNordic Project Team: Glenn Leaper, Pirkko Juntunen, Jonathan Furelid, Tatja Karkkainen, Kamran Ghalitschi, Jonas Wäingelin

Contact:

Nordic Business Media AB
BOX 7285
SE-103 89 Stockholm, Sweden
Corporate Number: 556838-6170
VAT Number: SE-556838617001

Direct: +46 (0) 8 5333 8688
Mobile: +46 (0) 706566688
email: kamran@hedgenordic.com

www.hedgenordic.com

Picture Index: Andrey Yurlov---shutterstock.com, Ollyy---shutterstock.com, By Adam Vilimek---shutterstock.com, By Yabresse---shutterstock.com, Eugene Onischenko---shutterstock.com, Fer Gregory---shutterstock.com, Giordano Aita---shutterstock.com, Guryanov-Andrey---shutterstock.com, Inked Pixels---shutterstock.com, Jirsak---shutterstock.com, ©-flyfisher---Fotolia.com, LaMiaFotografia---shutterstock.com, Lightspring---shutterstock.com, Mikael Damkier---shutterstock.com, Olga_i---shutterstock.com, PsychoShadow---shutterstock.com, AKV---shutterstock.com, Andrey Yurlov---shutterstock.com, Krivosheev Vitaly---shutterstock.com, Michal Durinik---shutterstock.com, Tashatuvango---shutterstock.com, William Potter---shutterstock.com, zhangyang---shutterstock.com,

www.hedgenordic.com - June 2017
HEDGENORDIC

The Editor on...

The many Faces of Hedge Funds and Sports

When I talk to people unfamiliar with the financial industry about what I do for a living, the word "hedge fund" typically triggers one of two reactions. A decent proportion of them nod politely, blissfully ignorant or perhaps because they didn't really listen. A good few others give snarky looks and comments as they associate hedge funds with all evil in the world.

These people typically associate hedge funds with breaking up solid companies, firing the workforce and replacing them with robots before selling off the pieces. Hedge funds manipulate food prices and put small farmers out of business. They attack currencies and economies and send them spiraling down. I only deal with billionaires who live on yachts on The Cayman Islands or Monaco and brush their teeth with champagne. We all know hedge fund managers don't do such things. Private equity guys do.

As I meet old schoolmates at reunions or distant family at funerals, I care enough to show how socially acceptable working with hedge funds really is. I have therefore practiced and learned to use a metaphor to approach the topic that most people can relate to: **Sports.**

The first point I try to make is that hedge funds are so diverse that they have little or nothing to do with another, and are virtually impossible to compare. Saying "I manage a hedge fund" says no more than someone who says "I'm doing sports". The person in question could be racing cars around an oval, or running around it; they could be scuba diving, figure skating, or playing chess. Some would even go as far as to argue that golf is a sport! Even if you'd have more specific information of the main instrument used to perform the profession, say a ball, (read: stocks) while it may help you imagine what the game entails, you are at risk of being mislead. The sport in question could be table tennis, football, mini golf, polo, jai alai, bowling or snooker. And the list goes on. In fact, the renowned research institute, Wikipedia, lists 501 ball games that are played professionally and competitively.

Even for industry professionals, the root of the problem may lie in these many shades of grey. There seems to be no general, universally accepted definition of what a hedge fund is. Very often, the explanations that can be found on the internet are referring to US standards, less relevant for us in Europe. The academic world has made several attempts to find a generally accepted standard to disentangle hedge funds, traditional funds, private equity funds, and so on. In many definitions terms such as unregulated, borrowed money, leverage, short positions, high risk, exotic, or offshore are used to describe the phenomenon of hedge funds. In Europe of course, some regulatory authorities define hedge funds in a legal context. But again, definitions are often too vague. What further complicates the issue is the wide range of different strategies, practices and philosophies in the hedge fund world.

So what IS a hedge fund? Quite often when reading a fact sheet or talking with a manager there is something that says "ah, it's a hedge fund," while the manager may want to highlight another term or definition. Especially where the term hedge fund is unpopular.

To me, a few soft criteria typically characterize the essence of a hedge fund. The most crucial is the combination of a skill-based and absolute return focus. Hedge fund managers have the objective, even if they are not always successful, to generate positive returns with a level of risk below that of the market.

Fees are another. A hedge funds ideally cover costs and pay their bills with a management fee, but money is made on the performance-based fee.

Correlation is yet another. Hedge fund managers typically claim that their own returns are uncorrelated with everything else - especially in declining markets - even with other hedge funds.

Often part of the mix, the managers are investors in their own funds, the fund conditions allow them to be more flexible in their management, they have the ability to use derivatives and leverage, they may have concentrated holdings, take opportunistic positions and can go short.

In my book though, hedge funds in theory could have only long holdings, may work without collateral, may be domiciled "onshore", or trade with nothing but good old boring stocks or bonds. At HedgeNordic, we have taken critism for this, listing funds in the Nordic Hedge Index their peers view as being long only, for example.

Another parallel that can be drawn between the worlds of sports and hedge funds is the fire that drives its protagonist. Of course, this is not limited to those domains; the same reflexion can be made about any discipline where passion and excellence are inseparable, be it professional chefs or musicians or any other. Skills, willpower and tremendous hard work are required to reach the top in such highly competive environments.

It requires discipline to practice and improve your game, take disappointments on the chin, stay away from injury, be in the right team at the right time, have your fitness level at peak on the day of the big challenge. And of course, a little luck (or absence of misfortune) never harms.

Kamran G. Ghalitschi
CEO / Publisher
HedgeNordic

www.hedgenordic.com - June 2017
HEDGENORDIC

THE NORDIC HEDGE FUND UNIVERSE AT A GLANCE

THE NORDIC HEDGE INDEX (NHX) REVEALS OUTSIZED GAINS FOR REGIONAL MANAGERS

The Nordic Hedge Fund Index, NHX, has been calculated since 2005, tracking the Nordic hedge fund industry. From inception to date (end March 2017), the index has generated accumulated gains of approximately 83 percent to an annualized volatility of about 4 percent. The leading industry benchmark from BarclayHedge, has during the same time period generated accumulated returns of 88 percent but to a volatility that is 68 percent higher. Adjusting returns to a similar risk profile reveals that Nordic Hedge Funds have outperformed global hedge funds by over 50 percentage points over this period.

The chart on the right page shows the development of the NHX index compared to the Barclayhedge index with both indices adjusted to a 5 percent annualized volatility. The relative outperformance of Nordic hedge funds has been stable over time but has been particularly strong during the last three years, a period that has been difficult for many hedge funds.

Looking at year-on-year numbers, this relationship becomes even more obvious. 2014 and 2015 were significantly better for the Nordic hedge fund industry. 2014 was particularly good in relative terms given a flat year for the industry. In 2016, numbers were more or less in line with the benchmark.

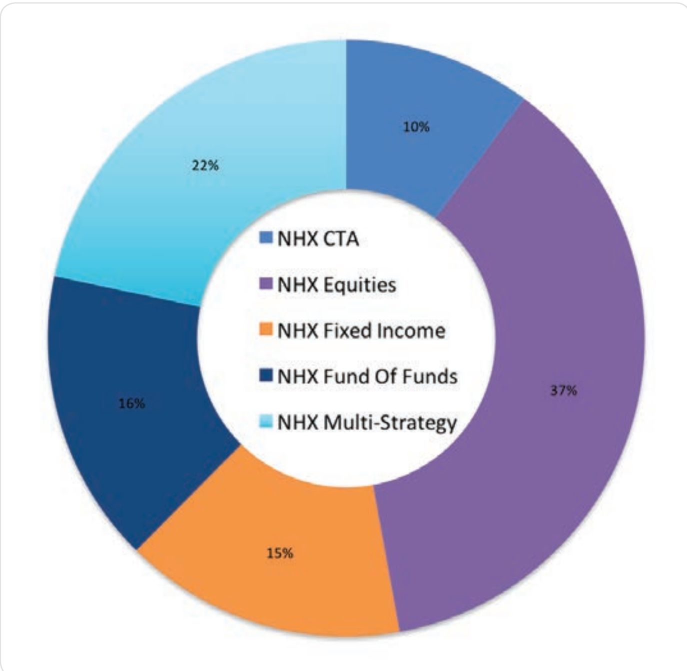
The reasons for the relatively strong performance for the Nordic hedge fund industry could be debated, but part of the explanation lies in its construction. The NHX index is heavily tilted towards equity strategies, a category that has performed well on the back of strong stock market gains in the Nordics and elsewhere in recent years. Even though most of the underlying funds in this category employ a long/short equity strategy approach, many of them have a long bias.

A look at the breakdown of strategies revels that 37 percent of the underlying funds in the NHX index are defined as the various equity hedge fund strategies,

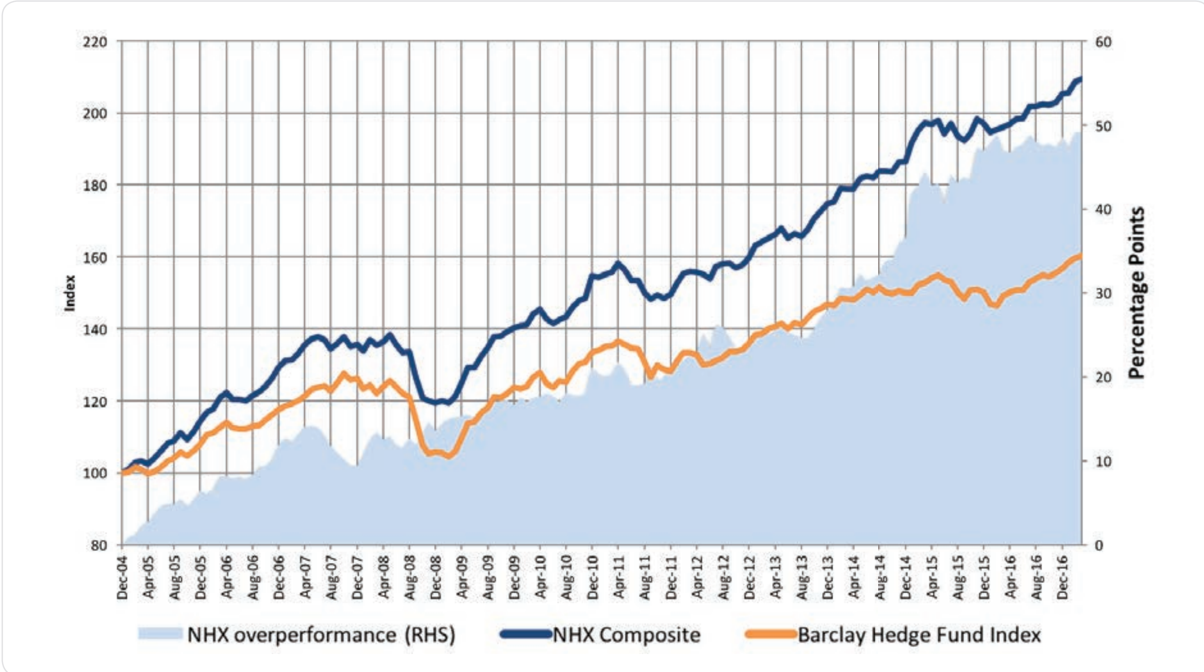
Another category that has performed well in recent years is the fixed income category, particularly considering its relatively low volatility. This category is entirely dominated by Danish funds. The category suffered a real carnage during the financial market meltdown in 2008 where the drawdown for the group was actually deeper than that for the equity hedge category. However, losses were recouped by early 2010 and since then risk/adjusted performance for the NHX fixed income index has been stellar currently trading at all time high levels.

In 2016, the fixed income category was by far the best performer outpacing the equity strategy group by a wide margin. The fixed income category is also the best performer so far in 2017, having added 4 percent by the end of April.

NHX Composition by Strategie (Dec 31 2016)



NHX Composite vs. Benchmark @ 5% volatility 2005-Q1 2017



NHX Composite vs. Benchmark YoY @ 5% volatility 2005-2016

www.hedgenordic.com - June 2017
HEDGENORDIC

ARE HEDGE FUNDS STRUGGLING TO PLEASE ASSET ALLOCATORS?

PODIUM DISCUSSION AT THE NORDIC HEDGE AWARD

Considering the muted performance of hedge funds in the past several years, the assumption was an audience largely composed of hedge fund managers would be eager to hear what capital allocators think about the current state of the hedge fund industry.

For that specific reason, the panel discussion at the Nordic Hedge Award on April 26th 2017 in Stockhom included representatives from different Nordic asset allocators: Claudia Stanghellini, Head of External Management at the Swedish state buffer-fund AP3, Helen Idenstedt, Analyst, Alternative Investments at AP1 and Christer Franzén, CIO at Ericsson Pensionstiftelsen, the Stockholm-based $2.3 billion pension fund covering Ericsson's employees. The panelists touched upon the trust between hedge fund managers and allocators and the relatively disappointing performance of the industry. They also offered insights into their allocation plans for the foreseeable future and shared thoughts on what catches their attention. The discussion was moderated by Aline Reichenberg Gustafsson, Editor-in-chief of NordSIP - a Nordic Sustainable Investment Platform – Hedge Nordic's recently launched sister site.

Gustafsson kicked off the discussion by asking the three panelists about the "secret sauce" hedge fund managers should use. More specifically, the panel participants were requested to pinpoint the most important aspect allocators care about that managers usually underestimate or overlook. A solid company and operational structure; interesting niche strategies; and strong risk control of the drawdown were the three main factors laid out by Stanghellini. Idenstedt pointed out that transparency and trust are crucial in the asset allocator-hedge fund manager relationship. Franzén highlighted that long/short equity managers, for instance, need to prove that they don't have too much Beta in their portfolios. This is not to say that the level of return he expects should be much different than that from the market over the long run but he wants managers to generate equity-like returns with less volatility than the market.

"We are still believing in hedge funds, but we have concentrated our assets in hedge funds to some high conviction names."

There was no surprise in the room when the lackluster hedge fund performance became a topic of discussion. An attendee asked the panel participants whether they saw the disappointing hedge fund performance as "just a bump in the road". Franzén indicated that it would be much easier for hedge fund managers to generate decent returns should interest rates normalize, as government bonds used to generate some income for hedge funds several years ago. Stanghellini expressed some disappointment with the "modest hedge fund performance" in recent years, but she reassured managers in the room, saying that her team continues to have faith in the hedge fund industry. "We are still believing in hedge funds, but we have concentrated our assets in hedge funds to some high conviction names," said Stanghellini, mentioning that costs also triggered an impulse in this dynamic. Idenstedt said her team at AP1 was satisfied with their hedge fund allocations, mentioning that global macro and CTA hedge funds have performed in line with their expectations.

A non-Nordic fund manager attending the event sought to find out the most efficient method to keep asset allocators updated about what hedge funds are doing without "bothering them too much". The panel participants seemed to agree that they would rather perform the search process on their own instead of being "bombed" with e-mails. Both Stanghellini and Idenstedt mentioned that they focus on a restricted number of strategies at any given time, which allows them to reduce the number of candidates to examine, and sometimes they are the ones approaching managers. Idenstedt also pointed out that in the search process for hedge fund managers AP1 sometimes also engages consultants and other partners screening the hedge fund universe. As the Ericsson pension foundation has less capital than the AP funds, Franzén's team mostly finds managers though private channels.

Although the hedge fund industry as a whole has been evolving quite rapidly in recent years, there is no clear universally-applied definition of a hedge fund. Gustafsson attempted to get the panel participants to formulate their own definition. "Hedge fund as a word is pretty confusing. It's like emerging markets, what is that? I don't know really," said Christer Franzén with a twinkle in the eye. The panel agreed that the term "hedge fund", even if boundaries are sometimes blurry, defines investments vehicles that should contribute to as asset allocation with alpha-like, absolute returns that, by definition, are uncorrelated to other asset classes.

The audience was also interested in finding out the necessary fund size a hedge fund should have in order to be able to get the attention of asset allocators. While all panel participants claimed they didn't have any hard limits on size, some of them prefer seeing some assets before subscribing to a new hedge fund. Stanghellini emphasized the idea that hedge funds need to have the appropriate structure and infrastructure to handle the minimum investment tickets offered by pension funds, typically around $50 million dollars. She also mentioned that her fund may need to invest quite early on some occasions before the capacity of hedge funds is filled up, but would prefer to see hedge funds managing between $300M and $500M prior to investing. Meanwhile, Idenstedt and her team started looking into the possibility of investing during early stages, which might prove to be a great opportunity for freshly-launched funds.

As to the question of whether the asset allocation of pension funds will look different within three years, all panel participants seemed to suggest that the allocation won't change significantly going forward. More importantly, Idenstedt revealed that her team would like to increase their capital allocation and exposure to the hedge fund arena, but the relatively hard constrains on costs has not allowed them to significantly increase this exposure so far. Franzén said that there are no plans to change anything regarding the current allocation, but he did mention that it might become a different story should hedge fund managers generate more alpha.

Gustafsson asked for the panel participants' thoughts on sustainable investments within the hedge fund industry. It is well known that the Swedish buffer funds have a mandate to invest responsibly, with both Stanghellini and Idenstedt acknowledging the importance of ESG factors and sustainable investments overall. Idenstedt mentioned that a few newly-launched hedge funds focus their strategy on extracting alpha from sustainable investments, but for some other funds, it is particularly difficult to incorporate ESG factors, due to the nature of the strategy, for example in the case of CTA funds. When asked if he cared about sustainable investments, Franzén jokingly answered that "you can't say that you don't care." While Franzén highlighted the importance of sustainability when it comes to the wider investment universe and the importance to focus on substance rather than appearance, since otherwise it will risk diluting the cause. He stated that for some hedge funds, who cannot have a direct influence on their investments, like derivatives on stock indices, ESG issues are much smaller in range, and that therefore, it is not a central issue for him when selecting this kind of managers.

Last but certainly not least, when asked to pinpoint a game-changing trend within the hedge fund industry, the panel participants seemed to jointly agree on the idea that the transition to big data will be noticeable in the near future. Idenstedt mentioned that artificial intelligence had certainly become an important trend and that she expected it to continue to grow. On this inspiring outlook, Gustafsson thanked the panel for their candid and insightful answers and tongue in cheek, invited the three allocators to find new investment targets amongst the winners of the upcoming award ceremony.

Claudia Stanghellini, AP3

Christer Franzén, Ericsson Pensionstiftelsen

Helen Idenstedt, AP1

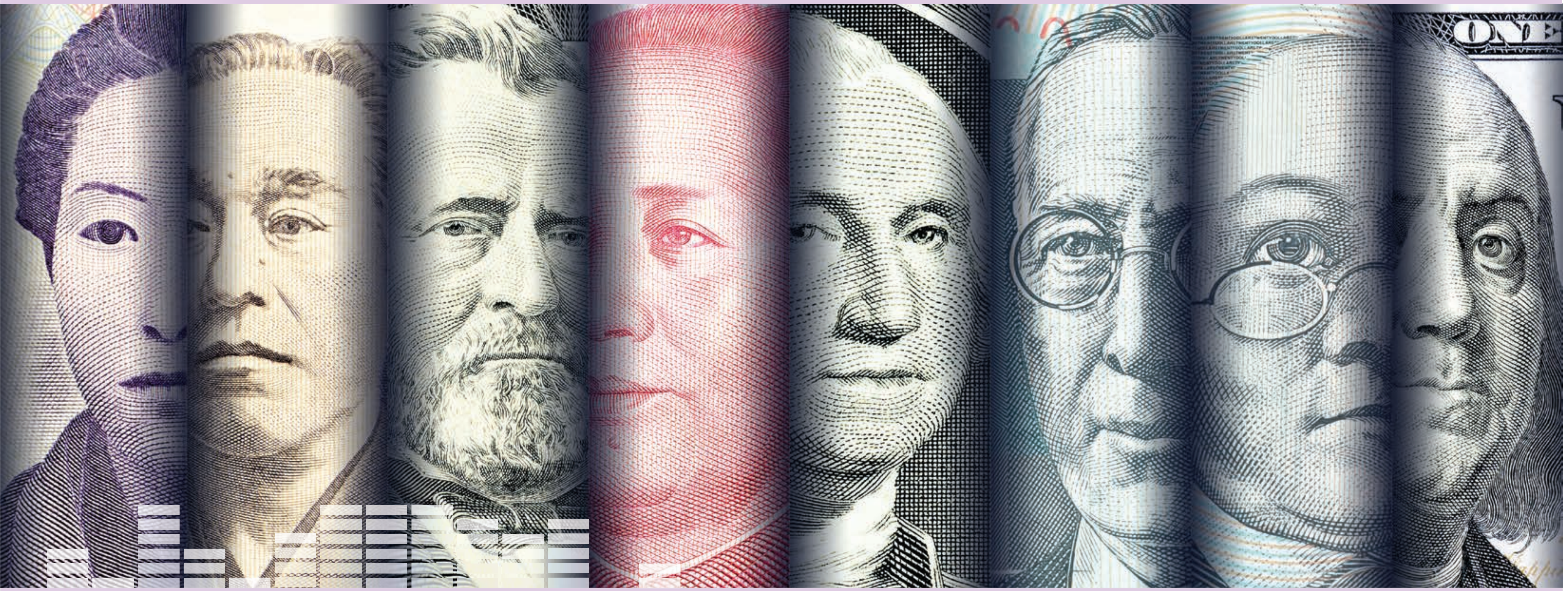
Need help to manage your assets?

Contact one of Swedens leading advisors.

info@denovolaw.se

DENOVO ADVOKATBYRÅ

denovolaw.se



The Art of Curreny Investing

by Jonathan Furelid – HedgeNordic

Swedish systematic investment manager Informed Portfolio Management (IPM) is having a good year - again. Its Systematic Macro Fund has vastly outperformed benchmarks such as the HFRX Macro Systematic Diversified CTA Index and the Nordic Hedge Fund Index (NHX) in recent months, with the mid- to long-term view constituent of IPM strategy paying off amid a rapidly deflating market, returning roughly +9% in 2017 so far. This impressive performance has come during a painful hollowing-out of investor expectations related in particular to U.S. President Trump's inability thus far to implement deregulation, infrastructure and tax reforms, and the myriad scandals confronting his administration. IPM's successful mid- to longer-term philosophy may well, under such circumstances, serve as a cautious warning to euphoric investors who gamble on momentum or trends – particularly those issuing from the promises of politicians.

A Tortoise in a Market of Hares

But IPM, which has $6.7 billion in AUM, has another jewel in its crown. Its lesser-known Systematic Currency Fund, a carve out of the broader IPM Systematic Macro program, only investing in G10 and EM Currencies. The fund which returned 4.7% in April (7.8% YTD), bills itself as 'a different approach to currency investing'.

"For us, the Currency Program holds no different philosophy than what is employed in the broader Macro Program. We are using one relative strategy for G10 currencies and one for emerging markets. These are deliberately separated so as not to engage in unconscious convergent or divergent positions between the two", says CIO and portfolio manager Björn Österberg.

IPM focuses on four broad dimensions across all its portfolios to identify investment opportunities and capture security price dynamics. First, it identifies and takes positions against discrepancies between observed prices and longer-term intrinsic value. Second, it designates "all else being equal" persistent but time-sensitive opportunities as compensation for accepting risk from investor utility functions. Third, it evaluates the macroeconomic dimension, which identifies shifts in global economic activity and takes forward-looking positions to profit from expected market adjustments. Finally, it considers market dynamics, where each market has its own set of specific characteristics.

"The models we use are traded independently and are based on the same underlying investment ideas. These ideas are divided into four different themes; a value theme, a risk premium theme, a macroeconomic theme and a market dynamics theme. With regards to the currency program, the market dynamics theme is the same as looking at investment flows."

In recent months it has been short the Swedish krona and the New Zealand and Canadian dollars in developed currencies, but positioning on emerging currencies has been of relative value. For example, it has been long on the Turkish lira, which was rocked by political uncertainties due to the recent constitutional referendum but where longer term stability is expected, but short on the Brazilian real on the basis of a deteriorating macro outlook which has worked in the fund's favour due to the bribery scandal involving President Michel Temer.

"We have been on the right side of some of the more recent currency trends, and lately the currency models have really been on the defensive. That is not by design, it is rather a function of the data we currently observe. Our models are always unbiased in the long run.", Österberg says.

"What has worked for us is for instance going against the carry trade based on macroeconomic and investment flow ideas in combination with perceived valuation discrepancies. Again, and this cannot be said enough, that is not by design, we do

www.hedgenordic.com - June 2017
HEDGENORDIC

not systematically invest in funding currencies for example", Deputy CIO and co-portfolio manager Mattias Jansson says.

The overall strong results for IPM this year so far come from a combination of the strengths of both the Systematic Macro and Systematic Currency funds, driven mostly by developed currencies and relative equities, with all of IPM's portfolios positive on the year and a strong recovery of the themes that had played against it towards the end of last year and into January 2017, Serge Houles, IPM Managing Director and Head of Investment Strategy, told HedgeNordic. The asset manager has benefited by positioning itself for gains in European equity markets relative to the U.S., Australia and Hong Kong, with big gains coming from placing itself on the right side of currency markets and betting on gains in the euro and the yen. "Unsurprisingly, the stronger U.S. dollar and the risk rally from the end of last year were both detrimental, until the Trump-trade repricing caused a reversal in recent moves back in our favour on both the long and the short sides," Mr Houles explained.

Informed Portfolio Management - IPM with two prizes in their category
From left: CEO Stefan Nydahl, Portfolio Managers Björn Österberg and Mattias Jansson

Systematic Scalpel, not Currency Cleaver

IPM's Systematic Currency strategy is based on proprietary investment models that provide unique insights into how fundamental drivers interact with the dynamics of asset price returns. These investment models, of which there are roughly 30, continuously evaluate the relative attractiveness of financial instruments, exploiting the divergence from perceived norms by taking long and short positions. Information gleaned from these models is processed systematically on a daily basis, whereas identified dislocations are typically medium to long term. Each instrument is evaluated relative to a composite of the portfolio constituents rather than in absolute terms, where the total observed opportunity is given by the sum of opportunities in each theme. Risk allocation is proportional to perceived opportunity in each case.

A historical example may best illuminate the process. The fundamental rationale for IPM's JPY position between January 2011 and June 2016 had as its starting point a modestly positive view of the JPY based on strong macroeconomic fundamentals. A short position was gradually built up during Q4 2011 due to deteriorating terms of trade and current accounts as a consequence of the Fukushima nuclear shut down that year (while valuation nevertheless remained "fair").

Having captured of a good portion of the JPY weakness as markets adjusted to expectations surrounding 'Abenomics' at that time, a dramatic fall in the JPY led to an increasing valuation opportunity. Expected inflows into the JPY turned the position positive during Q2 2013. Having captured this correction, the position was once again reversed into a short during the summer of 2013, as Japanese macroeconomics continued to deteriorate and expected momentum in capital flows faded out. The macroeconomic environment then improved to neutral from Q4 2014 onwards, as energy prices fell dramatically and the weakened JPY both improved Japanese trade dynamics, leaving IPM with a significant long exposure from 2015 onwards.

The Opportunity/ Momentum Differential

The difference, then, between IPM's currency strategy and a generic currency strategy plays out as follows: Investment banks may offer investable indices of various kinds to provide exposure to currency strategies, such as generic carry, with currencies ranked across a 3-month interest rate, where the top 3 yields are purchased and the bottom three currencies are sold. As positions tend to be equal in size, the strategy's volatility is provided by the market – and not by the opportunity itself. Direct/absolute PPP values provided by the OECD are used to rank value, with the top 3 undervalued currencies purchased and the bottom 3 sold in the quarterly rebalancing of positions. While finally momentum is then determined through the ranking of 12-month changes to spot rates, with the top 3 pairs bought and the bottom 3 pairs sold based on monthly reassessments with equal positions.

In contrast, IPM's Systematic Currency fund combines similar approaches (except for momentum) with more unique proprietary models.

IPM's approach for instance within risk premia is a function of the opportunity measured as the size of the carry (the interest rate differential), where for valuation, the approach is instead based on a "weak form of PPP" which avoids the 'starting point assumption' outlined above provided by static markers, and is instead projected in the medium- and long terms. Cross-border capital flows are forecast and positions are taken to benefit from resulting currency effects. Macroeconomic factors are then analysed to see how they affect the supply and demand of currencies, whereupon dynamic positions are taken based on opportunity (relative across currencies and over time). As opposed to the generic model, risk control is multi-layered and the program doesn't take momentum into account.

Fast-forward to April 2017, and all portfolios within the strategy finished the month positive. The risk-off environment early in the month particularly benefited the developing currency portfolio as the JPY rallied, although it gave back gains later on. A long EUR position was also profitable as political concerns abated after the first round of the French election. The GBP was also firmer after the announcement of an early general election in the UK. A short position in the NZD produced gains as the currency lost ground against the basket towards the end of the month. The emerging currency portfolio was driven higher by a strengthening Turkish lira as the market digested the result of the constitutional referendum. The Directional portfolio also delivered gains by being long emerging currencies versus developed currencies.

Meanwhile, both IPM's Systematic Currency and Systematic Macro performances have eclipsed those of most of its Nordic peers for the same time period, and indeed those of many CTAs globally. As in other areas of life, a nuanced, systematic long-term view can often turn out to be the best one.

www.hedgenordic.com - June 2017
HEDGENORDIC

By Jonathan Furelid – HedgeNordic

Alcur – where consistency counts

Although having been around since 2007 with a performance profile that leaves most competition in bleak contrast, Stockholm based long/short equity hedge fund Alcur is little known to the wider audience. There is however good reason for the low profile according to the portfolio managers Johan Klevby, Marcus Schiller and Niclas Röken. The fact that the fund's managers have been able to work quietly, consistently and with a clear focus is part of the fund's success, they argue.

"We have had the privilege to work as team during many years and with few disconnects along the way, the fact that we have a financially strong owner has allowed us to focus on the actual management of the fund which has helped us in this context", Klevby explains.

The team that he is referring to is a mix of competencies, which together forms a powerful blend according to Klevby. Niclas Röken has a background as analyst with SEB where he headed the "SEB Nordenfond", a long-only fund investing into Nordic equities. He calls himself more of a macro, top-down guy who is trying to get the big picture, Röken´s colleagues, Johan Klevby, previously with Alfred Berg and Carnegie and Marcus Shiller having a broker background from Matteus and Öhman, he sees as having different and complementary skill-sets with Klevby being the bottom-up, model-driven component whereas Shiller has a focus on execution.

"We form a uniqe blend of competencies, a dynamic that has transferred into a strong performing fund over the past years, however, we realize that current market conditions will change and that we always need to be ahead of the game to stay competitive", according to Klevby

> "While we got ahead of the market when entering a position where we had found hidden values, we typically found ourselves having sold out of the position too early once the market discovered it."

When the fund launched in January 2007, the firm was seeded by a Gothenburg-based company, the JCE Group, which used to be headed by the serial entrepreneur Christer Eriksson who sadly passed away last summer. JCE Group still holds 40 percent equity in Consafe Capital Advisors, the management company behind Alcur.

Klevby explains:" We started out more or less in the wake of the global financial crisis and have tried to create decent risk adjusted returns in an environment with extremely expansionary central banks. In late 2015 we did a review of the strategy in order to capture what we did well and what could be improved, especially considering that we could be in for changing market dynamics."

"What we found was that out of the 200 contracts we trade we had made more than 3 million SEK in accumulated profits in 58 cases. Similar losses of a corresponding dimension only occurred in 3 contracts. That shows that we are manics when it comes to cutting losses, at the same time we seemed to waive some of the potential profits by doing so."

"What we have done since this review is to rank trading ideas more clearly and to allocate a bit more aggressively given the relative ranks and thereby be able to extract more from the extensive groundwork we do when it comes to finding our best ideas."

The effect of this review has been a somewhat increased volatility in the fund, Schiller explains. Since the launch of the fund in 2007, the fund has had a realized standard deviation of 2.3 percent, but post the reassessment of the strategy he foresees the fund to double that.

"We want to go from a 2 percent standard deviation to 5 but still remain very strict in terms of our risk control."

Another thing that Röken says was an outcome of their internal review of the strategy was the they were systematically taking profits a bit too early in the cases where they were proven right in the assessment of the company.

"We found that while we got ahead of the market when entering a position where we had found hidden values, we typically found ourselves having sold out of the position too early once the market discovered it. The key here is to do a reassessment of the position along the way, you have to weigh the risk of falling in love with a position compared to looking at it with new eyes. This is where we have been a bit weak in the past., Röken explains.

One recent example that Klevby gives is their current position in Prime Living, which has gone from an entry level of 60 SEK to around 130 SEK.

"It is very easy to fall in a trap where you say that we have made so much money in this so it is time to sell. But instead what we try to do is to reassess the company from where it stands today. In the case of Prime Living they have taken a number of initiatives that we see puts the valuation on the attractive end of the valuation spectrum despite the recent rally in the stock."

Left to right: Johan Klevby, Marcus Schiller and Niclas Röken

With all the work done trying to reassess the strategy, that is by no means to say the fund Alcur has worked poorly in the past.

Since inception going, back ten years, the fund has had average returns of 5.3 percent per year translating into an accumulated return of 68 percent and a Sharpe Ratio of 1.8 as of March 2017. The fund has yet to experience a losing year.

> "We are manics when it comes to cutting losses, at the same time we seemed to waive some of the potential profits by doing so."

"The fund has been unavailable for the retail audience, with minimum investments currently standing at 500.000 SEK and with no participation on the larger fund distribution platforms, but this could potentially change", Röken sees looking forward.

"I would like to bring assets up from where they are today, ideally to see us going from a one billion SEK shop to 3 billion. Growing above that level though may put some unnecessary stress on the strategy."

According to Röken, there is great interest for a retail product, especially given the strong performance history. As Consafe are now slowly increasing the volatility level of the fund, this might make it a better fit in this context, he believes.

"We have had several discussions with retail platforms in the past and have also discussed internally whether it would make sense to offer a leveraged version of the fund for that purpose. So far we have decided not to go the retail path, but things might change. Should we offer it more broadly, we would stick to the original version of the fund, which given the incremental changes we have done in recent years would mean a 5 percent volatility product. This is more in line with industry standards and more appealing to the retail audience."

ALTERNATIVE RISK PREMIA: AN ALTERNATIVE TO HEDGE FUNDS?

By Jean-Pascal Porcherot, Laurent Joué, Marc Pellaud

Many investors express disillusionment with hedge funds, particularly those who suspect they are paying high fees for returns that could be replicated cheaply and systematically, and those who have noticed rising correlations. They have become wise to claims that "alpha" is being generated when managers are simply betting on common, systematic factors – not market beta, exactly, but alternative risk premia such as the small-cap effect, the value effect, the "quality" effect, momentum, or carry.

Can hedge fund returns be replicated cheaply and systematically? We think the answer is a resounding Yes... and No.

EFFECTIVE HEDGE FUNDS STILL EXIST

The latest annual survey of institutional investors by JPMorgan suggests that three-quarters feel hedge funds are failing to meet return expectations, even after they had reduced those expectations.[1] The survey also revealed dissatisfaction with fees and transparency. At the same time, 81% of respondents made new allocations to hedge funds during 2016 and almost nine out of 10 plan to maintain or increase allocations this year: they still need the stable returns and diversification that hedge funds traditionally promised.

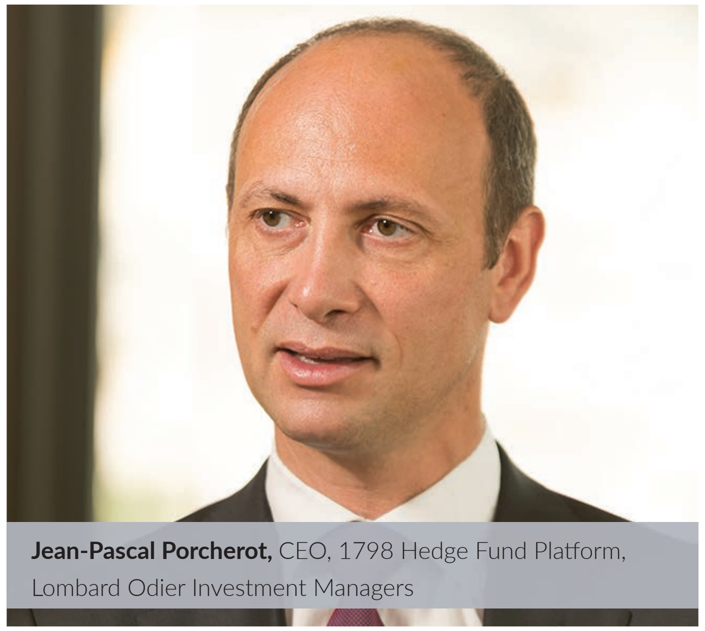
Part of the bind that larger institutional investors face, in particular, is that their need to minimize operational and business-risk, and the constraints they face to investing in cutting-edge but perhaps unproven managers or strategies, makes it more difficult for to access those traditional hedge-fund characteristics. Life is getting harder for start-ups; but the big funds get bigger, their strategies become more conservative as the management fees roll in, and their trades become increasingly crowded.

> **"Three-quarters feel their hedge funds are failing to meet return expectations, even after they had reduced those expectations."**

One solution is to try to capture as much of the traditional hedge-fund profile with replication strategies that are systematic, cost-effective and scalable. But before they turn to that, investors should be aware of other options.

Effective hedge-fund managers still exist. At Lombard Odier Investment Managers (LOIM), we look for those who have some kind of specialist market insight, a trading edge, a data or technology edge, or the ability to structure trades

[1] JPMorgan, "Institutional Investor Survey - 2017".



Jean-Pascal Porcherot, CEO, 1798 Hedge Fund Platform, Lombard Odier Investment Managers

with asymmetric pay-offs that other market participants have missed. And we believe we can make their talent available to demanding institutional investors by hiring these teams and hosting them on our own platform, to provide them with the operational, administration, legal, trading, business and marketing infrastructure they need.

One aim of platforms like this is to allow managers to devote more of their time to managing client assets than to business and marketing. This helps them retain their true "hedge-fund" characteristics for larger institutional clients – which should make the search for hedge-fund replication less urgent.

A BOTTOM-UP APPROACH TO REPLICATION

Having said that, we not only recognise why investors are interested in hedge-fund replication – we even host alternative risk premia strategies right alongside the traditional hedge funds on our platform.

We should be clear about what we think works, as a lot of products have launched since replication industry kicked-off with the seminal papers from William Fung and David Hsieh ("Hedge Fund Benchmarks: A Risk-Based Approach", 2004) and Jasmina Hasanhodzic and Andrew Lo ("Can Hedge Fund Returns Be Replicated? The Linear Case", 2006).

The first generation took a top-down approach, using principle-component analyses of hedge fund indices to build baskets of systematic trading strategies that would have delivered similar historical returns. They gained some momentum, but in the end investors questioned whether the profile of the average hedge fund, which correlated quite closely with a traditional balanced portfolio, was really what they wanted as the output from these systematic trading techniques.

The "smart-beta" revolution, building on the classic "quant" techniques of the early 2000s and the mid-1990s work on investment factors Eugene Fama, Kenneth French and Mark Carhart, breathed new life into the idea. This revolution is based on the idea that factors such as value (buying stocks with lower multiples), size (buying stocks with smaller market capitalisation), momentum (buying stocks that had recently outperformed), low-risk (buying stocks with lower volatility or market beta) and quality (buying stocks with metrics such as high free cash flow or low debt) systematically outperform the market on a volatility-adjusted basis.

While smart-beta products tend to invest long-only in these factors, the academic papers described them as long/short strategies – so they already looked like hedge-fund strategies. Practitioners soon recognised that adding a few extra factors, such as carry (higher-yielding versus lower-yielding securities) and volatility (implied versus realised), and applying them across asset classes, results in a collection of systematic strategies that replicate a large part of what hedge funds do.

This is a bottom-up approach: the idea is not to replicate an index but to carry-out simplified, typical hedge-fund trades cost-effectively, and accept that as a worthwhile investment on its own merits. This approach has enjoyed much stronger momentum – the Danish pension fund PKA has refashioned a big part of its portfolio along these lines, for example. It is the approach we at LOIM have adopted for our Alternative Risk Premia funds.

Marc Pellaud, Senior Portfolio Manager, Systematic Alternatives, Lombard Odier Investment Managers

www.hedgenordic.com - June 2017 HEDGENORDIC

A VERY EFFECTIVE COMPLEMENT

We find that Alternative Risk Premia funds perform two useful functions. They provide cost-effective, transparent, liquid and un-correlated long-short solutions for investors who are sceptical about hedge funds, for sure. But they also package up systematic sources of return for those who want to avoid paying hedge-fund fees for them, but who accept the costs and constraints associated with alpha-generating hedge funds; and they can be used by those same investors to test the "purity" of hedge-fund alpha and identify concentrations of systematic risk.

"While smart-beta products tend to invest long-only in these factors, the academic papers described them as long/short strategies – so they already looked like hedge-fund strategies."

Indeed, these are the synergies that we achieve by including alternative risk premia alongside the traditional hedge funds on our platform. They can help our hedge-fund managers better understand market dynamics: they can improve our sense of when factors are becoming under- or over-valued, and can help us avoid the sort of violent factor rotations that hurt hedge-fund positioning during 2014 and 2016.

In our manager selection and due diligence processes, they can help us identify and reject strategies that rely too heavily on systematic sources of return rather than

Laurent Joué, Senior Portfolio Manager, Systematic Alternatives, Lombard Odier Investment Managers

generating genuine alpha. The table shows the correlations between our Alternative Risk Premia strategy, and also all of its component alternative risk premia, with our flagship US long/short equity strategyand our more specialised UK small-cap long/short equity strategy. There are none higher than 0.30 and many that are negative.

The fact that we host both types of strategy on our platform says two things very clearly. First, we believe that alternative risk premia have a role to play in portfolios. And second, we are very confident that there are hedge-fund managers who can differentiate themselves from these alternative risk premia.

To return to our initial question: Can hedge fund returns be replicated cheaply and systematically? Yes – a large proportion can. But can good hedge-fund managers give you something different, something extra? For sure. Alternative risk premia can be an alternative to hedge funds for investors who cannot buy the real thing. And even for those who can, alternative risk premia can be a very effective complement. The most important thing to remember – and it is embodied on our own platform – is that the two are anything but mutually exclusive.

Correlation From Jan 1, 2008 to Feb 28, 2017	**ARP Strategy**	Carry FX	Carry Bonds	Carry Credit	Equity Vol Arb	L/S Equity Factors	Commodity Backwardation	Trend	S&P500TR Index
FEF Strategy	**0.18**	0.09	0.06	0.15	-0.13	0.18	0.14	-0.12	0.51
Volantis Strategy	**0.08**	0.15	-0.05	0.30	0.07	-0.10	0.06	-0.04	0.42
S&P500TR Index	**0.22**	0.32	-0.13	0.04	0.01	0.18	0.13	-0.09	1.00

Source: LOIM. For illustrative purposes only.

Harnessing the Volatility Risk Premium to improve risk-adjusted investment returns

By Sebastian Vargas, CFA, Business Development Director, Eaton Vance

After successive years of stock market gains and the rising duration risk across fixed income assets, many institutional investors have tempered their forward-looking return expectations and have become more focused on managing the downside risk of their return-seeking assets. Specifically, greater attention has been given to ways to achieve equity-like – or even excess-equity – returns with less risk. Envisaged potential benefits here include lower solvency capital requirements for insurers and less portfolio volatility for pension plans.

To this end, investors have looked at various approaches. These include greater allocations to hedge funds, the introduction of tail-risk hedging strategies and investments in factor-based low volatility equity strategies. However, these approaches can bring with them their own set of investment obstacles, including cost, liquidity concerns, complexity and potential tax consequences.

One less well-travelled path – and one which we believe holds a lot of promise for investors – entails the harnessing of a diversified risk premium commonly referred to in academic literature as the volatility risk premium (VRP). The VRP refers to the observation that the implied volatility embedded in derivatives, such as equity options or variance swaps, is usually higher over time than subsequent realised volatility.

The VRP as a distinct, alternative return source

The VRP is an attractive and untapped source of returns with low correlations with traditional risk premiums that can provide return enhancement without materially altering a portfolio's risk profile. Historically, the VRP has been a very persistent and meaningful risk premium that exhibits a low correlation to most major asset classes.

Parametric Portfolio Associates LLC (Parametric - an Eaton Vance affiliate) did an analysis of the 30 day implied volatility for S&P 500 Index options versus subsequent realised volatility for the period 1 January 1990 to 31 December 2016 (measured by taking daily observations of implied volatility

Sebastian Vargas, CFA, Business Development Director, Eaton Vance

– as measured by the VIX Index – and subtracting the subsequent realised volatility of the S&P 500 over the following 30 days). The analysis showed that, historically, the VRP has been positive over 85% of the time. Analysis by Parametric of other broad-based equity indices such as the MSCI ACWI, shows a similarly persistent pattern.

The fairly high persistence of the VRP makes it an attractive and suitable candidate for long-term investment. Investors in the VRP position themselves on the opposite side of the trade to investors seeking access to protection from "tail risk events".

Harvesting the volatility premium in equity markets

VRP-harnessing strategies typically take the form of either a dedicated capital allocation or overlay product. Both are underpinned by derivative-based methods aimed at monetising the VRP; the most common being option strategies (selling calls, selling puts, selling straddles or strangles), swap strategies (selling volatility or variance swaps) or futures strategies (trading VIX futures).

A detailed discussion of their respective strengths and weaknesses lies outside the scope of this article. However, research by Wei Ge, Ph.D., a senior researcher at Parametric, found that all three approaches, when examined in an overlay content, had the potential to deliver Sharpe ratios higher than one and with significantly smaller maximum drawdowns than the S&P 500 Index.[1]

For most investors, the option-based VRP harvesting strategy was recommended as a default as options have a long trading history, are exchange traded and highly liquid, and can easily be customised for different purposes. VIX futures are highly liquid, efficient to implement and have modest trading costs, but have high short-term volatility and provide returns more correlated with the equity markets.

Incorporating the VRP into a broader portfolio

There are a number of potential ways in which investors can incorporate the VRP into their broader portfolio. When structured properly, a VRP strategy has the potential to deliver attractive returns with low correlations to traditional assets, such as equities and fixed income. One approach, for example, offered by engineered portfolio solutions specialist Parametric is a dedicated VRP construct that seeks to deliver equity-like returns over the long term with less risk.

This dedicated "defensive equity" portfolio is constructed by replacing 50% of the equity exposure in the base portfolio with a cash equivalent, and then replacing the return potential of the "missing" equity element by systematically selling out-of-the-money index options - puts and calls - against the assets of the de-risked portfolio (to capture the VRP). All short index option positions are fully collateralised by the base portfolio and no leverage is employed.

> "There are several potential ways for investors to incorporate the Volatility Risk Premium into a broader portfolio."

Exhibit A illustrates the exchange of risk premia in a dedicated VRP construct where the underlying equity element comprises sampled exposure to the MSCI ACWI. It shows that harvesting the VRP through the systematic

Exhibit A: Exchanging risk premia

Source: Parametric as of 4 January 2017. Simulated presentations are for illustrative purposes only, do not represent actual returns of any investor, and may not be considered for investing purposes. It is not possible to invest directly in an index. Investments are subject to loss. Past performance is not indicative of future results.

2) Parametric's Global Defensive Equity construct (GDE), by allocating 50% of the base equity portfolio to US Treasury Bills, sacrifices 50% of the positive, but highly volatile Global Equity Risk Premium ..... in exchange for a positive and much more stable "Volatility Risk Premium" on the entire portfolio. The GDE construct is expected to deliver outperformance in negative, flat, and modestly higher equity markets, and lagging (albeit positive) returns in strong equity markets. Illustration based on Global Defensive Equity model simulation of the premium received from Global Defensive Equity option sales minus liabilities incurred to cash settle options that expired in-the-money.

sale of options can produce consistent and material excess returns, particularly when compared to the historically more volatile equity risk premium.

Pension plans could use this non-traditional, "defensive" approach to reduce portfolio volatility without sacrificing expected return. Parametric claims that this dedicated construct has the potential to outperform the MSCI ACWI over a full market cycle while exhibiting 40% less volatility, or risk. An alternative for investors is to use the VRP as a form of liquid alternative investment that could replace more traditional, less transparent and higher cost alternative investments.

Benefits of a systematic VRP-capture strategy

The benefits of a systematic VRP-capture strategy can include simplicity, transparency, liquidity, lower average costs and increased exposure management flexibility. The persistence of the VRP means strategies do not have to rely on market timing or active market bets in order to deliver predictable results. Investors who take on this unique risk premium can reasonably expect to benefit from it in good times and bad.

---

1) A Survey of Three Derivative-Based Methods to Harvest the Volatility Risk Premium, The Journal of Investing, Fall 2016, Volume 25, Number 3.

Source of data: Parametric, Bloomberg as of 3 January 2017 unless otherwise stated.

This material is issued by Eaton Vance (International) Management Ltd (EVMI), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority and located at 125 Old Broad Street, London, EC2N 1AR, UK. This material is for professional clients only.

Past performance is no guarantee of future results. The value of investments and the income from them may go down as well as up and investors may not get back the amount invested. The views expressed in this material are those of the authors and are current only through the date stated and are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice.

www.hedgenordic.com - June 2017 HEDGENORDIC

	Portfolio	S&P 500	Discount
P/Earnings	11.11	21.96	50.6%
P/Cash Flow	4.6	13.15	35.0%
P/Book Value	1.71	3.12	54.8%
P/Sales	0.58	2.1	27.6%
EV/EBITDA	5.28	13.09	40.3%
			Premium
ROE	17.28%	13.12%	31.7%

Different Approaches to Value Investing

by Hamlin Lovell – HedgeNordic

The father of value investing was perhaps Benjamin Graham in the 1950s, who in turn inspired Warren Buffett. The Efficient Markets Hypothesis has helped to discourage many investors from attempting security selection, but the EMH is arguably being superseded by the new paradigm of Behavioural Finance, which acknowledges that psychological biases observed in humans (and monkeys!) can be the source of multiple market inefficiencies, including value investing anomalies.

Value investors come in many flavours. They can be discretionary and fundamental or they may be more systematic and quantitative. They might seek out neglected microcaps with little or no sell side analyst coverage - or they may invest in the world's largest companies that are pored over by dozens of analysts.

Quantitative analysis

"Smart beta" and "factor investing" approaches will generally use value for at least one factor, but are often based on rather generic metrics, such as price to book value ratios. Helsinki Capital Partners' PM Pasi Havia uses a multi-factor valuation model that includes well known measures such

> **"Some mean reversion is long overdue and an extreme event like a crisis could bring sanity to valuations, which are no longer fundamentally driven due to indexation"**

as return on assets, operating cash flow, accruals, leverage, current ratios, and gross margins. The model also includes a number of more sophisticated metrics grounded in academic research: the Piotroski F score and the Beneish M score. The Beneish measure has been an extraordinarily useful safeguard against fraud: 82.5% of companies with a score below -2.22 used fraudulent accounting techniques over one observation period.

The model scours the globe in search of value, screening over 10,000 stocks in developed and emerging markets (utilities and financials are excluded as their balance sheets complicate analysis). Havia can invest in firms as small as EUR 100 million market cap, so long as positions can be bought in 5 days (assuming trading 30% of average daily volumes). Only the highest ranked 25 or 30 stocks make it into the portfolio, but they do not always stay there for long. Average holding periods are six months, and the fund has received takeover bids every year. There were three offers in 2016, including China High Speed Transmission.

> **"In a winner takes all economy, shareholder value is concentrated into a handful of superstar firms and the rest are left behind."**

The best approach to quantitative value investing may change over time. If hunger for yield has inflated the valuations of "bond proxies" and led to "expensive defensives", the best value companies do not necessarily pay out cash-flows as dividends. They may instead carry out share buybacks or retain the earnings and reinvest. Havia's current portfolio has a dividend yield of 1.46%, somewhat below the S&P 500 average of 1.96%. But on other key metrics, his portfolio stands at a deep discount (as shown on the top of this page).

Over multi-decade periods, value is one of the most powerful market anomalies. It beat growth by 12% annually between 1985 and 2007. Value investing has been out of fashion for the past decade however. Havia argues "some mean reversion is long overdue and an extreme event like a crisis could bring sanity to valuations, which are no longer fundamentally driven due to indexation". His April 2017 newsletter states that value investing beat the S&P 500 over about 75% of ten year periods.

HCP PM Ernst Grönblom agrees, and argues that the craze for passive investing could become self-equilibrating. "The Grossman-Stiglitz paradox suggests that more passive investing could make markets less efficient and then the pendulum will swing back in the other direction". Grönblom envisages "closet trackers" will continue to lose market share as the industry continues to bifurcate between cheap beta strategies and genuinely active managers.

Winner takes all economy

Grönblom pays no heed to benchmarks and runs a high conviction, concentrated strategy, typically holding eight to 15 positions. The mainly mid and large cap companies might not look "cheap" in absolute terms relative to current earnings, but are judged to be at a discount to their "intrinsic value", which must include their growth prospects. "In a winner takes all economy, shareholder value is concentrated into a handful of superstar firms and the rest are left behind. The gap between winners and losers is widening and we try to be early in identifying winners in both established and emerging industries" explains Grönblom. This megatrend is manifested in the FANG phenomenon: four mega-cap tech stocks (Facebook, Amazon, Netflix and Google, which is now called Alphabet) account for a huge proportion of the US equity bull market.

Grönblom has held Amazon since he launched the strategy in 2007, profiting from its omnipresence first in online retailing and then in cloud computing. He has also held Facebook for two years. Ebay was a core holding for many years but Grönblom thinks it has become a victim of its own success and taken so much market share that sustaining growth will be hard.

Ernst Grönblom, Portfolio Manager

Pasi Havia, Portfolio Manager

Tommi Kemppainen

The advantage of an unconstrained, global, mandate is that Grönblom can redeploy capital into other firms that follow Ebay's brokerage business model: Alibaba in China, and Argentina's Mercado Libre, which trades on the Nasdaq and reports using IAS. The brokerage business model is compelling because demand-side economies of scale (a.k.a. network externalities) create what Buffett terms a competitive "moat" deterring new entrants. "Other sources of moats include economies of scale, strong brands, and cost efficiencies and many investors underestimate the real power of these forces, especially when it comes to network externalities" opines Grönblom. High fixed costs and low variable costs result in huge operational leverage and mean that most incremental revenue flows to the bottom line. Grönblom also likes platform companies, disruptive innovations, and de facto monopolies, as discussed in his 31 page December 2009 paper "My Investment Strategy", available on the HCP website.

Though Swedish-speaking Finn, Grönblom, is a proud Finnish patriot, he has never found any Finnish companies that meet his criteria. In fact, the portfolio has only ever contained two firms from anywhere in Europe. One of them is a recent buy: UK soft drinks maker Fevertree, which has capitalised on the demand for premium mixers. Its market cap of GBP 2 billion is at the lower end of Grönblom's typical range. Grönblom's strategy has considerably outperformed its benchmark of the MSCI ACWI IMI -index.

Combining strategies

Helsinki Capital Partners also manages a multi-strategy vehicle, run by Tommi Kemppainen, which currently allocates the majority of its capital to strategies, such as insurance linked securities and trend-following CTAs, which are likely to provide diversification versus equities. The strategy does have an equity allocation and invests in both of the above equity strategies for diversification within the equity bucket. "It is probable that they will not have relative underperformance at the

"If hunger for yield has inflated the valuations of "bond proxies" and led to "expensive defensives", the best value companies do not necessarily pay out cash-flows as dividends"

same time, so owning both of them decreases the risk in our long equity allocation". Also the two are likely to perform well at different points of the cycle. "Focus has stocks that will probably come out of recession stronger than their competitors, whereas Quant is based on a deep value theme, so should be better positioned for balance sheet recession periods where typically stocks perform poorly" Kemppainen expects.

ESG and transparency

Helsinki Capital Partners was founded in 2007 and just marked its 10th anniversary. The firm recently became a certified B Corporation, underlining its commitment to transparency and ESG (environmental, social and governance) considerations. A detailed Impact report is produced with five sections: Environment, Workers, Customers, Community and Governance.

sector
asset management

DIRECTOR INVESTOR RELATIONS

THE POSITION/RESPONSIBILITIES:

Reporting to the CEO of Sector Capital the Director Investor Relations is responsible to further build Sector Asset Management's book of business with institutional and third party clients in the Nordic countries (ex Norway) and Europe. The candidate will also work closely together with our colleague based in London. You will cover all clients outside Norway, and be a "back up" for each other.

- In close co-operation with CEO, André Vatsgar, develop and implement a sales strategy for the Nordic countries (ex Norway).
- Grow the business with existing- and new institutional clients in target markets by marketing/selling Sector´s range of products and services.
- Build strong internal networks with key stakeholders such as senior managers, product specialists, Investment managers and sales support.
- Overall strengthen the Sector brand in the Nordic countries.

QUALIFICATIONS/SKILLS:

- Graduate caliber with a minimum of 5 years relevant experience and proven successful sales track record
- Strong network among potential clients in Sweden is a requirement, and relevant contacts in other markets is meriting.
- Creativity to identify business opportunities, initiate contact and close new business
- Thorough understanding of investment markets and associated products across the broad spectrum of investment strategies available to institutional and third party clients within the Nordic Region
- Excellent communication and interpersonal skills with proven success in delivering high quality presentations to senior and demanding clients
- Entrepreneurial, reliable, disciplined; ideally proven success in a remote management set-up
- Languages: Swedish (mother tongue) and English. Additional language skills are meriting.
- Team oriented with focus on collaboration
- Service minded/client oriented - "can do" attitude
- Integrity and strong work ethics

ABOUT THE COMPANY

Sector Asset Management is an independent asset management firm, founded in 1999 and based in Oslo, Norway. Sector Asset Management launched the first hedge fund managed out of Norway in January 2000. Sector Capital provides investor relations services to the investment management companies on the Sector platform. It is a regulated investment firm, authorized by the Financial Supervisory Authority of Norway.

FURTHER INQUIRIES

For this search we are working together with Lager & Partners. Please contact Niclas Näslund, +46 8 407 64 60, with any questions related to this position.

www.hedgenordic.com - June 2017 HEDGENORDIC

ASGARD CREDIT FUND MAKES A STRONG START

by Hamlin Lovell – HedgeNordic

After much planning, Moma Advisors launched the Asgard Credit Fund in October 2016. The fund stands on two pillars: the infrastructure and know how that Moma Advisors has built up advising leveraged funds since 2003, and the credit expertise that the CIO Daniel Vesterbæk Pedersen has obtained managing large credit portfolios since 2007.

Moma CIO, Morten Mathiesen, says Pedersen is "one of the best credit managers in Scandinavia" and the pair sat on the same desk at one former firm. Pedersen has a track record from PFA pension, the largest privately owned life insurance company in Denmark, where he ran a long/short credit fund, showing consistent alpha generation over many years since 2008. So, Moma Advisors is now applying its tried and tested proprietary analytical and risk management techniques to a new investment universe of liquid credit – and taking a more directional approach in order to pick up some credit risk premiums, as well as adding alpha through country, sector and security selection.

The Asgard Credit Fund has had a good start over its first seven months. As of end of May 2017 the return since inception is 6.4% and YTD the return is 4.5%. "You can only prepare a new strategy up to a certain point, but the ultimate test is always, when the fund goes live, and has to operate in an actual environment with real positions on etc." says Birger Durhuus, CEO at Moma Advisors. "But we are happy that the fund, so far, has behaved exactly as we had anticipated given the back-tests, risk scenarios etc. that were prepared prior to launch."

CREDIT RISK PREMIUMS AND CROSSOVER

The overall strategy of the fund is to exploit mis-pricings of credit risk premia in global liquid credit markets. The fund will typically be long credit risk, i.e. long risk premia and have a broad exposure taking advantage of several risk premiums: for default, liquidity and systemic risk. The primary focus is North America and Europe, and Pedersen says "risk premia in the crossover segment at the lower end of investment grade and the higher end of high yield are key". He views this sleeve as being subject to structural anomalies, whereby forced selling and market segmentation preferences mean that the lowest rated investment grade credits and the highest rated high yield bonds has a higher systemic risk premium relative to the total credit spread. Pedersen elaborates "names rated BBB- or BBB can be shunned by ratings-driven managers while those rated BB+ or BB often trade too wide due to yield hunting among high yield managers focusing too much on the lower end of the high yield market". As such, there is enough value to justify the new fund's minimum 50% weighting in investment grade. There is also plenty of dispersion between names, allowing for issuer selection.

"Risk premia in the crossover segment at the lower end of investment grade and the higher end of high yield are key."

Default risk premia are one of several that Pedersen seeks to harvest, along with liquidity and systemic premia. The balance amongst these varies for different parts of the credit markets. Pedersen reckons "on average for investment grade markets only one quarter of the credit spread is default risk and the rest is liquidity or systemic risk, whereas for high yield the default component typically accounts for 50-70% of the total spread". Asgard Credit can also buy cash bonds to earn a liquidity premium in the corporate bond market. Asgard Credit targets returns of plus 8% per year through a full cycle. This is comparable to equity returns, but the manager aims for much lower downside risk over multi year periods. Asgard Credit will use notional leverage, obtained through Credit Default Swaps (CDS), to multiply credit spreads up to the target return (and aims to add alpha on top of this). Net credit leverage is capped at six times, and will typically be four times, but can be lower when the manager believes equity markets are expensive and therefore pose contagion risk for credit markets.

Moma Advisors has stress-tested the impact of margin and 'haircut' increases seen in 2008, and thinks that a typical Asgard Credit portfolio would have avoided forced liquidation under that scenario. Still, Pedersen thinks the return target "is not very aggressive". His base case expectation is that default losses should be roughly balanced out by the benefits of 'roll down' – the capital appreciation arising from credit spreads shrinking as assets approach maturity. This occurs because the term structure of credit spreads is nearly always upward sloping (except for some distressed credits, which are not expected to be part of the strategy). Though the credit strategy will lever up credit spreads, it should have limited interest rate duration as the main instrument used - CDS - pay a credit spread over interest rates. Though Asgard Credit can sometimes buy longer dated bonds, the general preference is for shorter duration assets. Hence Pedersen is confident about keeping the DV01 sensitivity metric (measuring sensitivity to a one basis point move in interest rates) well below its ceiling of 10.

left to right: Morten Mathiesen, Daniel Pedersen and Birger Durhuus

CURRENT EXPOSURES

The portfolio is positioned mostly in less systemically sensitive sectors, in the shorter end of the curve and mostly active outside the Eurozone. The goal is to have a good carry and roll down on the curve but to minimize spread risk due to systemic events.

The new credit strategy may have little or no exposure to local Nordic markets. Pedersen expects its Scandinavian exposure to range between zero and 5%, and views local markets as sometimes boasting safe haven qualities. He explains that "the Scandinavian countries each make up less than 2% of global credit markets but the US and Europe are the largest markets for corporate credits and ABS". Pedersen is finding much better value in US markets, which will normally account for 50% of more of the fund's exposure. "European investment grade is too expensive and too dangerous" he opines. "Pedersen is finding that the lowest rated investment grade names in the US can pay spreads of 200 basis points while comparable issues in Europe trades tighter". Nonetheless, a typical weighting will be 80% for the US and Europe combined. Pedersen can allocate to emerging markets– and would have done so in early 2016. Indices are the first building blocks of Pedersen's portfolio construction because it is much quicker to execute trades via index exposure. In contrast it may take some weeks to locate single names and execute trades in the more fragmented CDS markets. Additionally, the fund can use CDS options, interest rate swaps, futures, repos and FX forwards. Leveraged loans are outside the scope of the fund and structured credit such as CLOs is also not part of the strategy.

"With a little bit of luck we could see the fund double in size this year."

SECTOR ROTATION

Currently, Pedersen anticipates being entirely invested in corporate credit risk, but over other periods he has found compelling value in asset backed securities (ABS). In 2011 Pedersen had 15% allocated to covered bonds or other secured bonds. "Back in 2011-2012 Spanish covered bonds were trading so low – in the 60s - that you could cope with 100% defaults on developers, 50% on commercial mortgages and 25% on residential mortgages and you would still profit from that investment he recalls. Unfortunately, today the European peripheral markets are much more expensive and not very attractive anymore. Why were these bonds so oversold? "They behave systemically as do aircraft leasing EETCs" Pedersen observes. Neither asset class now appeals to him as they have all been lifted by the search for yield.

Though the strategy is long biased, Pedersen has high conviction in expressing short ideas and some relative value trades. The 2011-2012 'covered bonds' trade should be seen in the portfolio context of some hedges against European risk. At the same time Pedersen bought protection on subordinated financial debt issued by Italian, Spanish and French banks. Pedersen is generally not keen on COCOs (contingent convertibles) at current valuations, but has identified value in some issued by Danish mortgage lender Nykredit. Nor does he find convertibles from non-financial issuers attractive at present. Pedersen is concerned that some convertibles are being valued on the assumption that they will be called at the next call date, and could be vulnerable to spread widening if they are not called – since their maturities can sometimes extend for decades beyond the next call date!

OPERATIONAL STRUCTURE

Just as important as seeing the investment strategy performing on the platform is acknowledging that all systems supporting and controlling the manager and the fund work to perfection. Moma Advisors is solely focused on Portfolio Management and has outsourced much of operational functions to a third party provider. Thus the fund administrator SS&C GlobeOp is pivotal part of Asgard's structure and operation providing fund administration and numerous middle- and back-office and OTC services. SS&C GlobeOp is considered one of the top three administrators globally and has a solid client base, strong infrastructure, formal and well proven procedures and has extensive disaster recovery and business continuity facilities. Many hard risk parameters are independently monitored by administrator SS&C GlobeOp, which has worked with the Asgard team since the funds inception in 2003. SS&C oversees compliance with risk constraints on a daily basis for both Asgard funds. "The decision to use the range of services from SS&C GlobeOp is allowing me as the investment manager to focus on my core competences: investment research, risk analysis and trading. Just as important, use of SS&C GlobeOp serves to minimize operational risks and ensure standards and transparency for investors, counterparties and other interested parties", says Pedersen.

CAPACITY

Having run as much as 4 billion USD in his former fund, Pedersen is confident about the scalability of the strategy. "With a little bit of luck we could see the fund double in size this year" Durhuus says. The AUM stands at EUR 95m and the long term goal is to reach EUR 750m. Since inception of the fund last year little effort has been on marketing the fund to new investors, but this have been stepped up in recent weeks, and a number of institutional investors are performing due diligence on the fund and Moma Advisors with the view to invest later this year. A monthly dealing, Irish ICAV fund structure allows for marketing throughout Europe based on the AIFMD passport. Moma Advisors became an AIFM, authorised by the Danish FSA in 2016.

Neither of Asgard's strategies are marketed to retail investors. Moma also manages a classic fixed income arbitrage strategy fund, the Asgard Fixed Income fund, advised by Morten Mathiesen, Jesper Obeling Kring, and Jorgen Jorgensen. The strategy, running half a billion Euro, has delivered [14.2%] annualized performance since inception in 2003 at a [6.7%] volatility - resulting in an impressive Sharpe ratio of two. Next to winning the Nordic Hedge Award in the fixed income category in 2015, it picked up the trophy as "Best Nordic Hedge Fund (overall)", amongst many other international awards earned. In 2016 The Asgard Fixed Income Fund picked up the the Nordic Hedge Award in the fixed income category for the third consecutive year.

www.hedgenordic.com - June 2017 HEDGENORDIC

Listed Infrastructure: A Defensive Growth Story

Infrastructure has been one of the best performing global equity sectors over the past 15 years, annualising at total returns of c. 11% on average.

by Hamlin Lovell – HedgeNordic

Many infrastructure stocks offering high dividends can be labelled as 'bond proxies'. Peter Meany, who co-founded the First State Global Listed Infrastructure Fund (GLIS) alongside Andrew Greenup in 2007, said "We estimate that 2% of historical returns can be ascribed to lower bond yields and the re-rating tailwind. Going forward, our return expectation for the sector is slightly lower at 8-10%." However, Infrastructure equities have also outperformed other high income sectors such as utilities and real estate, as shown in Figure 1. This is down to both negatives associated with other sectors as well as the positives that are a consequence of infrastructure. Utilities are part of the Fund's investment universe. Recently, larger utilities have had challenges in terms of politics or commodity prices, whilst real estate firms had leverage issues.

> **"Engagement and sometimes agitating for change is a very important part of our role as stewards of client capital."**

There is a wide range of leverage in the infrastructure sector. "More economically sensitive stocks, such as ports and railroads, might have debt of 1x EBITDA whilst more contracted areas such as regulated utilities or pipelines can be 4x leveraged. Overall we think leverage is appropriate. Buybacks and capital spending are signs that some firms may be under-levered" says Meany.

Structural growth

What sets infrastructure apart is a secular growth story with little or no linkage to the economic cycle. The steady and predictable path of infrastructure earnings makes many stocks look like "defensive quality growth stocks", which is one reason why their beta in down markets of 0.5 or 0.6 is less than their beta in up markets of 0.8 or 0.9. Meany acknowledges that the sector showed greater sensitivity during the 2008 economic crisis, with a down beta of around 0.7, but even then the UK flagship Fund's return of -12% for the 2008 calendar year was well above the 18% loss suffered by world equities during that year. This was partly due to resilient global infrastructure profits: they dropped by just 10% in the 2008-2009 global credit crisis. Profits held up well because many infrastructure assets are natural monopolies, duopolies or oligopolies with strong market power. Though their pricing power is usually tempered by regulation, the relative absence of competitive pressures helps them to maintain market share and grow revenues.

Meany is optimistic towards the growth prospects of the infrastructure sector, which he anticipates could range between 3-4% for some contracted utilities and pipelines to 8, 10 or 12% for assets such as toll-roads, airports and mobile towers. The underlying structural growth drivers include growing air travel; decarbonisation of electric grids; renewable battery storage; smart meters; LNG terminals; video viewing on smartphones and the roll out of 4G and 5G networks, which could also be used for autonomous vehicles and Big Data applications. Taking toll-roads as an example, tariffs are generally linked to inflation and additional revenues can come from improvements and congestion pricing, which provides some optionality.

> **"Overall we think leverage is appropriate. Buybacks and capital spending are signs that some firms may be under-levered"**

Overall, a 6% average earnings growth rate for the sector, combined with 4% dividend yields, reaches the Fund's 10% base case return target. This holds constant valuation multiples, which Meany views as "fair to full." He goes on to say: "it is not a fundamentally cheap sector though we do view selected toll roads and mobile towers as good value".

Stock-picking and takeover bids

GLIS has outperformed the global infrastructure sector by over 3% per year between 2007 and 2017 thanks mainly to mid-cap stock selection. Meany argues "80% of the alpha is from stock-picking based on bottom-up fundamental research including at least 500 visits and meetings per year with companies, regulators, competitors, and suppliers". A structured, seven stage investment process involves screening, fundamental research, valuation ranking, quality ranking, security selection, macro risk management and portfolio construction. The eight-person strong team, based in Sydney, does plenty of travelling and makes use of First State Investment's global office network. Peter and Andrew also foster an environment of collaborative thinking and regularly encourage the team to challenge one another at team meetings twice a week to ensure that the best picks are added to the portfolio.

Eleven takeover bids at an average premium of 32% have boosted the Fund's returns, with targets spanning the globe including UK utilities such as Northumbrian Water;

www.hedgenordic.com - June 2017 HEDGENORDIC

> **"80% of the alpha is from stock-picking based on bottom-up fundamental research including at least 500 visits and meetings per year with companies, regulators, competitors, and suppliers"**

Australian toll roads (ConnectEast and Intoll); Australian rail company [=(Asciano); and US pipelines such as (Spectra Energy). Huge pension funds and sovereign wealth funds, managing hundreds of billions of dollars, have bought infrastructure assets. At times, top-down sector calls have also enhanced returns. Though the team tends to take a 3-5 year view, they will sometimes rotate more often. The team have a contrarian approach to investment and as an example have sold out of over-exuberant energy-related names in 2014 before rebuilding exposure back up to 15% by early 2016 when investors were overly pessimistic.

Privatisation

The investment universe is growing. Abundant IPOs come from two sources: privatisations and spin-offs. Indebted governments are naturally keen to privatise, and GLIS has participated in IPOs such as Spanish airports operator Aena in 2016. Former state-owned companies offer huge scope for improving efficiency. Aena's share price has already doubled as investors' factor in multiple return drivers: attracting more low cost carrier traffic; developing retail outlets; outsourcing; and improving the capital structure. The last of these is also important for spin-offs of non-core assets by conglomerates. For example, large integrated oil majors often own assets such as energy pipelines or LNG terminals, which may attract higher valuation multiples on a standalone basis, with higher leverage.

Regulation and politics

Most infrastructure assets are regulated to some degree and political and regulatory change are risks - but also opportunities, given the team's contrarian bias. The Fund used the Trump-related rally in oil pipelines and freight railroads to take profits, and recycled the proceeds into segments that have sold off – such as Kansas City Southern, which has operations in Mexico, and Chinese ports, both of which swooned on fears of protectionism. GLIS also took advantage of National Grid and Eurotunnel, which pulled back after Brexit.

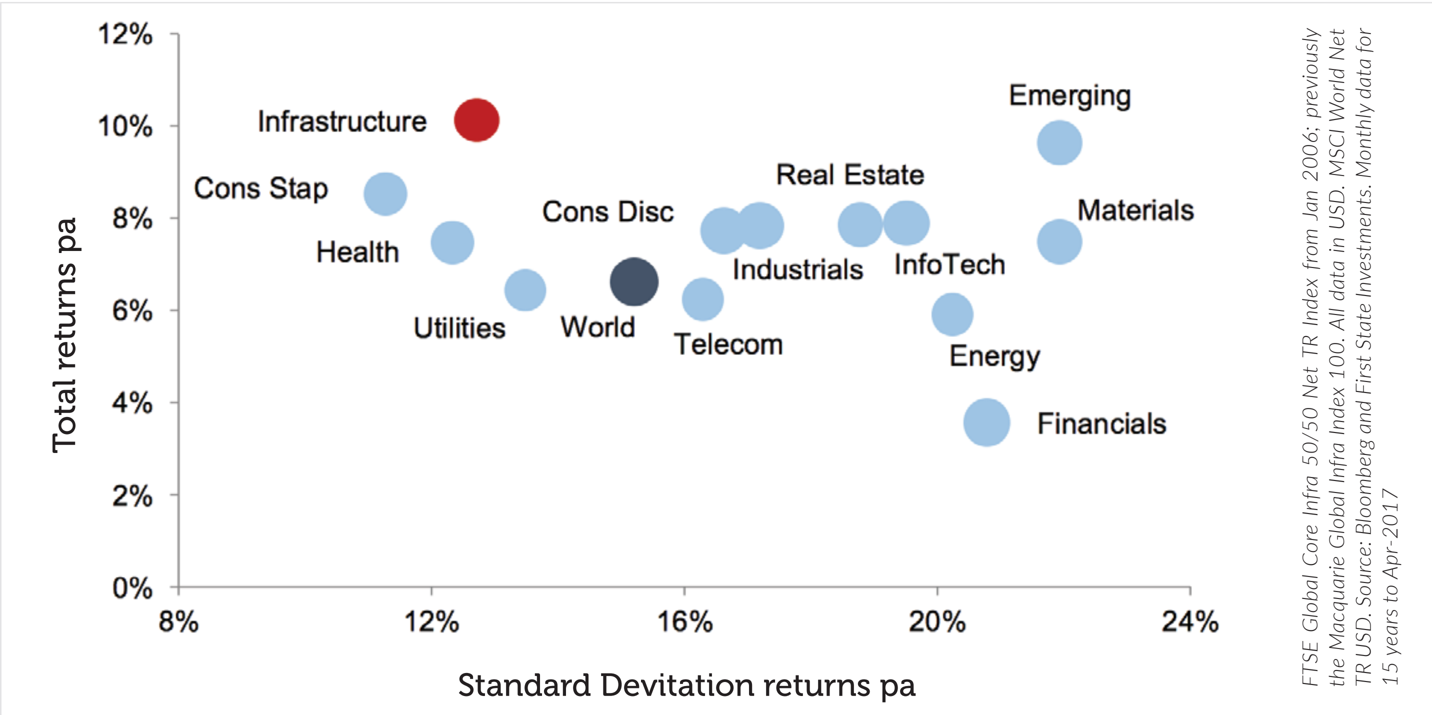
Politics also leads the Fund to avoid some markets and sectors, such as Russia where there are doubts about the enforceability of contracts. Potential for short term political interference, extreme economic sensitivity, and majority government shareholders, can also mean some firms are off limits. The Fund also tends to avoid exchange-listed infrastructure investment vehicles, as Meany does not think investors should have to pay an extra layer of management fees.

ESG, Engagement and Proxy Voting

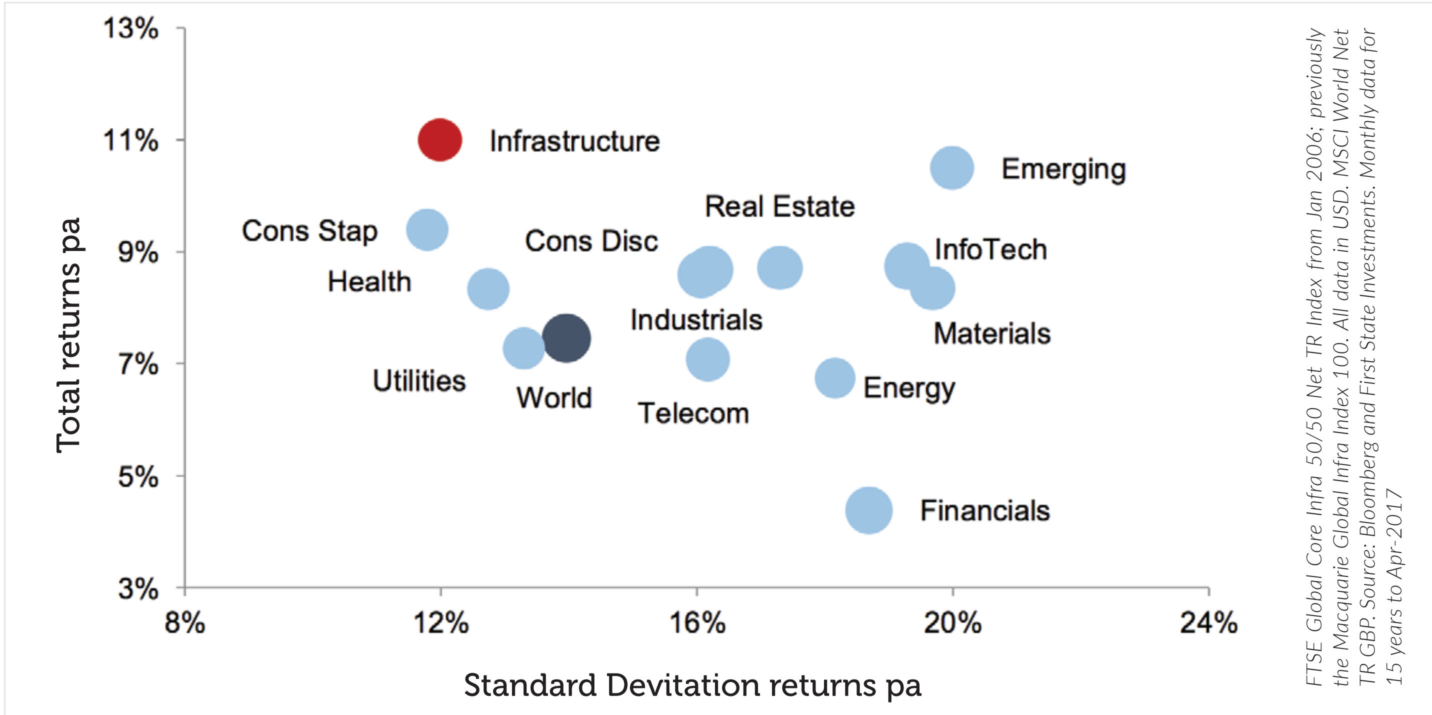
First State Investments' ESG approach is based on three pillars: Quality, Stewardship and Engagement. The firm has a proprietary quality ranking for companies' ESG policies and ESG data is now integrated into its Enterprise Data Warehouse system. Every year since 2007, First State Investments has produced a Responsible Investment and Stewardship Report, which includes climate change disclosures and a proxy voting record. Proxy voting, engagement and ESG are integrated into the investment process rather than being discrete functions. "Engagement and sometimes agitating for change is a very important part of our role as stewards of client capital. We may highlight best practices and suggest improvements such as environmental practices or independence of boards" says Meany. Typically, the team take a long term view when choosing stocks and will often hold companies for between 5-10 years. In this time, the investment team will meet management up to 50 times, and will communicate directly with the Chairman on a regular basis, all of which is designed to ensure we are the best stewards of our clients' capital.

Peter Meany, First State Global Listed Infrastructure Fund

Global Listed Infrastructure Relative Risk/Return USD



Global Listed Infrastructure Relative Risk/Return GBP



With a Cherry on top

By Aline Reichenberg Gustafsson – HedgeNordic

Launched at the beginning of 2013, Origo Quest is a Stockholm-based equity long/short hedge fund focused on small-cap companies on the verge of change. The investment horizon is typically longer than that of most hedge funds, even on the short side, and the funds' portfolio managers work actively with the companies to help them along in their transformation.

Stefan Roos, co-founder, managing partner and investment manager at Origo Capital, shows us why and how investing in Nordic small caps with a long-term activist approach can generate above-average returns, while mitigating the risks with individual short positions.

The Nordic small cap universe comprises over 500 publicly traded companies, but only one in four of them is covered by sell-side analysts. For a research-driven firm such as Origo an informational advantage can therefore be gained over the rest of the market, much more so than with large cap stocks covered by 100+ analysts. Other investors in these small-cap stocks may be well informed too, as they are often connected to the company one way or another, for instance founding families, current owners, managers, or other private individuals employed or otherwise familiar with the business. However, Roos has more than 25 years of experience in the financial market and is often in a better position than these investors to understand the company's relative position, as well as predict how the stock price might react to company specific changes and to general market moves. "We meet a lot of shareholders before we invest," Roos says, "and we like to cooperate with the other owners after we have taken a position in a company. 70% of our companies have no institutional ownership; only families and private individuals own the capital. This is a positive side-effect and sometimes part of the change strategy, to bring institutional interest to the stock. Some of the valuation discount is due to the lack of strong ownership, of information and transparency, but mostly due to the poor liquidity in the stock. This is why our long-term view is very important. If you have a short-term view liquidity is an issue, but with a 5-year view, it isn't a big concern."

To help us understand the process Roos walks us through one of the firm's trades. In the second half of 2013, the Origo team discussed taking a long position in the gaming industry which they believed exhibited interesting growth potential. Valuation however was an issue in the larger names. This is when they cast their eyes on Cherry, a Swedish company initially founded in 1963 as an owner of slot machines and roulette tables. In 2013, Cherry had become a conglomerate of different online gaming projects and was listed on Aktietorget, one of Sweden's secondary stock lists, with a market capitalization of only SEK 200 million. "Cherry was losing money and it didn't grow," says Roos. "There was no coverage from the sell side and no interest from the media." After a thorough analysis and meeting both the management and the board, Roos decided to invest. "They acted as a sort of investment company where they developed different projects internally and then spun off to shareholders those that worked well," Roos explains. "They had started up some businesses we really liked, particularly an online casino as well as Yggdrasil, a unit that produced games for other larger gaming operators such as Betsson and Unibet. We hoped to receive those spin offs eventually."

> **"The Nordic small cap universe comprises over 500 publicly traded companies, but only one in four of them is covered by sell-side analysts."**

This investment also illustrates well the kind of activism that is typical at Origo. "We like to be very close to management and to support their ideas and helped them with capital. We developed a positive dialogue with management and became quite active in the capital structure. Cherry did some new issues that we were involved in. We encouraged them to make acquisitions and supported them with capital. We have also pushed them to spin off businesses when they could stand on their own."

One of the strengths of Origo's investment strategy, Roos believes, is to have a clear roadmap at the onset of an investment case. "In our model," Roos says, "we try to be very specific about the value drivers. In the case of Cherry, we factored in a strong growth, as well as the transformation into a more streamlined company. Then we believed that the sell side and the media would notice and the stock's valuation would align with its peer group." Given that the company was loss making and lacking growth at the beginning, it is unsurprising that the valuation was very low. On a price/sales basis, the stock traded around 1x, whereas the peer group was trading at about 3-4x. "Four years later, all what we expected has happened and much faster than expected," comments Roos. "The market cap today is SEK 6 billion. They exceeded the margins we thought they would reach. Their margins are already almost in line with the most profitable companies in the industry. Management and major owners have worked very well together."

Stefan Roos, Origo Quest 1

While the stock is still traded on Aktietorget, a couple of brokers follow the company now. The stock trades at a 20-25% discount to the peer group and some of the transformation is still ongoing. “We believe that Yggdrasil will be spun off to the shareholders soon which will be value enhancing,” Roos says. “What will be left will be a pure producer, easier to understand and analyze.” Liquidity is also improving. “There was practically none four years back, now it’s ok but it can still improve a lot. It depends on the sell side coverage and they are one their way to move to the main list, Nasdaq OMX. We expect that it will take place in the second half of this year.”

Another illustrative aspect of the case resides in the hedging the team put in place. “To start with, this was a straight long,” Roos says. “There was no hedge. But in 2015, we became worried about the whole gaming industry and the licensing and tax changes that were taking place in Europe. Our fundamental view on Cherry continued to be positive but we became negative on the sector. We decided to short Stockholm-traded gaming companies NetEnd and Unibet. NetEnd is a game producer which was a good match for Yggdrasil. We were opportunistic in the sizing. While we kept a net long gaming position, we reduced our long exposure to the industry and retained our fundamental bet on Cherry.” Roos believes that this possibility to hedge out industry exposure is one example of how Origo adds value compared to traditional small cap funds. For a fund that remains focused on a few high-conviction names, with no more than 15-20 holdings on both the long and the short book, hedging is a way to keep the risk down.

“A disciplined approach to position sizing is also key to keeping the individual position risk in check.”

A disciplined approach to position sizing is also key to keeping the individual position risk in check. “Normally, we don’t have positions over 15% of the fund,” explains Roos, “If the position is too successful, we have to start selling.” Typically, the managers go into a trade with 2-3% of the fund. Then, as the team gets more comfortable, having met with the company a few times and having performed additional research, the position is increased to a “normal level” of 6-7%, with high-conviction cases weighing up to 12%. “With Cherry,” Roos remembers, “we got around 10% after a year or so. When it grew to 15%, we topped off. It can be strange to sell a company that we think has so much potential, but you have to see the risk profile of the whole fund.”

Currently, Origo has around SEK 800 million in AUM, but should the fund grow assets beyond a certain limit, the strategy around sizing and focus could become problematic. This is the reason for the fund’s pre-defined hard close at SEK 3 billion. As Roos reveals that the team is currently examining the need of a lower soft close: “we have to be really sure that we can be active in small companies. Many of our best cases like Cherry were really small positions at the beginning. We must protect our strategy.” At its current size, Origo capital can just about support its operating structure with the management fee (1.25%), which includes modest salaries for the managers. “We need to perform to earn money,” Roos says. “We just added a fourth person to our team and are aiming to grow, but we must remain cost effective. I really like the idea that we don’t make big money if the fund doesn’t perform well.” The team’s interest alignment with the fund’s unitholders is also insured by the fact that any bonus management earns is systematically invested into the fund.

Bodenholm Team

From fundamental stockpicker to long/short manager

Bodenholm’s key learnings

By Aline Reichenberg Gustafsson – HedgeNordic

With an impressive track record managing long only funds at Fidelity and strong fundamental stock-picking backgrounds, Per Johansson and Erik Karlsson (ex AKO Capital) partnered with Brummer & Partners to found Bodenholm Capital in February 2015. Bodenholm One, the company’s long/short fundamental equity fund, officially started trading in September 2015. Today, more than 20 months later, Johansson as CIO at Bodenholm, shares his experience of moving from long-only to long/short management and the challenges moving from a very large institution, to running his own company.

It comes without saying that with every new project arises a learning curve. The slope of that curve however depends on the ability and the willingness of the entrepreneurs to evolve and to seek the expertise they lack in the right people. At Bodenholm, Johansson explains, he and Karlsson learned a lot and quickly, as they constantly put their processes into question, reviewed their risk management and even obtained help from a sports psychologist. Johansson summarized the three major lessons he learned: “on the long book, we needed to steer our energy better where we are most likely to perform. On the short side, we had to get to our own coherent shorting strategy as a team and on the organizational side, we needed a crash course in leadership.”

“On the long side, investing in the US is not as simple as you would expect when you have been focusing on Europe over time.”

www.hedgenordic.com - June 2017 HEDGENORDIC

From the beginning, the Bodenholm team identified three parts of the market where long investment cases would be attractive for their portfolio: quality compounders, market give-aways and Nordic investments. "These areas made sense for us because this is how I had been looking at investments at Fidelity and the team was aligned on these criteria," Johansson comments. Quality compounders are typically good quality companies that have been around for a long time and will keep on delivering, ideally with cheap valuations. As an example, Johansson gives us the UK-listed multinational consumer goods company Reckitt Benkiser. "This stock has been one of our biggest winners since we started in September 2015 and still represents a large position today," he says. Market give-aways can be spin-offs or, on the contrary, conglomerates that are shedding off non-core pieces. These situations are often misunderstood by the market and can present attractive opportunities. Bodenholm invested for instance in GCP Applied Technologies, a spin-off from the large US chemical conglomerate W. R. Grace & Co. "This was an ideal situation for us, such occasions don't come that often," Johansson says. "We knew Sika, a Swiss competitor, very well since we already owned it." The opportunity to pick up GCP with confidence was made possible by the prior research and the case was well aligned with the investment theme.

"The problem was that we spent too much time applying these three concepts to the US market," Johansson admits. "In reality, we are not as close to the US market, not only geographically. It is more difficult to get access to company management and we are just a little too far away for the research we want to perform. Also as a team, we simply had less experience on the US market." The obvious solution was to refocus the hunting ground for opportunities to the local markets, in Europe, and specifically in the Nordics. "At Fidelity, I made money in the Nordics and as a team, we had a lot of experience in the Nordics. We did a decent amount of work on Nordic companies from the start but we should have done even more. Now we focus much less on the US on the long side and the only investments we would consider are in companies related to European peers we already know well or market giveaways that are spin-offs." In general, Johansson is convinced, the team has learned to increase their focus on what works. "The quality compounders have made us money, but we should have made even more. We now focus more on our inventory list of approximately 80 companies that we want to own at some point, all with great operating models and good management."

"Shorting was trickier than expected, even with a dedicated team of specialists."

For Johansson, shorting was new as he had no prior experience doing so at Fidelity. Other members in the team had experience individually, including two dedicated resources Johansson and Karlsson hired specifically to help them pick stocks for the fund's short book. "We were youthfully enthusiastic at the beginning," Johansson says. Thereby, he means that pair shorting or short stock picking is not all there is to managing a short book; risk management needs to be tailored differently. In the first year, their analysis showed that the shorts did not generate profits and in fact showed a negative alpha in aggregate. "It was clear that we had to improve the process and change risk management on the short book; we found winners but our losers were too big. In the last nine months however, we have seen the fruit of our efforts. The shorts are contributing positively to the fund's performance. This was a key improvement in the investment strategy overall and it gives us confidence that the process is working. Our risk management is much improved and leads us to making fewer mistakes." On the stock picking side, the batting average had already been good. "The short-picking guys had done a great job," Johansson explains. "We caught a lot of good shorts, for example UK-based provider of oilfield services Petrofac, German clothing company Hugo Boss or Swiss food ingredients producer Aryzta. We just needed to work out a process to improve our risk-reward on each position, by calibrating position sizes and managing the timing of our entry and exit, helping mitigate our losers."

"We needed a crash-course in leadership"

In general, the team at Bodenholm had to try and test the risk management pipes extensively in the last 18 months. More specifically, the end goal was to position the fund to make the most of individual stock picking while knowing where the risks sit. A significant amount of time was dedicated to perfecting the individual risk management of the individual companies the fund is invested in, to focusing on drawdown risk in order to assess how the fund would perform in a sell off. "We also spent a lot of time on over-concentration risks," adds Johansson, "to make sure we don't have too large a concentration to one particular sector, geography, or macro variable like oil for example." This work seems to have been very timely as Johansson illustrates: "We started in September 2015 when the markets were falling a lot. We had a selloff in January 2016 and a very strange year in 2016 with Brexit and Trump and therefore we feel there was a lot that could have gone wrong that we mitigated with a disciplined process-driven risk management."

Per Johansson, CIO Bodenholm

Prior to starting Bodenholm, both Johansson and Karlsson had yet to discover what owning their management company would entail. "At Fidelity," remembers Johansson, "I had been a mentor and I had helped hire people but I had never led a team before. In fact, none of us had borne any organizational responsibility before." For the two founders, a new aspect of management had yet to be mastered. "We needed to establish a philosophy of how we wanted to drive the team, in an inspirational way, not just being an operator of our business. This is why we asked a sports psychologist to work with us.

He was of great help, and still is, mapping out how different team members are working and to better understand how we work together. He helped me an Erik to define what kind of leader we wanted to be." The key learning there was that a good leader should care about his people. "If you care," says Johansson, "people will listen and trust you, and they will do more than what you asked for." The tangible result for the team was that the stress level in the organization decreased noticeably. "You are smarter and more thoughtful when you are not stressed," adds Johansson. Perhaps a certain type of stress can decrease as an organization matures, but tackling leadership questions early seems key to setting a young fund management company on a stronger path to success.

From here on, Johansson is optimistic. "Since inception, the fund is up 10 percent, net of fees, which, as Warren Buffet would say, we are pleased but not satisfied with." The team has also grown recently with two new team members, with strong fundamental backgrounds, as they are also Fidelity alumni. Johansson believes the additional brain power and the management training coupled with the improvements in processes both on the long and on the short side will soon translate into even better performance.

by James Cluenie - Head of Strategy, Absolute Return and Fund Manager at Jupiter Asset Management

STRATEGY MATTERS - Short-selling explained

In this article, James Clunie seeks to demystify some of the key ideas behind single stock short-selling, explaining such things as why "crowded exits" are to be avoided and how stock lending data can provide profitable insights.

In the fund management industry, short-selling is still relatively rare. However, when combined with a value-based long investment strategy, I believe single-stock short-selling can help a fund produce healthy risk adjusted returns across the investment cycle. But how can fund managers make use of short-selling? What are its potential advantages? What are its risks?

Short-selling strategies

There are a number of popular approaches to short-selling. Some investors look for potentially over-priced assets that they aim to short once a catalyst has emerged. A classic example here might be identifying a highly-rated growth stock where earnings downgrades have commenced, a stock where other short-sellers are already building positions or where directors are selling shares (or all of the above). Other strategies include identifying balance sheet fragility, questionable accounting practices or poor stock price momentum.

Signals in the data

When identifying potential short candidates, questionable stock fundamentals are often not enough in themselves to justify taking a position. Understanding the signals from short-selling data is also important.

On one level the signals given off by the activities of other short-sellers can help to confirm a view about a company. Short-sellers are required to bear unique risks and costs, so are incentivised to be well-informed investors. If they weren't better informed than the average market participant, they'd lose all their money soon enough.

> **"Our strategy has also held short positions in several glamour stocks, like Tesla Motors and Netflix, which have had exciting investment stories "**

On another level, the data can provide valuable signals about when to take a short position. Studies have shown that short-selling constraints, whether they be due to high costs of borrowing stock or regulatory or institutional prohibitions, can reduce the effectiveness of arbitrage and contribute to periods of overvaluation in markets. Additionally, academics Dilip Abreu and Markus K. Brunnermeier have shown that short-sellers face unique "synchronisation risk" where the activity of lone short-sellers is not enough to result in convergence with a fair value price and may force the short seller to abandon the position. It can therefore be beneficial to wait for signs of synchronisation among short-sellers before establishing a position.

In summary, empirical research confirms that short-selling activity has meaning, and that short-selling data can provide trading-like signals, suggesting what to short, when to short it, and also what not to short. And the evidence suggests that it can be most prudent for short-sellers to combine initial analysis of stock "fundamentals" with "catalysts", including signals from stock lending data about what other short-sellers are up to.

Using longs and shorts together

When managing our absolute return strategy, we combine both long and short positions in an attempt to build a portfolio that can exploit positive and negative information alike. This strategy creates a portfolio with lower overall market exposure than one that consists exclusively of long positions. As a result, the portfolio should have lower overall risk and you can potentially boost returns per unit of risk taken – the holy grail of active management!

Short-selling in practice

Single stock short-selling is an area in which we claim to have an edge. This form of short-selling was the subject of my postgraduate research and as a team we have a strong understanding of stock-lending datasets. In our experience, however, success in short-selling doesn't just come from knowing the theory: it also requires regular practice and adherence to a number of behavioural traits.

One of our golden rules is to exercise patience before opening a short position. This means identifying an asset that we believe to be over-priced and waiting for a catalyst before shorting it. Here, patience comes before the action. Potential catalysts include:

- signs of other short-sellers building positions
- the release of bad news where we feel the market has under-reacted
- mosaic information, such as an understanding of a balance sheet fragility or aggressive accounting decisions that we think will become obvious to others soon, possibly around the next formal company results statement.

There are many examples of short positions from our strategy, past and present, which fit this criteria. Especially among shorts from the US where Federal Reserve policy and, more recently, enthusiasm over Donald Trump's spending and tax agenda led to some high valuations and under-reaction to bad news at a stock level.

The strategy has held short positions in Caterpillar, Campbell Soup and McDonalds, for example. These are global industrial and food companies that are considered high quality and safe by many, but actually appear expensive and risky to us on a number of measures. Our strategy has also held short positions in several glamour stocks, like Tesla Motors and Netflix, which have had exciting investment stories – innovative products, business models or star entrepreneurs – and prospects that have been supported by creative financing and left some of their balance sheets looking unhealthy.

> **"...evidence suggests that it can be most prudent for short-sellers to combine initial analysis of stock "fundamentals" with "catalysts", including signals from stock lending data about what other short-sellers are up to."**

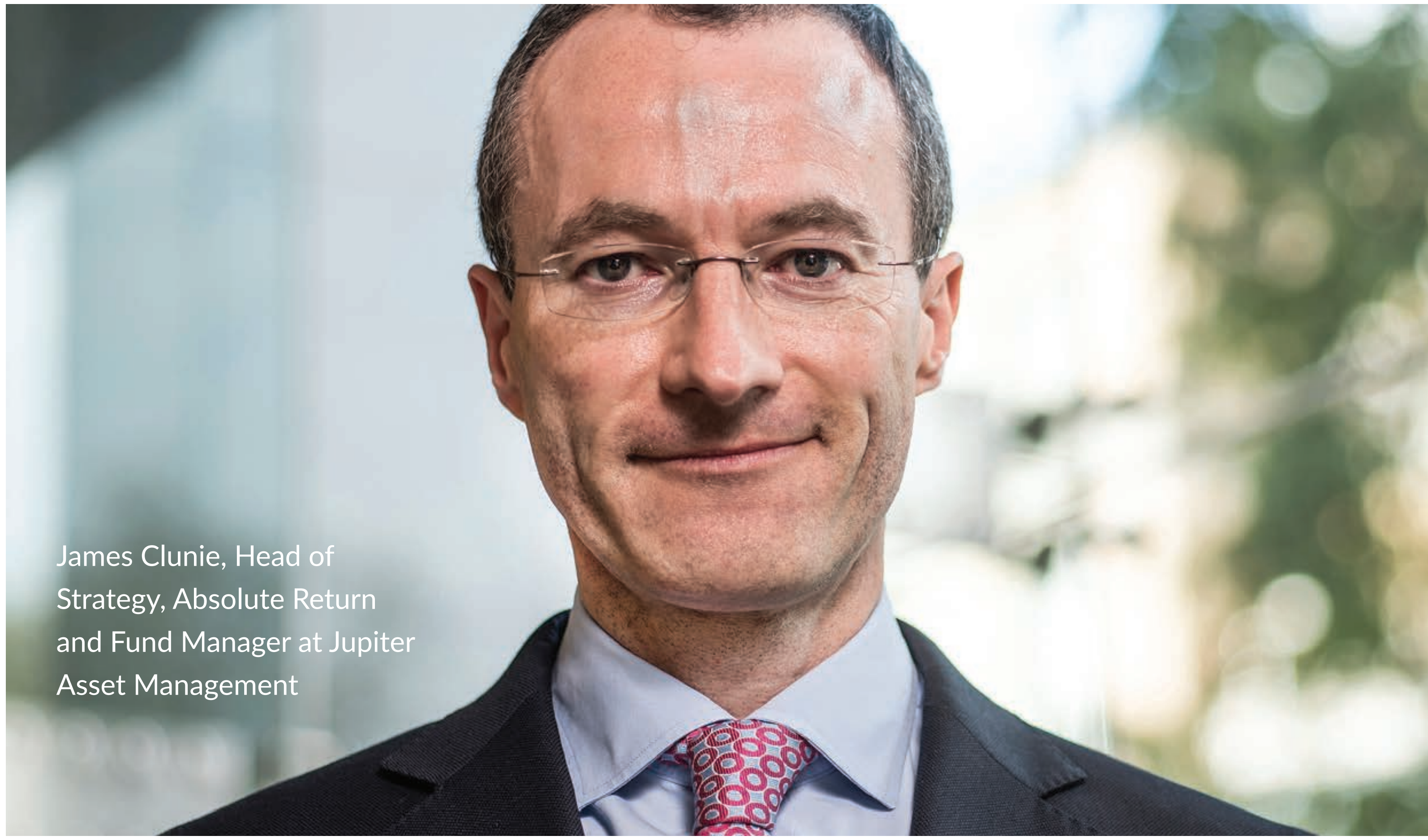
We never bet the house on a single stock going down, preferring to be careful about position sizes. For that reason, very few short positions grow to be over 1% of the strategy. It is also important to highlight that for some time the strategy has had roughly the same amount invested in long positions as short positions, which means it should make or lose money based on the relative price moves of individual stocks rather than whether the market as a whole goes up or down.

Learning from our mistakes

Another rule we follow is to accept our mistakes and take losses when we're wrong. This behaviour is important in limiting the risk of large losses and in overcoming "loss aversion" (a behavioural problem found in many investors). It usually takes the form of stop losses. These can be based on price changes or loss thresholds, or upon awareness that the original shorting thesis has been invalidated by new information.

Keeping an eye on the risks

Short-selling comes with more than its fair share of risks. The most often cited is the fact there is no theoretical limit to how high a share price can rise, and therefore how much money you can lose by shorting. The concept of the short squeeze – or "crowded exit" – is also well known. This can occur in stocks where there are many short-sellers but limited liquidity. This means that a change in news flow or sentiment leads



James Clunie, Head of Strategy, Absolute Return and Fund Manager at Jupiter Asset Management

to a lot of short-covering, with the short-sellers rushing to buy the stock. This can cause the asset price to rise, resulting in losses for the short-sellers. Stock loan recall can have a similar effect. Investors can use data on stock lending and trading volumes to assess liquidity risk and try to avoid situations where they might get squeezed.

> **"I believe short-selling can be used to improve the risk-adjusted return of a portfolio. Just don't expect it to be easy!"**

Short-sellers have to consider other risks too, such as the costs associated with borrowing shares to settle a short-sale. If a derivative is used to short-sell, then the intermediary will need to bear these costs and will pass them on – the use of derivative to short stock is a requirement for regulated funds such as ours.

Problems can also occur when it is not possible to borrow stock, making a short-position unfeasible. Even worse is when borrowed stock is recalled and the loan cannot be replaced. This leads to forced closure of a position at whatever price the market gives you – a potentially nasty situation. Again, stock lending data can help to highlight these risks in advance.

What short sellers can achieve

Short-selling may not be appropriate for all investors, especially where there are regulatory constraints or mandate restrictions. However, while short-selling is risky in itself, adding a short position to a portfolio can change the overall risk exposure and could lower overall portfolio volatility (especially if the portfolio already comprises mostly long positions). If you have good information on firms, understand the signals in stock lending datasets and "behave well", I believe short-selling can be used to improve the risk-adjusted return of a portfolio. Just don't expect it to be easy!

New launch: Pacific Precious

Going for gold - Pacific Fonder in precious metals alternative fund launch

By Jonathan Furelid – HedgeNordic

For investors looking to diversify their portfolios of traditional assets, gold has become a particularly sought-after alternative asset in recent years. The rise of exchange traded products offering exposure to the precious metal has further added to the pick-up in investor interest. There has however been very few options for those seeking an absolute return strategy that actively invests in the precious metals sector. The Swedish fund management company Pacific Fonder are looking to change that with the launch of their alternative UCITS fund - Pacific Precious.

"Pacific Precious gives the investor what it looks for in gold and other precious metals as an alternative asset allocation, namely a defensive investment with low correlation to traditional investments such as stocks and bonds. However, we are allowed to trade the sector from both the long and the short side and tactically allocate between different strategies which provides for a different return stream compared to a long-only investment in a gold ETF for example", the fund´s portfolio manager Eric Strand explains.

The fund uses so-called ETCs (Exchange Traded Commodities) to gain exposure to the precious metals market. As the fund cannot hold physical gold and silver, this is the most cost-efficient way to approach these markets while at the same time keeping counterparty risks to a bare minimum, according to Strand.

"As opposed to other commodities, precious metals are traded using spot prices. Through the use of ETCs we can efficiently access these markets and ignore the contango effects that are present in futures contracts, typically used by other hedge fund strategies such as CTAs when trading these markets."

When analyzing exploitable investment opportunities, Strand considers both fundamental data as well as more sentiment-driven information such as investor flows, looking at the relationship between commercial and speculative positions among other things.

> **"Gold and silver will be one of very few places to hide for capital preservation and growth in that scenario."**

"We seek to get an idea of where the market is heading for the medium- to long-term by analysing the fundamental data picture, however from time to time, the markets are increasingly driven by speculative flows, which serves as input for our shorter-term positioning", Strand explains.

As input to his investment decisions, Strand uses external research both on macro level as well as on individual metals contracts. Which is a good way to get a professional second opinion on his own trading ideas, he argues.

"On individual metals contracts, we make use of expert opinions from four value specialists as well as from three technical specialists, all independent sources. On top of that, well renowned macro research is subscribed to in order to form bigger picture ideas."

On strategy level, the fund trades precious metals through allocating to four different strategies using what is referred to as an unconstrained tactical allocation approach. To express his market views, Strand either takes on directional positions in the spot market, or buys into stocks linked to the price changes of gold and silver.

"Should we have a bullish view on silver for example, we essentially could express that in three different ways given our strategy setup. Either we buy directly into silver ETCs, or we buy into silver streaming and royalty companies that benefit from a price increase in the underlying commodity while not bearing the risk associated of owning mines. Thirdly, we could go into silver mining stocks, but in that case, we would hedge out the market risk by shorting an index of precious metals mining stocks in order to capture alpha."

"In the case of us holding a bearish view, we would either go short the spot market or buy into stocks that benefit from lower input prices, such as precious metals retailers", Strand explains.

In the final strategy layer, the fund uses active currency hedging in order to adjust for currency effects at times when the dollar is judged overbought or when there is a case for the Swedish krona to strengthen.

"We are trying to smooth out the currency effect that is a result of us holding USD denominated assets in a SEK denominated fund. Even though there is typically a negative relationship between the USD and precious metals prices, we could actually benefit from a stronger dollar given the fund´s structure".

> **" I see inflation as a potential driver for gold as it ultimately will put upwards pressure on the metal."**

"In certain times, usually coupled with extreme market events, there could also be a positive correlation between the USD and gold for example. If we were holding a positive view on the metal in this scenario, we would benefit from both the gold price increase as well as from the US dollar appreciation. By hedging out some currency risk, the overall risk would be reduced".

Over the longer haul, the fund´s exposure to precious metals will be biased to the long side as the fundamental picture works in favour of these metals, according to the fund manager.

"Today there are many assets that are inflated given years of expansionary measures from the world´s central banks. However, that development cannot persist forever and it is not far-fetched to believe that we have built substantial systemic risks into the financial system, which at one point will create significant stress. Gold and silver will be one of very few places to hide for capital preservation and growth in that scenario.

Strand also points to the value of gold as an efficient hedge to an environment where inflation is picking up.

“Inflationary pressures will ultimately pick up and real rates will be getting even more negative as the inflation will be rising faster than central banks are rising rates. Going forward I see inflation as a potential driver for gold as it ultimately will put upwards pressure on the metal.”

The Pacific Precious fund targets a similar volatility as the price of gold, which is significantly lower than that of gold mining funds, with the goal to achieve positive and better returns whatever market period. According to Strand, the fund will have a similar profile as a CTA in times of market distress, as risk aversion typically tend to work in favour of the precious metal sector, an environment where CTAs tend to shine as well.

“We are looking to create a return stream that acts protective in times of financial market distress, similar to the profile of a CTA. Over time we will however behave differently as our strategy is limited to one sector and not explicitly targeting price trends”, he says.

Since launching in February 2016, the Pacific Precious fund has performed solidly in what has been a somewhat challenging environment with continued risk appetite and supressed volatility. As might be expected, the fund had its best month around the Brexit vote when investors, albeit briefly, turned to gold for safety. As of end of May 2017, the year-to-date return stood at 4 percent, adding to a 5.5 percent gain in 2016.

“We have produced good numbers in what has been a rather tricky period for alternative investments. As volatility is likely to pick up from these extremely low levels, we remain very optimistic about the future prospects for the fund. It will come a time when investors flock to gold and silver just like they are flocking to equities today, this will be our time to shine.”

Eric Strand, Hedge Fund Manager for Pacific Precious (Yogi and former Olympic Fencer)

Straight off the Starting Blocks

Scandinavian Credit Fund Earns Rookie of the Year Award

By Aline Reichenberg Gustafsson - HedgeNordic

The Nordic hedge fund “Rookie of the Year” award was presented this year for the second time only. It is the youngest of the awards lineup and is supported by Hedge Nordic. This prize rewards the most promising hedge fund launch of the year. In this year’s edition, any fund domiciled in one of the Nordic countries or with strong ties to the Nordics launch between 1 October 2015 and 30 September 2016 automatically qualified as a potential candidate for the award, provided the information on the fund was made available to Hedge Nordic.

For this special award, the usual selection process is not applicable for obvious reasons. First, the quantitative screening performed to nominate the funds in each category cannot be performed, as the rookies have, by definition, almost no track record. Second, even if a quantitative screen were to be applied, the funds would not be comparable, as the length of their track-record would differ considerably. Therefore, the result has to rely solely on the expertise of a jury composed of

Peter Norman and Fredrik Sjöstrand accepting the "Rookie of the Year" award

peers. The jury was asked to rate the funds on a scale of 1 to 10. The members of the jury had the difficult task to assess which funds they would be most comfortable investing in, which ones would be most likely to reach their target performance, and overall which ones were positioned to become billion Dollar funds or star managers.

They were given full discretion in choosing which criteria they felt most comfortable with. A few guiding questions were suggested such as: "How unique or original is the strategy?" or "How well does the past track record of the managers predispose them to be successful managing such a strategy?" or also "What is the quality of the supporting structure: number of people in the organization, proven track record or past experience of the back office and other key functions including risk management?"

This year, the jury was composed of Allan Winkel Hansen, Founder & CEO at the Danish multi strategy fund WH Invest; Wollert Hvide, CEO at the Norwegian multi-fund manager Sector Asset Management; Laura Wickström, CEO at Finnish Fund of Hedge Fund manager AIM Capital; Joakim Stenberg, Business Development at the newly established Swedish multi hedge fund manager Nordic Cross Asset Management; and last but not least, Marcus Wahlberg, Managing Partner at the Swedish hedge fund manager Elementa Management, winner of last year's Rookie award.

And the winner is... the direct lending fund, Scandinavian Credit Fund I, which is managed by Skandinaviska Kreditfonden! This fixed income fund engages in the private debt market providing capital to companies with short and medium-term financing needs. Its first trading month was January 2016, which showed a small loss, but the fund has only shown positive performance for every month thereafter. For the full year 2016, the fund showed 6.84% return with a very low volatility. This trend seems to be confirmed at the start of 2017, as it is up 2.81% as per the end of April. Statistical significance is not great with only 16 months of trading but we can nevertheless observe an astonishing Sharpe ratio above 7! According to Founding Partner and Portfolio Manager Fredrik Sjöstrand, who HedgeNordic caught up with during the event: "The fund has delivered in line with our expectations during the first year. The strong interest for the fund has already brought assets under managegement to 400 MSEK and we are now beginning to see interest from institutions as well."

> **"We have only just started but this is a first recognition that we are on the right track, we hope to revisit the winners´ podium for many years to come"**

"As the fund now has grown bigger, I see even more opportunities as we can approach lending objects that require larger sizes. This will work in favour of the fund going forward". As for winning the award, Sjöstrand is flattered that the fund has been recognized already as it is still early days. "We have only just started but this is a first recognition that we are on the right track, we hope to revisit the winners´ podium for many years to come".

Sjöstrand's background is both broad and extensive, having worked in the financial sector for 28 years. During that time, he has filled several senior positions as a specialist in portfolio management, trading, analysis, risk management, as well as capital acquisition at several local and international institutions, including Handelsbanken. After developing his own financial service consultancy firm, Sjöstrand decided to launch Scandinavian Credit Fund together with his partner Peter Norman, who today fills the role of CEO. Norman is well positioned to step in at the top of the organization given his previous CEO positions at Monyx Financial Group and at the Direct Financial Services and Insurance unit at Söderberg & Partners.

The team is completed by recently added Portfolio Manager Stefan Skrimsjö, a financial services Senior Credit Adviser Hans Lundholm, with a strong background acquired at Handelbanken between 1979 and 2004, fulfilling several leading positions, including Head of Credit, during which he and Sjöstrand became acquainted. As the team will be evaluating the loans the fund invests in, this breadth and depth of experience is key to minimizing the risk of default. Credit analysis requires a knowledge that encompasses not only many different sectors and companies, but also varying business environments and economic climates. This expertise can only be acquired over time and within institutions that have risk and credit management at heart, such as Handelsbanken.

"By making an investment in the fund you are trusting our team of experienced team of credit analysts to make proper evaluations of the companies entering our portfolio. The inherent risk is that we will have credit events, which is something that will happen eventually. However, over time we believe default risks to be very limited and more than compensated by the yields offered on the loans that are fully repaid," says Sjöstrand. "We conduct a thorough analysis before entering into a loan deal," Sjöstrand adds. "This encompasses anything from a regular credit check to getting a feeling for the management of the company, its board of directors, CEO, accountants, product, and markets. It is about having as much information as possible in order to make a proper assessment of the company´s ability to repay the loan. The loans are secured which means that we also need to make a proper evaluation of the assets that the borrower has put in as collateral for the loan."

> **"It is about having as much information as possible in order to make a proper assessment of the company´s ability to repay the loan."**

When setting up the Scandinavian Credit Fund 1 in Sweden, Sjöstrand and his team wanted to create an investment vehicle that was offered to the broad public rather than as a closed-end fund targeted towards professional investors only. This was made possible by the AIFM-directive. "Through setting up the fund as a listed entity on the Nordic Growth Market, NGM, and by offering profit sharing loans in the fund we could address a retail audience in accordance with the AIFM-directive. We will issue new loans on a monthly basis to secure ongoing transactions and also allow investors to buy and sell their loans on a monthly basis. In the end, we aim to reach 3 billion SEK in loans outstanding", Sjöstrand says.

According to Norman, there has been an ever-increasing interest for the fund since the launch, both among private individuals and larger institutions. Although the first version of the fund has been targeted towards non-professional investors offering a minimum investment as low as 100.000 SEK, he sees the possibility of expanding the investor base to institutions in forthcoming versions of the fund. "As the name 'Scandinavian Credit Fund 1' suggests, there is a plan to launch additional funds going forward. In the end, this is a product suitable for professional and non-professional investors alike and we foresee great demand among Scandinavian institutions for complementary fixed income investments, of which direct lending should be considered a very interesting option."

TURNING INVESTOR COMPLACENCY TO YOUR ADVANTAGE – ONCE THE TIDE TURNS

By Jonathan Furelid - HedgeNordic

Following years of consecutive gains in global equity markets, accompanied by ever decreasing interest rates and volatility levels, investors are finding it ever so comfortable holding risky assets. However, history suggests that this is the time to revisit your portfolio, including your hedge fund exposure. Arbitrage strategies should be part of that exposure in order to offer a hedge when the risk-on environment eventually turns, Peak Asset Management argue.

"There is a high probability that your market beta is significantly more pronounced than you thought was possible when holding hedge funds as protective strategies, Anders Ekberg, portfolio manager at Peak Asset Management tells HedgeNordic when we visit their offices in the city centre of Stockholm.

Ekberg together with his colleagues Per Djerf and Arpad Földessy form the team behind the Peak Equity Alpha Fund which is using equity and volatility arbitrage strategies to capture pockets of alpha that are uncorrelated to traditional asset classes.

"We are looking to exploit statistical relationships that are a result of behavioural human patterns in financial market such as crowd dynamics, herding and risk aversion", Ekberg explains.

Benefiting from elevated levels of volatility

Albeit not explicitly trying to forecast or profiting from high levels of volatility, the equity arbitrage strategy employed by Peak have historically worked better in times of market distress, simply because these environments provide for more distortions and short-term inefficiencies, according to Ekberg.

"The equity arbitrage model is designed to pick up on short term dislocations that arise when moves are overextended or when there are pricing inefficiencies, these tend to coincide with elevated levels of market volatility", Ekberg says continuing:

"We have struggled a bit with the strong momentum factor this year, which has to do with the fact that our

Anders Ekberg, portfolio manager, Peak Asset Management

EQUITY ARBITRAGE VERSUS VOLATILITY ARBITRAGE MODEL PERFORMANCE SINCE LAUNCH OF PEAK EQUITY ALPHA FUND IN MID 2015.

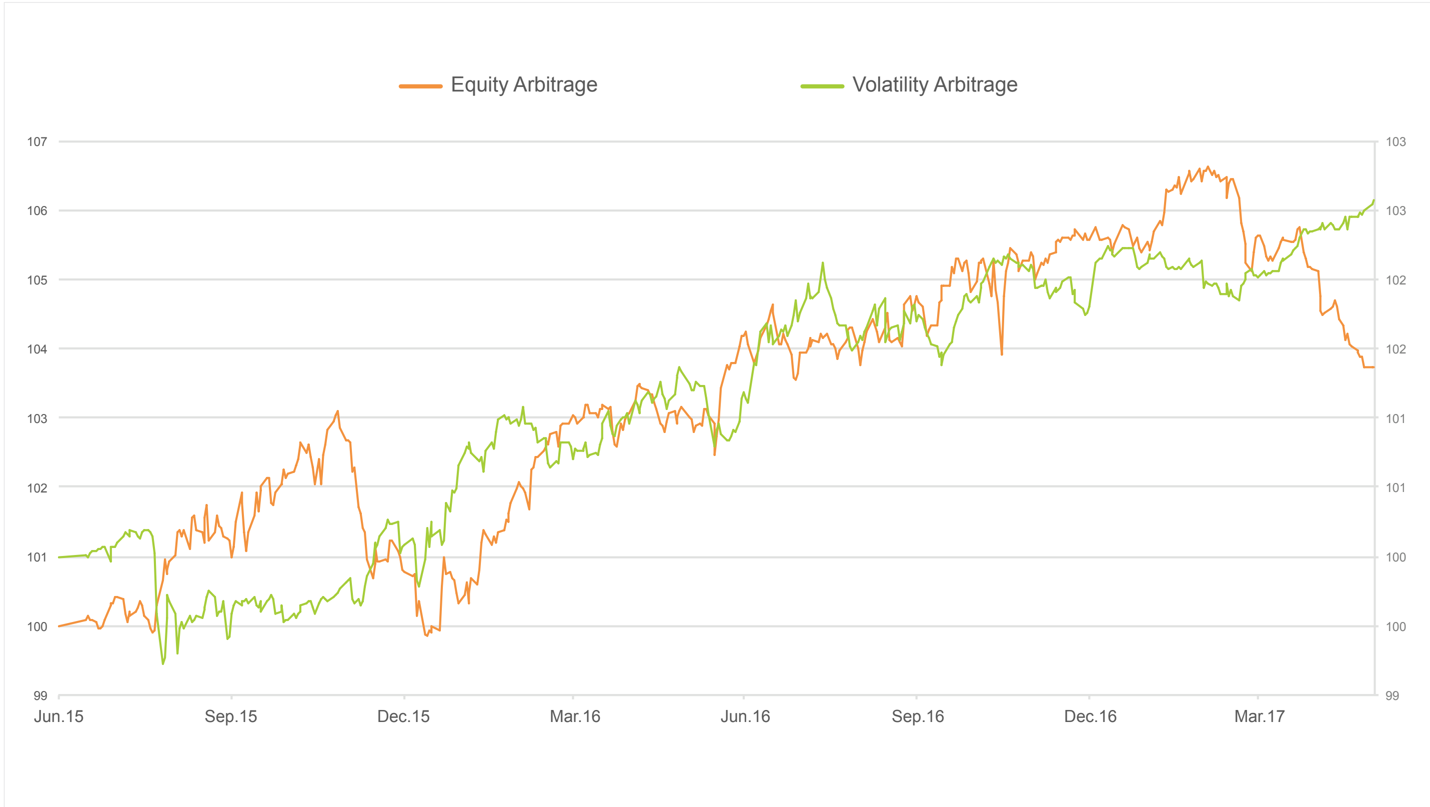
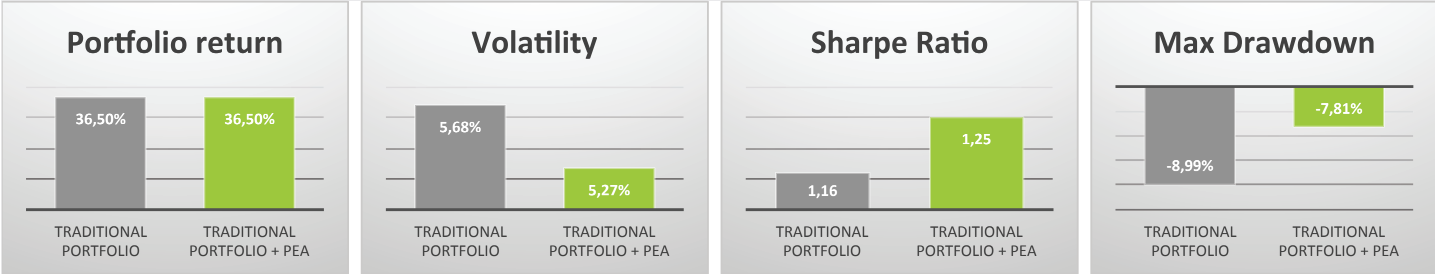


CHART SHOWING ADDING 10 PERCENT OF PEAK EQUITY ALPHA (PEA) TO TRADITIONAL PORTFOLIO OF STOCKS AND BONDS (50/50), SINCE LAUNCH OF THE STRATEGY IN 2012



equity arbitrage model looks for mean reversion patterns, expecting trends and price relationships to revert to longer term averages. As the equity market has continued on its bullish path, this has created a challenging environment during the first half of 2017."

"Mean reversion typically works best when volatility levels as measured by the VIX are between 15-30. Last year, characterized by bursts of volatility in connection with worries surrounding Chinese markets in the beginning of the year followed by the Brexit vote and the Trump election, was a more suitable environment for these strategies, Ekberg says.

Equity and volatility arbitrage – complementary strategies

Peak model arbitrage in two separate systems, the previously mentioned equity arbitrage strategy and a volatility arbitrage strategy. The two strategies adhere to a market neutral approach, but act complementary, according to Ekberg.

"The volatility arbitrage strategy trades the volatility curve, it is more of a carry strategy and benefits from shorting volatility in times when markets are in a low-volatility regime, which is currently the case. Technically, the strategy makes use of the contango-shaped volatility curve in these time periods, where we continuously collect premia, Ekberg explains.

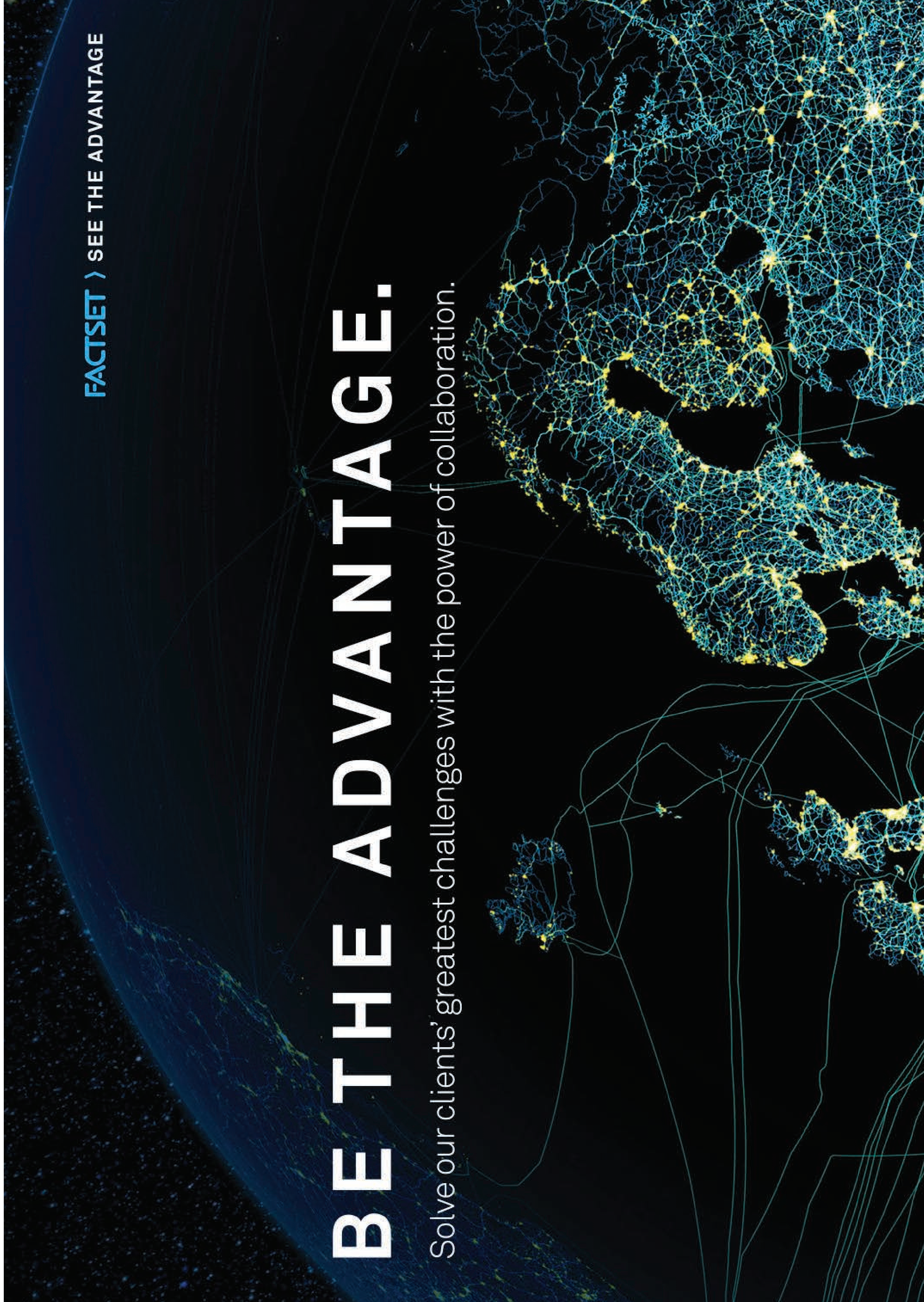
As the equity arbitrage and volatility arbitrage strategies benefit under different market scenarios, the diversification effect trading them together holds obvious benefits, according to the portfolio manager.

Capital preservation at the core

Peak´s focus is to offer portfolios of uncorrelated return drivers, with the core focus on capital preservation. "The focus on arbitrage strategies very much align with our core philosophy of offering capital preservation while at the same time act as an independent alpha source", Ekberg says.

By adding the arbitrage strategies to a traditional portfolio of stocks and bonds, there are significant diversification benefits to be gained. Our strategies hold similar protective characteristics as a CTA but are more leaned to offer protection in turning points where those strategies tend to suffer.

> "Human beings, as I know better than most, can get used to anything. Over time, even the unthinkable gradually wears a little niche for itself in your mind and becomes just something that happened."
>
> *Tana French "Irish novelist from the book "in the woods"*



www.hedgenordic.com - June 2017 HEDGENORDIC

John Henry's Mathematical Mindset Restores Once Great Sports Clubs to

Winning Ways

By Eugeniu Guzun

John W. Henry, viewed as one of the most successful hedge fund managers in the United States, has turned the fortune amassed in commodities trading into ownership of several elite sports teams. John Henry, Tom Werner and other partners bought the Boston Red Sox in 2002, with the American professional baseball team winning its first World Series in 86 years soon after the acquisition. Henry also owns stakes in European soccer club Liverpool FC and Nascar team Roush Fenway Racing.

With a natural affinity for numbers, John Henry built a successful hedge fund employing a numbers-intensive approach to investing in commodities, which, however, became less profitable as markets changed over the years. John W. Henry & Co. has been in the business since 1982, but Henry has not "run the company since 1989", instead relying on "a mathematical approach and a philosophy that hasn't change." He developed trend trading systems in the 1970s, which literally made billions of dollars and made him a very successful trend follower. Interestingly enough, there is evidence showing that Henry was on the other side of the Barings Bank blowout. Britain's oldest merchant bank collapsed after discovering the full scale of losses piled up by Singapore-based trader Nick Leeson, with Henry winning what Barings Bank lost. However, John W. Henry & Co. stopped managing client money in 2012 after the commodities firm did not manage to recover from the beating suffered during the financial crisis.

The hedge fund that once had $2.5 billion under management helped Henry build a formidable sports empire, partially run applying a mathematical mindset. Henry's mathematical algorithms were designed to identify long-term trades based on historical price patterns, making him a leading player within a small group of traders pursuing an investment strategy called trend following. The owner of Boston Red Sox turned the spotlight on trend following's connection with baseball when he hired statistical wizard Bill James to statistically enrich the Red Sox with his numbers-centric perspective. Henry was convinced baseball was putting too strong emphasis on athletic ability rather than on pure production - hitting, power, and plate discipline. According to Henry's line of thought, producing must be the goal in both baseball and trend trading. The successful data-driven billionaire once wrote that "people in both baseball and the financial markets operate with beliefs and biases. To the extent you can eliminate both and replace them with data, you gain a clear advantage."

"Success in baseball came to hinge less on signing expensive stars, and much more on making smart bets on which young players would emerge as the next baseball stars."

After winning the World Series in 2004, a mere two years after John Henry and his partners bought the team, Boston Red Sox won a second title in 2007, proving the first win in 86 years was no accident. Success in baseball came to hinge less on signing expensive stars, and much more on making smart bets on which young players would emerge as the next baseball stars. At the end of the day, winning in baseball started to resemble winning in futures trading. Henry's investing philosophy made him a natural aficionado of sabermetrics, the statistical analysis of baseball that increasingly infiltrated baseball as time passed by. Despite being known for their prudent statistics-based player signings, Henry and his partners let emotion cloud their judgment by trying to extend their team's success by signing long-term mega-contracts to retain high-profile veteran players. As a result, the Red Sox endured a string of catastrophic seasons before winning the World Series again in 2013. It was not Henry's mathematical mindset that helped the Red Sox achieve the worst-to-first turnaround in 2013, with the Red Sox becoming the second team to win the World Series after finishing last in their division.

JW Henry

It was an ability to ignore sentiment that helped Boston Red Sox achieve success in 2013, an ability Henry's friends believe is deeply rooted in his career as a hedge fund manager. "One of the things that was interesting about his model as a commodities trader was that it protected you from emotion, so you would make decisions that made sense. Often in sports, you become attached to something emotionally," said Henry's partner Tom Werner.

"If you were interested in pure financial return, sport would not be your path, because it is not liquid."

The Red Sox represents an example of how better management using advanced statistical methods enhance success. But despite John Henry's natural predisposition to use a mathematical mindset in running his baseball club, he talks about baseball as a passion rather than a financial investment. "If you were interested in pure financial return, sport would not be your path, because it is not liquid," said an in-house lawyer working for Henry's firm.

Leaving the world of baseball aside, data also has increasing influence in how football teams are run, a trend that might have spurred Henry's interest in buying English Premier League soccer team Liverpool. Young players such as Eden Hazard have been growing up with data and constant feedback, so any manager or club that appears reluctant to embrace the power of data may be placing themselves at a huge disadvantage. Only time will tell if Henry and his colleagues will overcome the goal of restoring the great sports club Liverpool to winning ways, as they did for the Boston Red Sox. But one thing is certain, disciplined investing influences the ways sports teams are run.

Mike Lowell and Dustin Pedroia of the Boston Red Sox

Ragnar Klavan & Ruben Loftus-Cheek during the 2016 ICC game between Chelsea & Liverpool.

www.hedgenordic.com - June 2017
HEDGENORDIC

Sean George, Granit Fonder

SPORTS AND ASSET MANAGEMENT: RETURN OF THE CHAMPIONS

by ***Glenn Leaper,*** PhD – HedgeNordic

At first glance, sports and asset management may seem like two different worlds. But the worlds of sports and investment management aren't as far apart as they may initially appear, and as we outline in the case of just three Swedish asset management firms, they can converge almost as a matter of second nature. Whether it's similar traits in intellectual calculus, the adrenaline rush, or the sheer will to win, the ability to execute at the highest levels of the sports world appears to translate well to the rigorous demands of investment strategy. Whether there is a correlation between risk taking in sports and investment strategy, however, remains to be determined – and may never be, considering that different temperaments will always use different strategies to win. One thing, however, is for certain - in sports as in asset management, one can only be in it, to win it.

A Case of Competitive Instinct

Case Kapitalförvaltning (Case Asset Management) and sports are practically two inseparable concepts. Starting in 2004, the Swedish privately owned wealth and fund management company was founded by a team of entrepreneurs together with dignitaries from the world of sports with the common objective of offering personal asset management to individuals, sports stars, entrepreneurs and business leaders. Its guiding business principle is to provide asset-protecting management while offering good risk-adjusted returns.

One of the things impossible to immediately notice about Case, moreover, is the presence of two sports heavyweights as partners at the helm. Stefan Edberg needs little introduction: the tennis great's list of accomplishments includes nine Grand Slam titles (six singles and three doubles), two Roland Garros championships, two Wimbledon championships and two U.S. Open championships. When Edberg's financial advisors Bo Pettersson and Frederik Svensson left Catella in 2004 to start Case, he not only followed as a customer, but also became its largest owner. It was an opportunity for Edberg to channel his competitive nature, he said, as he instinctively developed a taste for financial markets.

"I had no interest in investing at the beginning of my career," Edberg told Citiwire in 2011, "but after I started being successful I wanted to take control of my own money and life: that's how I got involved and interested. I had people investing my money for me at first. Then, when I had more time, I started following the markets and trying to understand what was going on. I think I am getting the idea."

Edberg now spends most of his time managing Case, which has over SEK 5 billion in AUM. The firm's fund, Safe Play, focuses on Nordic corporate bonds, an area it became heavily involved in following the financial crisis. Edberg has said he admires fellow fund managers Brummer & Partners, and from his experience, wants to help create awareness among tennis players and athletes about wealth management, as he counts a number of people from the world of sports as his personal clients.

As for his investment style, "I was very aggressive on the tennis court, but I am the total opposite at investing," Edberg said. "I am very conservative, focusing on looking after my wealth. I think the conservative approach will pay off in the long run, and being diversified when things get tough is key.

His partner Nicklas "Lidas" Lidström also has a track record matched by few other sports stars. A member of the ice hockey hall of fame (alongside only three other Swedes), he has four Stanley Cup victories, one Olympic gold medal, seven Norris Trophies and a Conn Smythe prize to his name. Following his retirement from sport, Lidström worked as a scout and ambassador for the Detroit Red Wings, and has worked his investments with the real estate company Industrihus in Västerås. Since 2015, he is a partner at Case, and like Edberg, is both partner and customer of the company.

The idea for Case originated in Mariegården Kapitalforvaltning, which through expansion led to its sale to Catella and then led to the founding of Case in 2004. Its founders had been nurturing the same thought concurrently: to be an independent asset manager that provides customers with an enhanced and more personal service than that offered by traditional banks. Case opts to freely choose partners that are best suited at every opportunity, giving the firm access to better analysis for the increasingly substantiated management of its customers in turn. The company's owners are long term in their ownership, creating a sound corporate culture. "We are passionate about fund and asset management in the same way that an ice hockey player burns to win an Olympic or World Cup gold medal, and it is reflected in the job we do," Lidström says.

Granit's Man of Granite

Sean George, who recently departed Wall Street after 21 years to set up a new hedge fund with Stockholm's Granit Fonder, has the unique distinction of being a kickboxer from the world of investment banking (or is it the other way round?). Previously a trader at Deutsche Bank AG, Jeffries Group LLC and Bank of America Corp, where he ran credit default swap trading during the financial crisis, he expects to be able to use this experience to profit from short-term mispricing and relative value trades at his new fund. He also likes to kick people in the head – intellectually as well as physically.

"We battle intellectually on Wall Street – there are plenty of keyboard bullies. I don't talk tough, but I quietly carry a heavy stick," George recently told efinancialcareers.com. "I'm a happy go lucky guy, I'm always laughing. The fact I like to kick people in the head during my spare time surprises my colleagues."

George has been a mixed martial arts (MMA) fighter since 1993, participating in the Ultimate Fighting Championship (UFC) and competing in Brazilian jiu-jitsu, boxing and Thai boxing fights. One of his favourite anecdotes involves losing a Muay Thai bout by split decision, only to have the champion visit him in hospital afterwards to offer him his belt, having felt George was robbed of the victory. "He said I deserved it after being robbed by the judges," George said. "It allowed me to learn a lot about myself." George hung up the gloves in 2013, but still trains at the Five Star Muay Thai and Allstars MMA gym in Stockholm (and owned his own MMA gym during his time in New York) – "just to keep fit," he says

As CIO of Granit, which has roughly $300 million in AUM, his $100 million Global Credit Opportunity fund will invest roughly 75% of its capital in high-yielding corporate bonds with the rest used for short-term opportunities and hedging, targeting returns of 5-7% annually. Clearly, in the mild-mannered and well-tempered George, Granit has found a man who can also hit the hardest.

Athletic Acuity at Accum

Accum Kapital, the Stockholm-based investment firm servicing professional and private investors seeking high risk-adjusted returns, is an independent, partner-owned firm actively managing three multi-strategy funds with a clear focus on risk control. Its Capital Preservation Strategy (CPS) fund is an absolute return, relatively low-risk multi-strategy fund, and its Capital Growth Strategy (CGS) is a multi-strategy fund targeting to exceed stock market returns over time at half the stock market risk. The right combination of the two funds, the firm claims, can potentially double capital invested within a reasonable time frame at a quantifiable risk level.

Accum, which was founded in 2009 but changed its name from WSM only in 2015, counts top athletic luminaries among its ranks. Kim Johnsson, a partner and co-founder of Accum, is a former professional ice hockey player who has represented Sweden 96 times in the World Cup and the Olympics, resulting in several medals. He has also clocked in eleven years and782 games in the U.S. National Hockey League on behalf of the New York Rangers, the Philadelphia Flyers, the Minnesota Wild and the Chicago Blackhawks. His focus is on business development, IT and compliance. Rami Shaaban, another cofounder and partner, is a former professional football goalkeeper who represented the Swedish national team in the 2006 World Cup and the 2008 European Championship. He has also played for Arsenal and West Ham in the Premier League. At Accum, he is in charge of marketing and distribution.

It is thereby to be expected that Accum also focuses on sports celebrities and their special needs. Its asset management philosophy is based on capital preservation, rather than market timing. Capital is accumulated over time through a relatively stable, low-risk return profile, while draw-downs and simultaneously minimised. Funds are managed very actively with a focus on avoiding the high volatility characterising capital markets, enabling them to produce very high-risk adjusted returns over time. Its asset management focus therefore differs from traditional long-only portfolios, where returns depend to a large extent on market timing. All top employees at Accum Kapital are fully invested in its funds, ensuring their interests are aligned with those of their clients both short and long term – surely a sign that in investment management, it pays off to have the same attitude as in sports: do or die – there is no "try".

What, then, is it that turns a great athlete into a great asset manager? No doubt, future studies will be devoted to comprehending this phenomenon. As the above demonstrates, certain traits must be held in common, not least the competitive edge and intellectual approaches to the game, though these will differ with temperament. But above all and regardless of playing field, perhaps it's all about connecting the dots at the right moment in time.

The Alchemy Of Moving Performance Lines

Alchemy Trading is a Norwegian long/short equity fund with a variable bias aiming to generate returns of 10-15%. The fund has a fully flexible mandate in pursuing absolute returns, which applies to both rising or falling markets and periods without clear market signals where the preservation of capital is paramount. Jarle Birkeland, founder and portfolio manager, underlines how treating the cash balance with care is a top priority, while deploying capital as opportunity arises. Alchemy's turnover is high, but varies depending on its trading expectancy and the portfolio sizing principles the fund employs.

Birkeland has the distinction of having had a stint as a professional football player in Werder Bremen's U23, also making several appearances with the Norwegian youth national team. "During that timeframe," Birkeland told HedgeNordic, "I got acquainted with the foremost pioneer in Scandinavia for mental training for professional athletes, Frank Beck, who was also from my home town Tønsberg. I received some valuable advice from him on performance endurance and enhancement techniques as a defense player. Being disciplined about certain practice principles in training and the early fascinating for high stakes odds helped shape my investment philosophy as an aspiring independent trader."

Almost certainly echoing Birkeland's days as a defender, the fund employs the motto: "To move the performance line from bottom left to top right." This requires the fund to protect the line's overall upside direction, meaning to take sufficient risk to maintain a sufficient slope gradient while protecting that line from sharp falls, reducing the risk during drawdowns.

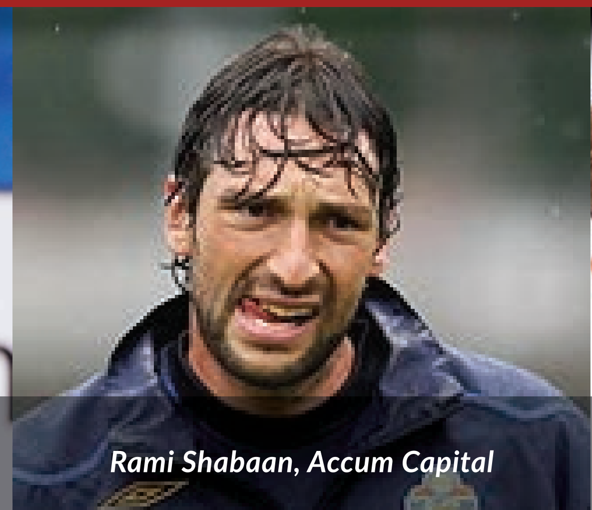
The fund is discretionary, managed with a top-down approach with strict liquidity requirements. Its investment process consists of 3 basic elements: securities selection, risk management and behavioural bias. Securities are identified within the investment universe that are considered to have superior risk return conditions. Risk management deals primarily with taking a sufficient amount of risk to create satisfactory returns over time, while taking small, uncontrolled losses when investment ideas prove unsuccessful. The strategy is completed, Birkeland says, by remaining open-minded and flexible when new information renders current analysis obsolete.

"We built Alchemy Trading from scratch through the help of friends and family. We started with super-rigid risk management guidelines, but maintained a flexible approach, involving reverse-engineering what works, rather than adopting a particular category or style," Birkeland said.


Jarle Birkeland, Alchemy


Kim Johnsson, Accum Capital


Nicklas Lidström, Case Asset Manangement


Rami Shabaan, Accum Capital


Stefan Edberg, Case AM

www.hedgenordic.com - June 2017 HEDGENORDIC

by Charles Akingbehin, Aurum Research Limited

Trends in turnover of football and hedge fund managers

"You're getting sacked in the morning"

Football fans like me will be familiar with the chant often heard on the terraces "You're getting sacked in the morning", aimed at the manager whose team is performing poorly. Taking action based on this knee jerk response to poor performance may, however, be damaging in the long term.

Imagine winning £250k from a £50 bet, a 5,000x return. One lucky punter almost did, before he opted to cash out for £72,335, during the 2016 Premier League title run in. Such outsized winnings were popping up all over the East Midlands when Leicester City produced, arguably, one of the greatest anomalies in British sporting history. The man to lead them to glory was Claudio Ranieri, who won English football's biggest prize with his unfashionable team, only to be sacked a couple of months later.

Such roller-coaster rides for managers have become commonplace in modern football, with the average tenure for an English football manager reducing from 3.5 years in 1992 to 1.3 years in 2016.

At first glance, a career evaluating hedge funds seems vastly disconnected to a passion for football; however, when it comes to the turnover of managers there are important overlaps from which both worlds can learn. This thought piece aims to draw some comparisons between my career and my life-long passion, football, after noticing similar trends in both of late - specifically, the short-termism of hiring and firing managers. My role as a hedge fund analyst at Aurum allows me to cover a wide array of funds, from start-ups to mature businesses, spanning several strategies (Quantitative, Multi-Strategy, Global Macro, Event Driven, Fixed Income and Equity Long/Short). I am of the opinion, supported by our research, that a reversion to the mean of underperforming managers is more common than many presume. Having a sound original thesis and understanding of the limitations of managers prevents reactionary trading and turnover, helping to achieve long-term goals. It seems to me the same is true of football.

"Having a sound original thesis and understanding of the limitations of managers prevents reactionary trading and turnover..."

After his departure, the outpouring of support for Ranieri came from across the footballing world including from within Leicester City, begging the question, why sack him? In this instance, it seems there wasn't a huge amount of fan pressure, more likely a lack of understanding from the board as to what could be expected from this group of players. Leicester were certainly heading towards the relegation zone, but what had really changed from previous seasons? Leicester's recent history has seen them perennially flit between leagues. Without undermining Leicester, getting relegated and promoted is what they do. Had the owners stopped to consider what had really changed, without using last season's heroics as a benchmark, would they have let a manager with such an impressive CV go?

"...a poor run of results is likely to result in the human urge of their backers to do something about it, for fear of inaction being seen as a sign of weakness."

It is true that bringing in a new coach often gives the team a boost in the short-term, as evidenced by Leicester! However, I question whether it actually translates to long-term success. Indeed, analysis by Dutch economist Professor Bas ter Weel also shows that these short-term bumps in performance are misleading. Professor ter Weel's work focuses on the Dutch Eredivisie from 1986-2004 and states that "Changing a manager during a crisis in the season does improve the results in the short term," as seen at Leicester "But this is a misleading statistic because not changing the manager would have had the same result".

The graph below depicts his work, and highlights that a reversion to the mean often occurs in all circumstances, whether a manager is fired or not.

In addition, statistical research performed by Andreas Heuer of the University of Muenster, Germany, claims to be able to "show with an unprecedented small statistical error for the German soccer league that dismissing the coach within the season has basically no effect on the subsequent performance of a team."

But what does this have to do with hedge funds?

Both the Premier League and hedge funds are high pressure, big money environments, where managers are subject to high levels of scrutiny. In both arenas, a poor run of results is likely to result in the human urge of their backers to do something about it, for fear of inaction being seen as a sign of weakness. Yet is doing something always better than doing nothing? Not according to Messrs ter Weel and Heuer.

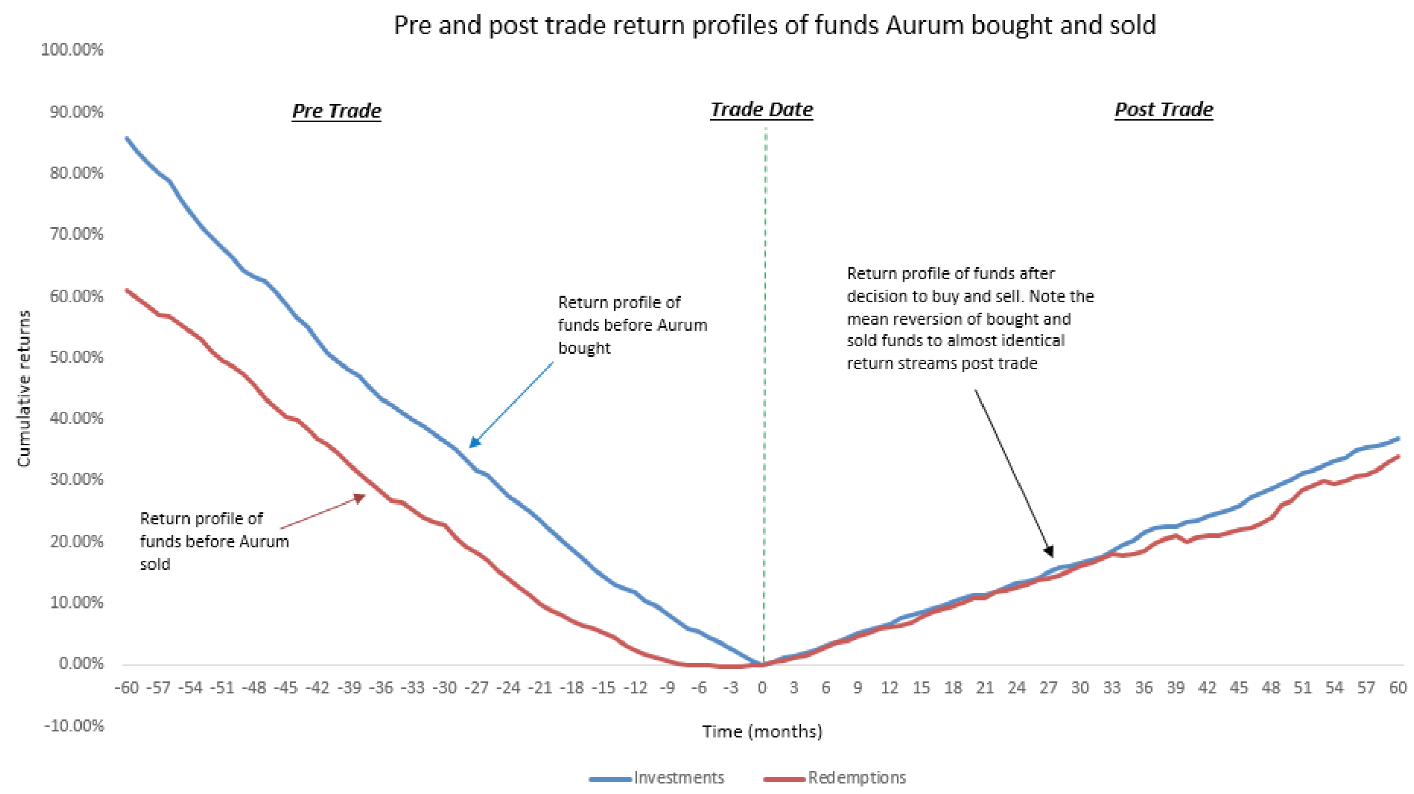
Constructive or not, there is a behavioural urge to 'satisfy' the home crowd. These emotional tendencies can foster decision-making that strays from an initial thesis, even if the facts of the case have not changed. There will always be a pool of exciting new hedge funds boasting a few

Chart compares relative performance of teams over time. At time "t", the manager is sacked or voluntarily departs. Notice the reversion to the mean of performance in all scenarios, including when the manager is not sacked (purple line).

https://www.ft.com/content/0f79860e-605e-11e6-ae3f-77baadeb1c93

months of stellar performance. A universe of thousands of hedge funds guarantees such statistical anomalies. Sometimes these are just that - statistical anomalies. At other times such superior returns can be generated at a small asset size, though subsequently degrade as the fund grows. Investments that are based on attractive short-term performance, rather than a holistic portfolio and philosophical view, are less likely to succeed long-term. The statistics show a tendency to revert to the mean for football, but what about for hedge funds? A number of years ago, we performed a review of Aurum's historical trading, which considered the performance of funds before and after they were bought or sold. Our analysis showed an amazing similarity to the work performed by Professor ter Weel, with a similar 'V' shaped graph highlighting reversion to the mean.

We noted a tendency to redeem funds following 9-12 months of poor or lacklustre performance. What we found when we fully analysed the subsequent performance of those redeemed funds was a very clear reversion to the mean immediately after the redemption. Not only that, but when we studied the pre-investment and post-investment performance of the new purchases, we found a bias toward funds with stellar performance. Aurum was drawn to the new 'stars' of the industry but, low and behold,



http://www.bbc.co.uk/news/magazine-23724517

www.hedgenordic.com - June 2017
HEDGENORDIC

these stars tended to revert downwards towards the mean subsequent to purchase. Whilst one might have expected this to a degree, the level of mean reversion surprised us. Indeed, by overlaying the return profile of new purchases (blue line) against the performance of redeemed funds (red) we found that there was almost an identical overlap in the return profiles. As with football managers, taking the tough decision to show faith in an underperforming fund had very similar results to replacing them with the seemingly easy choice 'superstar' fund. Portfolio turnover was not as additive as had been imagined.

"After seeing the evidence against short-term fixes, we believe the key to success in both football and hedge fund investing is to have a philosophy and a long-term goal that percolate through all decision making. "

Since performing this analysis we have begun to highlight biases and behavioural shortcomings in our research process and have taken steps to mitigate the risk of falling for these classic psychological traps. One such measure is the addition of a Risk and Return Expectations ("RARE") report. The RARE report forces us to set upfront expectations (with upper and lower bounds) for any proposed investment, helping to identify reactionary short-termism when faced with a period of poor performance, which we were perhaps vulnerable to in the past.

In general, we believe that we as humans, with our behavioural flaws, can often lack the ability, or desire, to analytically critique our performance. You only need to look at the success of Daniel Kahneman's book "Thinking Fast, Thinking Slow" to understand how poorly our brains account for our actions. There are perception versus reality voids which require us to put in place rigorous processes and challenge mechanisms to prevent ourselves slipping into these behavioural traps.

After seeing the evidence against short-term fixes, we believe the key to success in both football and hedge fund investing is to have a philosophy and a long-term goal that percolate through all decision making. Just as important is setting clear and realistic expectations from the outset.

Looking at the most successful football teams in recent history, the majority have had a philosophy that runs throughout the club from top to bottom, from the physio to the star striker. Barcelona is one of the standout examples, investing in youth, bringing through young coaches from within and playing a certain brand of football instilled by Cruyff in the mid-70s.

Bayern Munich is another. In the 90s, Karl-Heinz Rummenigge and Uli Hoeness set out to restructure the standard of football played at Bayern. Building on the club's academy coaching, they formed the foundations for a period of success not only for Bayern but also German football. The Bayern motto, Mia san Mia, translates as 'We are who we are', and governs Bayern in their underlying philosophy, focusing on excellence, perfection, attention to detail, unity, diversity, innovation and a promotion of youth from within.

To apply this approach to hedge funds, investors should be clear what their goal is, confirm that the manager fits with their philosophy, understand the possibilities and limitations of the manager and invest with a long-term horizon (which means being prepared for those inevitable periods of underperformance). Setting initial expectations for both the upside and downside helps investors to stay the course rather than falling into the typical reactionary traps – Leicester City!

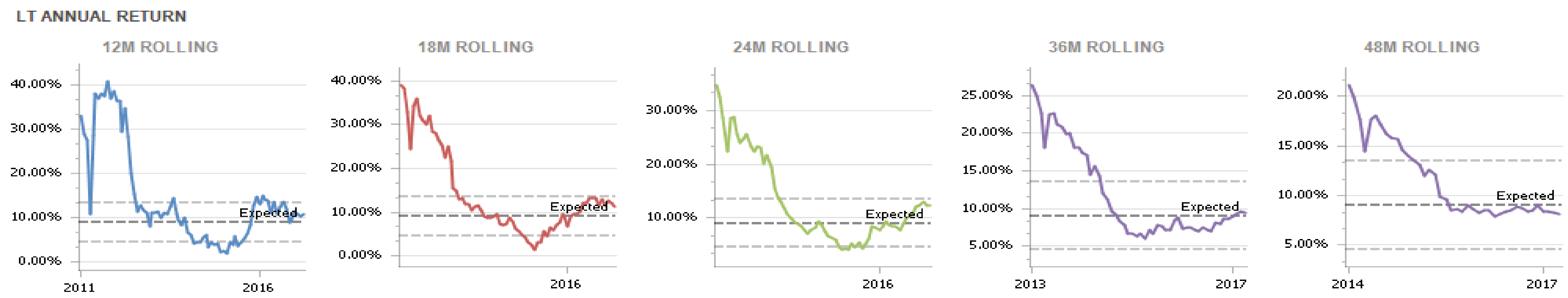
To quote Keynes "when the facts change, I change my mind – what do you do, Sir?" Assuming a sound thesis through a high quality due diligence process means that we can watch the numbers but ultimately if the facts have not changed then, to Keynes's point, why should the course change? This is why Aurum applies significant resources and effort to the investment research process. That said, if the facts change, so will our opinion, but what we do not do is fall into the trap of short-term reactionary behaviours driven by a small number of statistically insignificant data points. We understand the compelling urge to react; doing nothing in times of poor performance can be perceived as a sign of weakness or even a lack of leadership. Sticking with your original investment thesis if the facts have not changed, however, can ultimately prove beneficial. Some crowds welcome reactionary answers to problems – but often the illusionary effects of change can be short-lived, as demonstrated in the football world by ter Weel's work. All too often the shining stars revert to the mean and, as is often forgotten, the ousted 'losers' come back to form. The cost of churn is high and the opportunity cost associated with it can often go unnoticed.

Rather than out with the old and in with the new, Aurum recommends applying behavioural checks and balances to decision-making. Shoot first, ask questions later, is not the way. We are aware of fool's gold and constantly ask the hard questions of managers and ourselves– especially when the 'easy' decisions appear to present themselves. Long-term capital appreciation is built on solid foundations, processes and self-analysis, rather than dancing to the song of the numbers. Aurum has found that self-awareness and self-analysis have proved invaluable for stable and consistently performing portfolios.

Whilst it might seem odd for a hedge fund investing advocate to quote Warren Buffett, I strongly agree with his quote "games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard". Both the hedge fund industry and the Premier League may have something to learn from Warren.

Diclaimer: "Not for distribution in Norway or any other jurisdiction where restricted by law."

RARE DASHBOARD FOR LONG TERM RETURN EXPECTATIONS



http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0017664

www.hedgenordic.com - June 2017 HEDGENORDIC

LIFE AFTER THE GAME: Asset Management For Athletes

By **Glenn Leaper**, PhD– HedgeNordic

For all their dexterity and power on the track or field, athletes often face complex financial challenges later in life. With youth the central factor to a successful athletic career and peak earnings coming at a younger age, subsequent careers can be difficult to predict, and athletes haven't necessarily acquired the means to manage their fortunes at later stages in life. In addition, pay may vary according to a stage in the athlete's career, and the temptations of riches may interfere with laying the financial foundation for athletes' subsequent careers or retirement.

Disciplined investment frameworks therefore become essential for athletes to shift their track to implementing long-term financial goals. Below, we look at three Nordic asset managers who have developed specific instruments to guide and preserve athlete's assets and to help prevent athletes from becoming ensnared in questionable investments.

ASSET OF THE GODS: JRS SPORTS MANAGEMENT

Stockholm based JRS Sports Management, a branch of JRS Asset Management is specifically tailored to offer a broad range of services to customise individual solutions for elite athletes, of which it counts over 30 elite and Olympic athletes from all over the world as clients. Established in 2010 as a joint venture between JRS Asset Management and sports agent Daniel Wessfeldt, it professes a strong track record when it comes to management and leadership, with specialised expertise in all aspects of career development, from contract negotiations to licensing and event-coordination within the scope of sports management.

Wessfeldt, who has over 24 years' experience in managing world-class athletes and is an industry pioneer, began his career as a sports agent in 1987. He decided to become a professional agent and promoter upon returning to Sweden following experiences in the United States with such luminaries of the athletic world as Carl Lewis and Edwin Moses. Wessfeldt is now CEO of JRS Sports Management.

JRS Sports Management offers individually tailored solutions and counselling in the areas of career management and assistance, marketing, law, insurance, finance and wealth management through building close collaborations with athletes, coordinating all aspects of client management to optimise services by maximising clients' existing and future earning potential. This includes long-term investment strategies and financial planning, prudent wealth management and strategic anticipation of business opportunities in the market. JRS works closely and actively with its athletes to strengthen their personal brands and maximise their earning potentia.

FORMUEPLEJE TO THE RESCUE

As is the case with so many athletes approaching the midpoint of their career, 28-yr old Jannick Green, the goalkeeper of the Danish national handball team, made the decision at the end of 2015 that he had to find a way of keeping the money he had earned working for him. He had heard a number of horror stories from athlete colleagues who had lost money on bad investments, he himself having been approached to invest in a questionable apartment scheme in southern Europe.

"I am from West Jutland, and am therefore not heavily into making investments with excessive risk," Green had told the Danish daily Jyllandsposten. "I understand the basic mechanisms of investing, but I do not have the time nor the inclination to get my head around it. So until recently, I turned down investment opportunities that were offered to me."

www.hedgenordic.com - June 2017
HEDGENORDIC

Former football professional Peter Degn, for example, has suggested that he now regrets he was not properly advised when he invested in a German wind turbine project over a number of years. In this context, Danish Athlete's Association director Mads Øland explained that sports professionals need expert assistance to handle the larger amounts of income such that practitioners are not recommended easy or too-clever-by-half solutions.

> **"I understand the basic mechanisms of investing, but I do not have the time nor the inclination to get my head around it."**

Green, whose day job is as goalie for the Bundesliga club SC Magdeburg, had heard, however, about Formuepleje, Denmark's largest asset management firm. He knew that Formuepleje employed a special customer advisor, former handball national team player Gitte Brøgger Led, to handle the financial needs of athletes in particular. When Led presented Formuepleje's business model to Green in 2015, he decided Formuepleje would be his financial advisor. "I have invested through my sports pension, and I certainly don't regret having done that," he said. "The next step is to make other investments. Whether that will be in stocks, bonds or something else, time will tell."

Formuepleje, the largest privately owned asset management firm in Denmark, was incepted in 1988 and is the brainchild of founders Claus Hommelhoff and Erik Mølller. Today, it has around 11,000 clients, with 65 employees and offices in Aarhus, Hellerup, London and Luxembourg. The company offers a broad selection of investment solutions that can be adapted to the individual needs, temperaments and risk appetites of investors. Formuepleje also counts no less than six hedge funds in its roster (Formuepleje: Epikur, Fokus, Merkur, Pareto, Penta and Safe). Despite its striking growth over the years its investment philosophy remains the same: to invest together with investors with the clear objective of preserving and expanding their fortunes in the long term.

Athletes therefore increasingly seek expert assistance with Formuepleje, said founder Claus Hommelhoff. "Over the years, we have helped many athletes, and these have only increased as the years have progressed. We have actively done something to make athletes our customers, but it has also been remarkable that it has come to be considered a good idea in the sports community to be advised by us," Mr Hommelhoff said. "Of course, we also get something out of it financially because we give the athletes better tools. Often, neither they or their advisors have the proper background or education to manage to their money," he said.

Formuepleje has helped many athletes through the years, both active and former athletes from fields like football, handball, speedway, basketball and athletics. One of the first athletes to consult with Formuepleje was Jes Høgh, who had previously played for the Danish national football team and has played for clubs like Chelsea and Fenerbache. After his career ended in 2001, Høgh sought Hommelhoff's assistance to manage his assets.

"Without giving away the details of my finances, it has been very good for me to have skilled people to manage them after my career. Many athletes are badly advised when it comes to investment, and the horror stories could be abated if only people had the right advisors around them," Høgh said. As a player, he received countless offers that he rejected because he lacked the experience at the time to tell right from wrong.

HCP: HELSINKI'S HEALTH CAPITAL

Finnish Asset Manager Helsinki Capital Partners, a company deeply committed to Corporate and Social Responsibility, is increasingly well known for taking the step of incorporating athletes and artists among its stakeholders alongside private investors and institutions. Collaborative cultural initiatives such as these, the firm believes, contribute in turn to balancing responsible investment with business stability and sound strategy.

> **"The next step is to make other investments. Whether that will be in stocks, bonds or something else, time will tell."**

The 'HCP Sports' segment, which is run by Timo Vertala, a former professional ice hockey player for Finland, specialises in helping professional athletes to grow and protect their net worth to secure financial independence in post-professional life through long-term financial planning. To do so, HCP provides what it calls a turn-key solution that enables professional athletes to focus on performance during the season and on training during off-season. Cooperation between an athlete and HCP Sports begins with a comprehensive survey of an athlete's current situation, including taxation in their country of residence. Solutions are then devised with tailor-made asset management services that take into consideration the specific needs of each individual athlete, with the objective of best possible returns on assets with a reasonable level of risk.

Combined with its fee-only service returning all commissions to its private investors and cooperation with efficient institutions that can serve as financiers and coordinators of long-term cultural, social and humanitarian projects, these initiatives permeated with idealistic realism are an example of how HCP views its role in wider society and how it integrates stakeholder value into company culture, giving it a competitive advantage in this field. HCP has three funds under management – HCP Black, a multi-strategy fund, HCP Focus, a concentrated global long-only equity fund, and HCP Quant, a long-only equity fund focusing on SMEs.

Such examples demonstrate not only how asset management is expanding to accommodate a segment of activity with increasing needs (the sometimes obscene amounts top athletes earn would seem to make this obvious by itself), but also the gradually growing understanding among athletes themselves of the importance of safeguarding their earnings and making them prosper. To paraphrase the old saying in politics, if one isn't enraptured with sports when young, one may be lacking the heart. But a good mind will certainly recognize the value of expert advice on financial planning a little later in life.

www.hedgenordic.com - June 2017 HEDGENORDIC

What professional poker players bring to the Hedge Fund industry

By Eugeniu Guzun – HedgeNordic

In the eyes of many, trading is viewed as a fancy label for pure gambling. Indeed, most players within the financial community surely feel dishonored when they are named "gamblers" instead of "traders." During a brief stint at a day-trading proprietary trading firm, I came to the realization that no one in the office was inclined to call himself or herself a gambler, even though what we were doing at the time was pure madness (money-losing trades that involved riding intra-hour trends). They would rather have called themselves clowns, than gamblers. The reason is simple: gambling has negative connotations within society - connotations such as illegality, thoughtlessness or an advanced degree of desperation.

But if trading was really gambling, then perhaps gaming authorities should have regulated equity markets, instead of the U.S. Securities and Exchange Commission or other financial market-focused regulatory bodies. Maybe the gains earned by investment managers should have been taxed as gambling profits instead of capital gains. Although the more respected "investing" activities do differ from the more speculative trading activities, there are a lot of similarities between investing activities and professional gambling. There is, for example, a growing consensus that success in poker can be translated into success in financial markets, as a number of professional players have successfully made the transition into finance from the world of poker.

It is also no accident that many high-profile hedge fund managers - such as **David Einhorn of Greenlight Capital** - love poker. Poker resembles a fast-paced game of risk management, unknown variables and attractive payoffs. The game has great similarities with the never-ending day-to-day opportunities in financial markets. "In the past, poker was something that people left off their resume," says **Aaron Brown**, a former professional poker player and current **head of risk management at AQR Capital Management**, the company of the renowned quant hedge fund manager Clifford S. Asness. The increasing popularity of poker and the financial industry's affinity for the game, however, have made poker a viable qualification that can enrich anyone's resume, as traditional game theory remains an educational requirement for both traders and poker players.

The connection between poker and the "smart money" industry has therefore been a hot topic of discussion in recent years. Several years ago, the Los Angeles Times reported that all new employees at quantitative trading firm Susquehanna International Group were required to read the books "The Theory of Poker" and "Hold'em Poker" by David Sklansky, as well as spend one day a week playing poker. A great deal of individuals have successfully entered the financial industry after enjoying lucrative careers as professional players, but why, after all, would companies be interested in hiring poker players? Experts believe game theory explains the strong linkage between financial markets and the gaming world. Legendary quantitative thinker and blackjack whiz **Ed Thorp** reckons that "Poker illustrates game theory a great deal. So, I would imagine that financial companies are hiring individuals well versed in game theory, who understand risk and how to make business decisions."

Some Ivy-League universities, such as the MIT Sloan School of Management, have started to offer Poker Theory and Analytics as a graduate level course. The course is meant to provide students understanding of matters ranging from basic poker strategy to game theory and decision-making, with the purpose of the course being to develop skills for future management and leadership positions in finance, trade and global markets - careers requiring high-pressure decision-making skills.

"All new employees at quantitative trading firm Susquehanna International Group were required to read the books "The Theory of Poker" and "Hold'em Poker" by David Sklansky, as well as spend one day a week playing poker."

Harvard professor in behavioral science and poker player **Brandon Adams** identifies a strong linkage between the education of a poker player and the set of skills of someone kick-starting a career in finance. "In theory, poker should be a qualifying skill set because successful poker players have survived a ferociously competitive ecosystem that requires intense study, analytical skill, risk control and clear thinking under pressure," said Adams. And the Harvard professor isn't alone in identifying common links between poker and investing. More importantly, both poker players and successful traders share a common trait: an inquisitive mind. "Traders and poker players both ask a lot of questions. They don't take the world as it is presented to them. They are constantly tearing things apart and analyzing problems in new ways," says Adams.

Last, but certainly not least, one of the most crucial features or strengths a successful poker player can bring to the hedge fund or finance industry in general is the ability to move on from the past. It is of utmost importance to have no memory in both trading and poker. The emotional strength to forget a lost hand or bad trade and continue to maintain a forward-looking perspective are essential skills prevalent in both domains. While investing embodies logic, foresight, measured reason and prudence, in contrast to gambling's negative connotations of illegality and thoughtlessness, both disciplines have a great deal of similarities between them. And this explains the current trend of professional poker players transitioning to the world of finance.

NHX -AGI

"The aim was to have a representative gauge measuring the asset growth of the Nordic hedge fund industry as a whole."

FORGING A NEW INDEX: NHX-AGI

BY KAMRAN GHALITSCHI AND EUGENIU GUZUN – HEDGENORDIC

As of January 2017, HedgeNordic has been calculating and publishing a new index, Nordic Hedge Index – Asset Growth Index (NHX-AGI), with an attempt at representatively measuring the asset growth or decline of the Nordic hedge fund industry.

Ambitious as we are, we would have liked to answer simple yet obvious questions as: "how big is the Nordic hedge fund universe" or "what was the net inflow any given month in U.S. Dollars (or any other currency)." But right from the starting blocks, we ran into problems we have yet to overcome or find solutions to. The increased technical challenge of doing cross currency calculations going back several years (the AuM of the funds could be expressed in SEK, NOK, DKK, CHF, EUR, GBP, USD or any other currency) was a hurdle that could be taken with some effort. The main challenge we identified, however, was the dispersion among the AuM of the Nordic managers and funds. The Nordic hedge fund universe consists of a few giants with funds in the billion-dollar range, while the vast majority probably sits in the 100 million to 300 million range.

If the assets of a very large fund such as Brummer Multi-Strategy, whose AuM peaked at around 6.5 billion dollars, would decrease by 5% during a given period, the dollar-amount decrease may well offset much of the potential increase in assets enjoyed by other players within industry. While the numbers and results would be accurate, this would not be a fair representation of the industry as such, we feel.

The solution we chose was to truly fall back on an indexed-based compounding methodology. The assets under management (AuM) of each respective fund were converted to an index value of 100 at the start date of the index, set as December 31st 2009. The original index value for the NHX-AGI was calculated as the arithmetic mean of the index values of all constituents. Thus, the arithmetic mean of the index values of the funds constituting NHX-AGI equaled 100 at the start date. Each fund's AuM, regardless of its size or any other factor, is equal weighted within the index. The calculation makes no distinction or discrimination with regard to the functional currencies or the size of AuM. A net appreciation of 1% of assets in a billion-dollar fund has the same effect on the index as a net increase of 1% of assets in a 50-million-NOK fund.

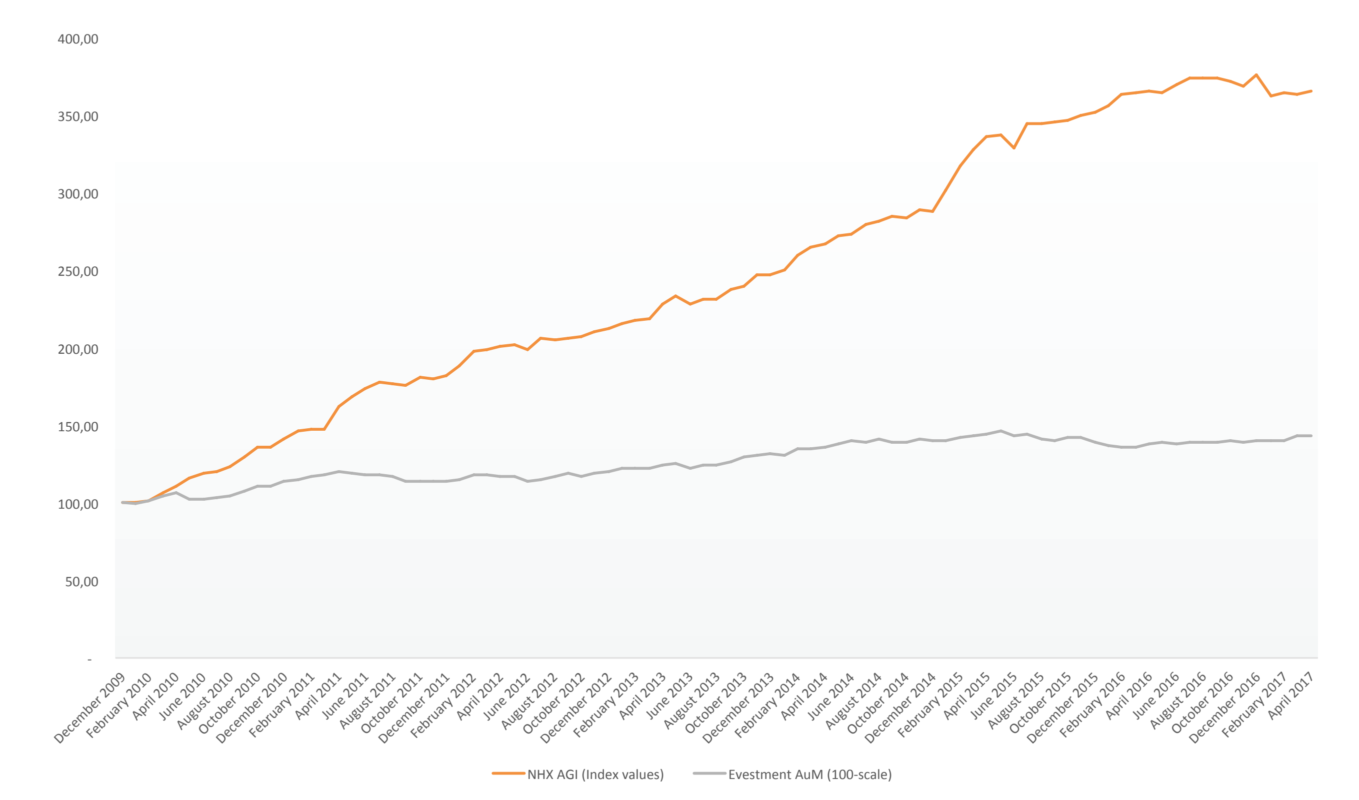
SELECTION OF FUNDS MAKING UP THE NHX-AGI

The NHX-AGI constituents were selected on the discretion of HedgeNordic. The aim was to have a representative gauge to measure the asset growth/decline of the Nordic hedge fund industry as a whole. The first selection criterion was to shortlist the funds that had been consistently reporting AuM figures to HedgeNordic. From that pool, the aim was to create a representative basket taking into account: (1) trading Style (2) country (3) size of the fund at the start date. We aimed to stay neutral regarding selecting funds

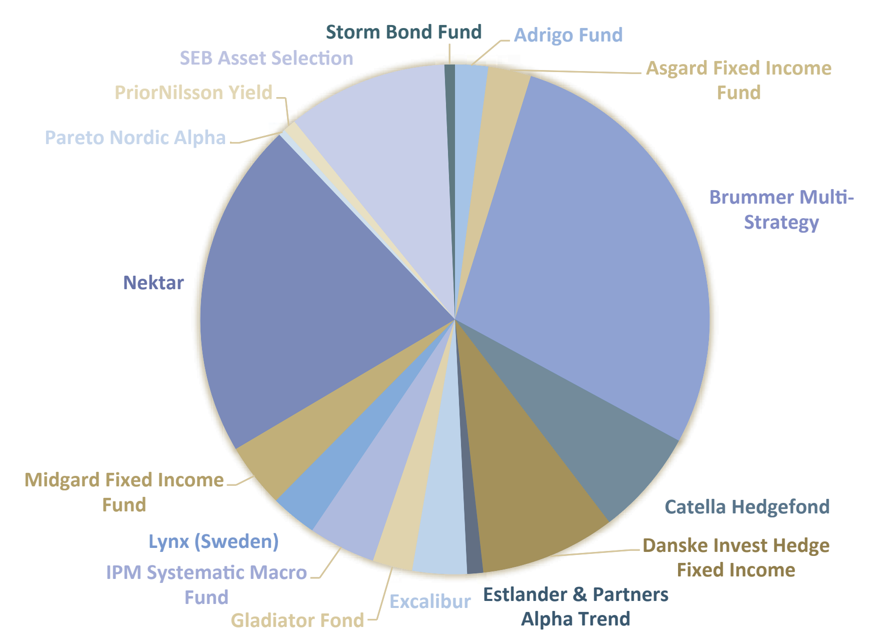
Fund	AuM in USD (31/12/09)	AuM in USD (28/4/17)	Net Change	Weighting (28/4/17)
Adrigo Fund	31.313.459	297.509.460	850%	2,1%
Asgard Fixed Income Fund	285.576.200	387.657.027	36%	2,7%
Brummer Multi-Strategy	2.646.646.871	3.989.156.831	51%	28,1%
Catella Hedgefond	717.967.393	956.570.848	33%	6,7%
Danske Invest Hedge Fixed Income	130.486.659	1.220.145.592	835%	8,6%
Estlander & Partners Alpha Trend	300.590.000	144.000.000	-52%	1,0%
Excalibur	106.868.732	491.446.676	360%	3,5%
Gladiator Fond	48.924.309	359.518.834	635%	2,5%
IPM Systematic Macro Fund	67.083.000	604.000.000	800%	4,3%
Lynx (Sweden)	270.463.331	416.445.474	54%	2,9%
Midgard Fixed Income Fund	139.053.200	582.056.659	319%	4,1%
Nektar	1.343.492.633	3.037.442.819	126%	21,4%
Pareto Nordic Alpha	234.313.098	60.570.763	-74%	0,4%
PriorNilsson Yield	39.217.883	117.580.618	200%	0,8%
SEB Asset Selection	2.187.409.391	1.447.945.500	-34%	10,2%
Storm Bond Fund	10.727.425	94.278.393	779%	0,7%
Total	**8.560.133.584**	**14.206.325.492**	**60%**	**100,00%**

Source: http://nhx.hedgenordic.com

www.hedgenordic.com - June 2017 HEDGENORDIC



Source: http://nhx.hedgenordic.com / http://evestment.com



Source: http://nhx.hedgenordic.com

that had extraordinary appreciation or decline in assets under management. The number of funds constituting the NHX-AGI should at least represent 10% of the universe making up the Nordic Hedge Index Composite, which is composed of155 funds.

Indeed, we would have preferred to have a wider base for the calculation. However, as of December 31st 2016, there are only 49 funds active and alive within the NHX-Composite Index that track back to 2010, of which only a portion are disclosing AuM to the public, which significantly narrows down our sample group.

WRONG ASSUMPTIONS

We wrongly assumed that the index would flatten out after the first couple of years, which emerged as a problem with our methodology. Our line of thinking was that younger funds may enjoy a steeper asset-growth curve in the first three to five years. Although sales teams' opinions may differ, the underlying assumption was that the challenge of adding 1% of assets a month in nominal Dollars to a five billion-dollar fund would typically be greater than increasing the assets of an emerging 50 million-dollar fund by one percentage point (again, in percentage of assets, disregarding ticket sizes). We are still investigating the possibility of adding younger funds that meet certain criteria every year since the start date of the NHX-AGI to compensate for any such effects.

AUM DEVELOPMENT OF NHX-AGI COMPONENTS

If we were attempting to predict the growth in AuM of Nordic hedge funds in late December 2009, we would have likely expected the largest funds within the industry to realize a lower percentage increase in assets over the next six-year time span. This hypothetical prediction would have however been wrong. For instance, the Dankse Invest Hedge Fixed Income Strategies fund, the fourth-largest constituent at start, with around $1.22 billion under management, enjoyed the second-highest* growth in assets in the period January 2010-April 2017. Leaving aside the Danske exception, our data shows that the smallest Nordic funds in terms of AuM enjoyed some of the highest rates of growth in assets over the period of six years and four months starting from January 2010. For example, Storm Bond Fund, a Nordic high-yield fund that had the lowest amount of AuM among the NHX-AGI components at the end of 2009, experienced the highest growth in assets in the period January 2010-May 2017**.

The table on the previous page sketches the composition and constituents of NHX-AGI. Putting things into perspective, the dollar-amount increase in the AuM of Brummer Multi-Strategy (BMS) - the largest fund in the Nordic hedge fund industry both as of the end of 2009 and as of the end of April 2017 - accounted for around 24% of the dollar-amount increase of the entire NHX-AGI. This figure seems extremely high, especially considering that the change in the AuM of BMS was a mere 87% - a percentage increase that is significantly lower than the triple- and quadruple-digit growth rates of the smaller funds. More importantly, BMS and Nektar, two players within the Brummer & Partners family of funds, accounted for nearly half of the increase in the dollar-amount of AuM of the NHX-AGI. Our attempts to create an index based on actual assets under management showed no meaningful results, with the table presented above presenting the hurdle of building such an index. Though all constituents in NHX-AGI are equal weighted for index calculation purposes, the pie chart to the left illustrates how an asset weighted composition of the same funds would look like.

DEVELOPMENT OF THE NHX-AGI VERSUS GLOBAL HEDGE FUND ASSET FLOWS

Before drawing any conclusions from the data encompassed in NHX-AGI, one should bear in mind that the index does not reveal explicitly whether the dollar-volume of AuM of the Nordic hedge fund industry increases or declines. Instead, the NHX-AGI serves as a proxy representation of AuM growth for the Nordic hedge fund universe. Hence, the index shows how the AuM of both small and large hedge funds develop on a monthly basis. Although it may be a stretch to to find a meaningful benchmark for the NHX-AGI to illiustrate a comparison between the newborn Nordic index and external data, we attempted just that. In the chart to the left exhibiting the growth of assets for the global hedge fund industry the NHX-AGI shows to have been growing at a faster pace than the growth in hedge fund assets as provided by eVestment, a trend possibly explained by the relatively young stage of growth of the Nordic hedge fund industry. Starting from mid-2016 up to this point in time, the NHX-AGI has experienced a noticeable drop in values. Investor outflows dominated the narrative surrounding the global hedge fund industry during 2016, and the Nordic hedge fund industry appears to be no exception. In addition, there were individual funds, like Catella Hedge Fond, which had extraordinary reasons for a sharp decline in AuM.

One should not ignore the possibility that the NHX-AGI overestimates the growth of assets for the Nordic hedge fund industry, as the index is computed using weighted-average percentage changes. For instance, the actual dollar-volume of assets under management of the 16 index components increased by roughly 66% in the period January 2010-April 2017, significantly lower than the 265%-increase in the index value of the NHX-AGI. Nonetheless, the increase in the dollar-volume of AuM of the Nordic industry still outpaced the 43% jump in the assets of the global hedge fund industry.

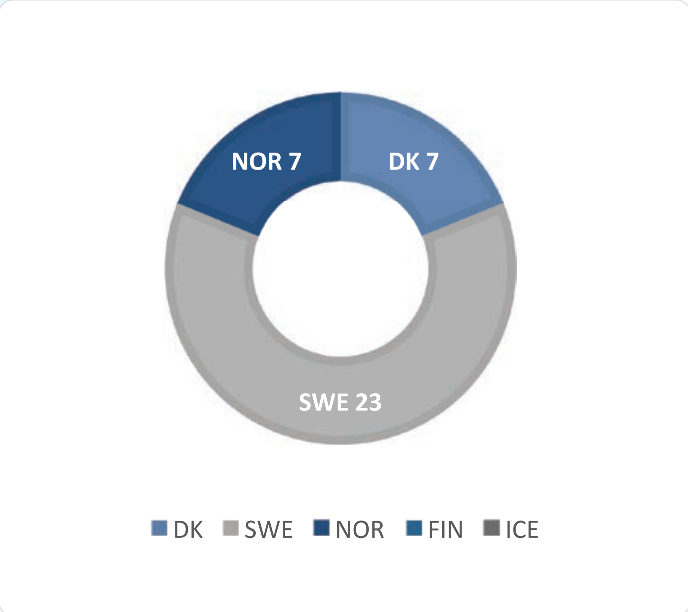
**Growth was measured using the functional currencies of the funds. **The month-end AuM figure for May 2017 due to missing data for the month of April.*

www.hedgenordic.com - June 2017
HEDGENORDIC

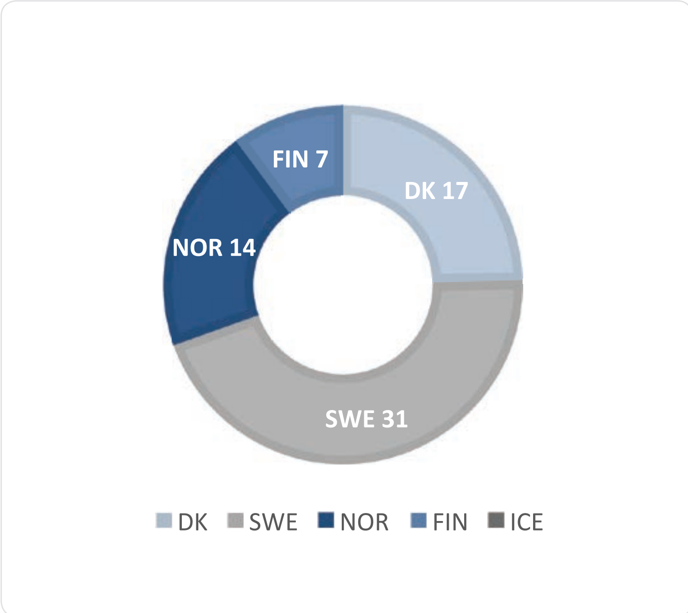
HISTORY & STATISTICS

KEY FIGURES AND FINDINGS FROM THE FIVE YEARS OF THE NORDIC HEDGE AWARD

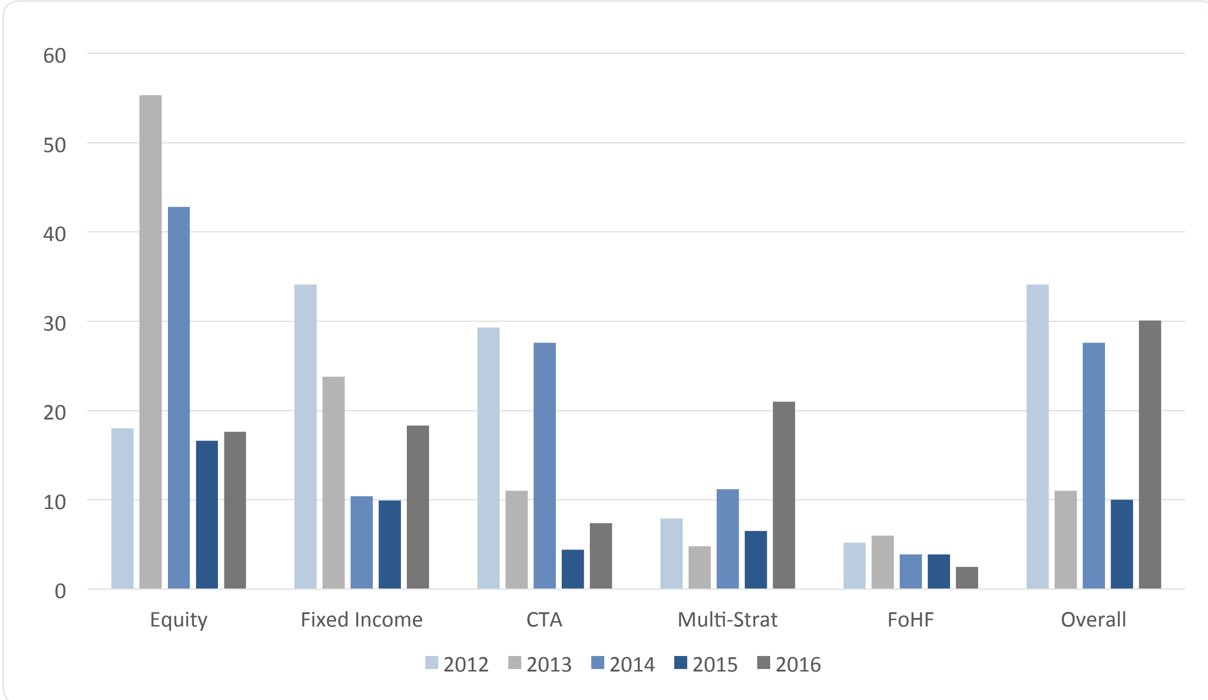
Category Winners by NHX Country (2012-2016)



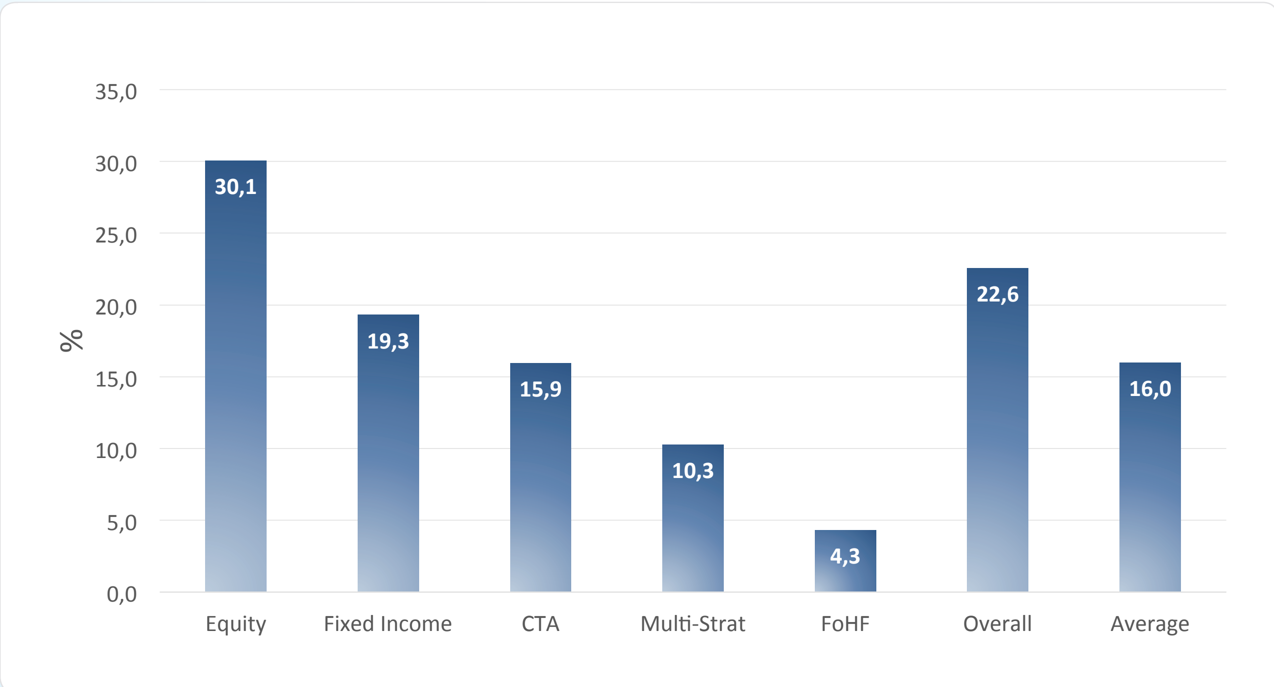
Runners Up by NHX Country (2012-2016)



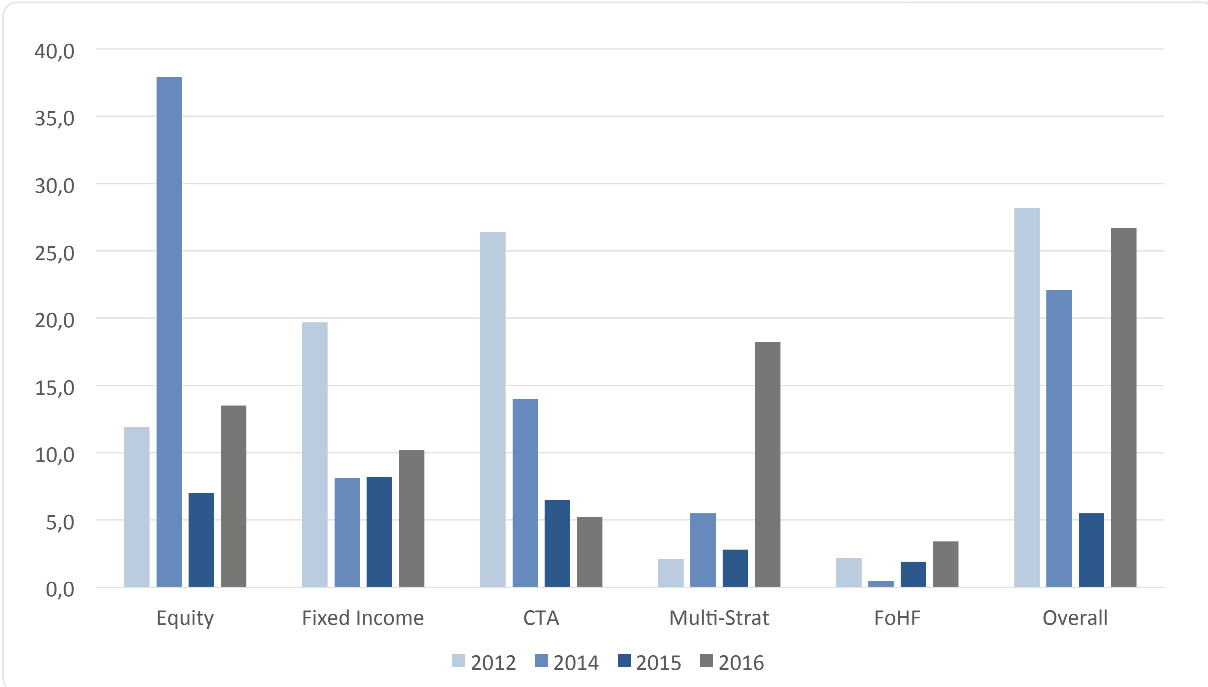
Performance of Winning Funds per Category (2012-2016)



Average Performance of Category Winners 2012-2016 (%)



Overperformance of Winning Funds per category to Respective NHX Sub-Index 2012-2016



HEDGENORDIC

"Your single access point to the Nordic Hedge Fund Industry"

www.hedgenordic.com

GENERAL TERMS AND CONDITIONS

These are the terms and conditions which govern the use of „HedgeNordic Industry Report", an online magazine edited and distributed by electronical means and owned, operated and provided by Nordic Business Media AB (the "Editor"), Corporate Number: 556838-6170, BOX 7285, SE-103 89 Stockholm, Sweden.

DISCLAIMERS AND LIMITATIONS OF LIABILITY

1. The Content may include inaccuracies or typographical errors. Despite taking care with regard to procurement and provision, the Editor shall not accept any liability for the correctness, completeness, or accuracy of the fund-related and economic information, share prices, indices, prices, messages, general market data, and other content of „HedgeNordic Industry Report" ("Content"). The Content is provided "as is" and the Editor does not accept any warranty for the Content.

2. The Content provided in „HedgeNordic Industry Report" may in some cases contain elements of advertising. The editor may have received some compensation for the articles. The Editor is not in any way liable for any inaccuracies or errors. The Content can in no way be seen as any investment advice or any other kind of recommendation.

3. Any and all information provided in „HedgeNordic Industry Report" is aimed for professional, sophisticated industry participants only and does not represent advice on investment or any other form of recommendation.

4. The Content that is provided and displayed is intended exclusively to inform any reader and does not represent advice on investment or any other form of recommendation.

5. The Editor is not liable for any damage, losses, or consequential damage that may arise from the use of the Content. This includes any loss in earnings (regardless of whether direct or indirect), reductions in goodwill or damage to corporate.

6. Whenever this Content contains advertisements including trademarks and logos, solely the mandator of such advertisements and not the Editor will be liable for this advertisements. The Editor refuses any kind of legal responsibility for such kind of Content.

YOUR USE OF CONTENT AND TRADE MARKS

1. All rights in and to the Content belong to the Editor and are protected by copyright, trademarks, and/or other intellectual property rights. The Editor may license third parties to use the Content at our sole discretion.

2. The reader may use the Content solely for his own personal use and benefit and not for resale or other transfer or disposition to any other person or entity. Any sale of Contents is expressly forbidden, unless with the prior, explicit consent of the Editor in writing.

3. Any duplication, transmission, distribution, data transfer, reproduction and publication is only permitted by
   i. expressly mentioning Nordic Business Media AB as the sole copyright-holder of the Content and by
   ii. referring to the Website www.hedgenordic.com as the source of the information.

   provided that such duplication, transmission, distribution, data transfer, reproduction or publication does not modify or alter the relevant Content.

4. Subject to the limitations in Clause 2 and 3 above, the reader may retrieve and display Content on a computer screen, print individual pages on paper and store such pages in electronic form on disc.

5. If it is brought to the Editor's attention that the reader has sold, published, distributed, re-transmitted or otherwise provided access to Content to anyone against this general terms and conditions without the Editor's express prior written permission, the Editor will invoice the reader for copyright abuse damages per article/data unless the reader can show that he has not infringed any copyright, which will be payable immediately on receipt of the invoice. Such payment shall be without prejudice to any other rights and remedies which the Editor may have under these Terms or applicable laws.

MISCELLANEOUS

1. These conditions do not impair the statutory rights granted to the readers of the Content at all times as a consumer in the respective country of the reader and that cannot be altered or modified on a contractual basis.

2. All legal relations of the parties shall be subject to Swedish law, under the exclusion of the UN Convention of Contracts for the international sale of goods and the rules of conflicts of laws of international private law. Stockholm is hereby agreed as the place of performance and the exclusive court of jurisdiction, insofar as there is no compulsory court of jurisdiction.

3. Insofar as any individual provisions of these General Terms and Conditions contradict mandatory, statutory regulations or are invalid, the remaining provisions shall remain valid. Such provisions shall be replaced by valid and enforceable provisions that achieve the intended purpose as closely as possible. This shall also apply in the event of any loopholes.