

Nordic Absolute Return expands horizons to target UK and other European investors

Despite a strong track record dating back to 2003 — making it one of the more established Scandinavian hedge fund managers — Stockholm-based Nordic Fund Management is far from a household name, and its Nordic Absolute Return Fund may have eluded many investors' radar screens.

But the firm is now making moves to extend beyond its traditional Swedish clientele, with a marketing initiative aimed at investors in the UK and, potentially later, other major European centres.

Its fundamental long/short equity strategy has produced an annualised return of 7.92% since launch in April 2003, and the fund has performed well so far in 2011, with a year-to-date gain of 8.03%. This includes positive returns in August and September of 1.56% and 3.09% respectively, when equity markets and most European long/short funds took a pummelling.

The Dublin-domiciled Nordic Absolute Return Fund is managed by Bo Lehander and Fredrik Lekman. The fund began with an emphasis on Nordic equities, but this has changed over time.

"There's a narrow universe of stocks traded up here, so there are

only a relatively small number of industries available to us — consumer-oriented companies are particularly hard to find in Scandinavia," explains Lekman.

"On top of that, over the last few years, valuations have not been attractive and liquidity has dried up significantly, so the number of attractive names and sectors has dramatically decreased for us."

As a result, the fund now has a pan-European remit with an emphasis on larger, more liquid markets such as the UK, Netherlands, Germany and France — alongside any opportunities the duo are still able to source nearer to home.

The portfolio managers identify trends in the markets — in particular trying to gauge market momentum — and then adjust the portfolio accordingly. They take a very fundamental approach, both to macro analysis and to stock-picking. "We're trying to take distinct bets when we have a high conviction about what the market trend is going to be," says Lekman.

"If we believe we're in a multi-year up-market trend, we'll be heavily net-exposed to the stock market: 100% net or more. If we think we're in a down-market trend, we'll either be out of the

market or slightly negative. When we have a view, we take a position on it, and when we don't have a view we take risk off the table. Once we've decided whether we're in an up-market trend or not, it's a matter of traditional stock-picking."

The portfolio focuses on liquid large and mid-cap names. It is relatively concentrated, with around 15 to 20 positions chosen from a select universe of about 150 companies.

"We like to take fairly big bets, and a long position will usually be between 5% and 15% of the portfolio," says Lekman. "We've never had more than 25 names in total, both long and short."

The fund does not have a specific sector bias, but the managers generally focus on companies and industries that reflect the broad economy, with business models and products that are easy to analyse and understand.

The portfolio will typically include exposure to the manufacturing sectors, banks, metals and mining, food producers and retailers, while Lehander and Lekman steer clear of biotech, insurance and the technology space.

The fund's robust performance this year is largely due to the

managers taking a sceptical view of the markets. "We were net short the market in May, June and July because everything was going sideways," says Lekman. "That paid off in August and September, when the market came down significantly."

He adds: "Even though people are getting a bit more positive, we remain very sceptical — and we remain inclined towards being net-short. We think the deleveraging of the western world is going to continue for several years, creating a fundamental lack of end demand in the economy."

For a relatively undiscovered fund, Nordic Absolute Return has already reached a size, at €200 million, that could meet the requirements of some larger investors. This has been achieved through a combination of performance gains and inflows, but the firm's client base is almost exclusively Swedish.

It is now trying to raise its profile overseas, with help from prime broker UBS. The firm plans to target investors in London and, if that proves successful, Geneva, Zurich and Paris. Lekman says the fund has the capacity to reach €400-500 million before the firm would need to look at making any changes.

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