The Interview – Carl Bernadotte, CB Asset Management: “Unlike other long/short strategies, we short an index, not individual stocks, so we don’t have to generate short ideas”

Sweden funds [1] SICAV [2] Alt - Long/Short Equity -... [3] UCITS [4]

-

Carl Bernadotte, founder of Stockholm-based CB Asset Management, says the four-year-old CB Hedge fund draws on the firm’s existing investment management work and due diligence by selecting stocks from the long-only European Quality Fund, reducing market risk by shorting the MSCI Europe index.

GFM: What is the history and background of your company, principals and funds?

CB: I founded CB Asset Management in 1994 upon licensing from the Swedish Financial Supervisory Authority. The following year saw the launch of the European Quality Fund, making it one of Sweden’s oldest European Equity Funds. After outperforming the benchmark MSCI Europe index for many years we launched a hedge fund, CB Hedge, in July 2007 with the strategy of buying a selection of stocks from our successful European Quality Fund but reduce market risk by shorting the MSCI Europe.

Since the stock selection strategy for the two funds is the same, they also have the same management team, with myself as lead manager. In June 2008 we launched an environmental fund of funds, Save Earth Fund, which has greatly outperformed the WilderHill New Energy Index since launch. Currently the company has EUR50m in assets under management.

GFM: What is the structure of your funds?

CB: Formally, the European Quality Fund consists of two separate funds that are co-managed and have identical investment portfolios, European Quality Fund Sicav and European Quality Fund Ltd. The first is a Ucits-compliant open-ended investment company domiciled in Luxembourg, the second a British Virgin Islands fund that has two sub-funds, EQF Ltd Accumulation and EQF Ltd Distribution (with a 6 per cent annual dividend). In total, EQF has three share class sub-funds.

CB Hedge and Save Earth Fund are both domiciled in Luxembourg. Save Earth Fund and European Quality Fund Sicav are Ucits funds while CB Hedge is a so-called Luxembourg Part II (non-Ucits) fund. The funds are open-ended.

The management company, CB Asset Management, is based in Stockholm and the marketing of the funds has been carried out under the name CB Fonder since the beginning of 2011.

GFM: Who are your main service providers?

CB: The main service providers are Caceis, custodian and administrator for the European Quality Fund, and SEB Fund Services, custodian and administrator for CB Hedge and Save Earth Fund. The auditor for all our funds is PricewaterhouseCoopers, while SEB in Stockholm is the prime broker for CB Hedge.

GFM: What is your distribution strategy and targeted client base?

CB: The client base of the company has always been institutional investors, mainly family offices. In recent years we have increased our focus on attracting retail clients as well, and today the funds are available on almost all platforms used by retail clients in Sweden. The Swedish pension system has also become an important client base for the company in recent years. Approximately 90 per cent of the company's assets are still from institutional investors and the client base is mostly Swedish, although we are doing some marketing in Finland too.

GFM: What impact has the recent global financial crisis and economic downturn had on your business?

CB: The crisis was a very tough time for everyone involved in the asset management business. Despite the harsh environment, the company and our funds did quite well during the crisis and we did not lose many investors. All three funds we manage outperformed their respective benchmarks and managed to protect the capital quite well, mainly attributable to the fact that we focus in our management on low risk and absolute returns. For example CB Hedge lost only 0.2 per cent in 2008. In fact we were more affected by the sharp rebound in the markets, which we didn't see coming, at least not on the scale that emerged.

GFM: Please describe your investment process.

CB: CB Hedge builds on the same investment platform as our long-only European Quality Fund. CB Hedge reduces market risk by shorting the MSCI Europe index and taking long equity positions selected from the European Quality Fund – we do not short individual stocks. The investment process is therefore much the same as for European Quality Fund, built on both qualitative as well as quantitative variables and both bottom-up and top-down criteria.

GFM: How do you generate ideas for your funds?

CB: We are active in a segment – European medium and large cap companies with a minimum capitalisation of EUR1bn – where a lot of ideas are generated. The majority are generated through direct contacts with brokers specialising in the countries we are active in and the research they provide us with. Business publications such as the Financial Times and The Economist are also important in the process, along with the fact that we have many years of active experience in the segment and many contacts.

The ideas are then evaluated both quantitatively, through fundamental and technical analysis, and qualitatively before the idea turns into a fund holding.

GFM: What is your approach to managing risk?

CB: The risk levels of the funds are continuously monitored and action is taken if risk levels are too high. The goal is to keep risk lower than the relevant market index in terms of drawdown and standard deviation, especially in extreme market conditions such as the second half of 2008. Both the Save Earth and European Quality funds have succeeded in keeping the standard deviation lower than their relevant market index since then.

GFM: How has your fund performed?

CB: The European Quality Fund has outperformed the MSCI Europe index over one, three and five years and since launch. The Save Earth Fund is approximately level with MSCI World since launch, but with lower risk as measured by standard deviation, and has strongly outperformed the WilderHill New Energy Index, a global benchmark comprising 88 renewable energy stocks. CB Hedge is down a few per cent since inception despite returning 30 per cent last year.

Going forward we are very bullish for CB Hedge as we expect a low-growth environment in 2011-12 that we believe will favour our strategy.

GFM: Are you looking at any particularly attractive opportunities right now?

CB: We do not detect any areas of special attractiveness at present; we feel comfortable with the portfolio and see great upside in our long positions. We are long-term investors and try not to look for short-term ideas in search of quick profits. Finding attractive opportunities always sounds nice, but often turns out to be something else in practice.

GFM: What developments do you expect to see in your investment sector or industry field in the coming year?

CB: We expect more mergers between fund managers as new regulations such as Ucits IV are becoming burdensome to handle for small companies.

GFM: How will these developments affect your firm and the performance of your funds?

CB: We are able to handle the situation by keeping a low cost base and outsourcing much of the administration. And if the right opportunity occurs, we might be interested in acquiring a fund or two ourselves.

GFM: What differentiates you from other managers in your sector?

CB: We have a very plain vanilla strategy and very low turnover in our portfolios. The strategy of CB Hedge is also unique compared with other long/short strategies, in that we don’t short individual stocks but the MSCI Europe index, and therefore we don’t have to generate short ideas. We can focus on what we believe in, not what we don’t believe in.

What also makes the strategy of CB Hedge unique is that we choose stocks from our long-only European Quality Fund. We have a very well-defined universe of stocks and comprehensive knowledge of them, having already done due diligence before we bought them for the European Quality Fund portfolio.

GFM: How do you view the environment for fundraising over the coming 12 months?

CB: We see the environment as quite positive due to strong performance in 2010 and attractive market sentiment due to positive feedback from investors on the funds’ strategies.

GFM: How do you expect your business to be affected by current and proposed regulatory changes?

CB: We see changes coming due to the tightening of the regulatory environment, especially Ucits IV. These will require much more administration and is therefore a threat to smaller firms, especially those that handle their own administration. Having outsourced much of our administration to Caceis and SEB Fund Services, we don’t expect any big changes, though we are aware of and prepared for a greater administration burden for us as well.

- Equity Long Short

Source URL:
http://www.hedgeweek.com/2011/07/04/interview-%E2%80%93-carl-bernadotte-cb-asset-management-%E2%80%9Cunlike-other-longshort-strategies-we-sho

Links:
[1]
http://www.globalfunddata.com[0]=Sweden&status=Active&return_date=2012-06-30&searchType=advanced
[2]
http://www.globalfunddata.com/?title=&structure[0]=SICAV&status=Active&return_date=2012-06-30&searchType=advanced
[3] http://www.globalfunddata.com/?title=&strategy[0]=Alt - Long/Short Equity - Europe&status=Active&return_date=2012-06-30&searchType=advanced
[4]
http://www.globalfunddata.com/funds/search/ucits'?title=&status=Active&return_date=2012-06-30&searchType=advanced