

## **The Interview - Carl Meurling, Emeralt Investments: "We are one of the few long/short equity managers left in emerging Europe"**



Carl Meurling, chief executive of Russia and emerging Europe specialist Emeralt Investments, says many investors want exposure to the region with limited and controlled risk, making the firm's funds a good alternative to long-only products that are completely exposed to market risk.

### **GFM: What is the background to your company and funds?**

**CM:** Emeralt Investments is an investment advisory firm run by myself as chief executive along with Mats Wandrell and Daniel Dinef as managing partners. The firm runs the long/short equity Emeralt Emerging Europe Fund, established on November 1, 2007, and Opal Russia Fund, set up on October 8 last year, as well as a mirror fund of Emeralt managed for a Nordic private bank, Ålandsbanken, and established on January 13, 2010.

Daniel and Mats run the Emeralt and Ålandsbanken funds, while Johan Ekström manages Opal Russia. Emeralt and Opal are domiciled in the Cayman Islands, and Ålandsbanken Sicav II is based in Luxembourg.

### **GFM: Who are your key service providers?**

**CM:** Emeralt's prime broker is Morgan Stanley, its fund administrator is UBS Fund Services and its legal counsel is Walkers, while Opal's prime broker is Citigroup, its administrator is Fast Group and its legal counsel is also Walkers. Ålandsbanken Sicav II uses Morgan Stanley as prime broker and PNC as administrator.

### **GFM: What is your client base?**

**CM:** At the moment, most of our investors are based out of Scandinavia, but we have investors from all corners of the world.

### **GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?**

**CM:** When the fund was launched, it was seeded by KBC Strategic Investments, a unit of KBC Bank. During the crisis, the bank's hedge fund seeding business was shut down and KBC withdrew all its

assets, which made up a significant proportion of the fund. Our markets collapsed in an unprecedented way. Of the world's 13 worst equity markets in 2008, 10 were located in our investment region.

**GFM: What is your investment process?**

**CM:** We scan the region for companies to compare our in-house view with that of the market. Big divergences between our house view and the market view would spark a long/short idea. The idea is verified by meeting management of companies and market observers in Stockholm as well as within the region. The investment managers have managed money in emerging Europe since the mid-1990s and have a strong, broad network.

**GFM: How do you generate ideas for your funds?**

**CM:** We have systems covering all available companies in our regions, as well as access to the latest research by global and local investment banks. We travel the region to meet companies locally, and draw on many years of experience and networking.

**GFM: What is your approach to managing risk?**

**CM:** The overall goal in our funds is to generate a high risk-adjusted return, as measured by the Sharpe ratio. This is also used daily to calibrate our positions, and when the risk-reward ratio is no longer optimal, the position is closed out.

This is particularly true in the Emeralt Fund, which targets volatility of 5 to 15 per cent annually, while there's a bit more leeway with the Opal Fund, whose volatility target is 15 to 25 per cent and which is more long-biased. Common to all the funds is that volatility is the core parameter that drives our performance.

**GFM: How has your recent performance compared with your expectations and track record?**

**CM:** Our goal for the Emeralt Fund is to generate 15 to 25 per cent annually with a volatility of between 5 and 15 per cent, which we have accomplished. The Opal Fund's track record is too short to comment on for the moment, but performance is very encouraging and we have had no negative months so far. We expect to maintain our stable performance with a rolling 15-25 per cent annual net performance with low risk.

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

**CM:** We are one of the few remaining long/short equity fund managers left in emerging Europe in the wake of the crisis. Most remaining funds are long-only and hence 100 per cent exposed to market risk. However, many investors want exposure to emerging Europe with limited and controlled risk, and our funds present a good alternative.

**GFM: Do you have any firm plans for further product launches?**

**CM:** We don't have any immediate plans at this time, but we always keep our eyes open for new and interesting opportunities.

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