

The "Magic of Three": Protean Select Turns Milestone into Major Allocation

Reaching the three-year mark is a key milestone and often a turning point for any emerging hedge fund. For Protean Select, the opportunistic equity hedge fund managed by a Stockholm-based team led by Pontus Dackmo and Carl Gustafsson, its three-year anniversary in May was soon followed by a significant investment from a Nordic foundation.

"There is something magical about the number three," says Dackmo, CEO and investment manager at Protean Funds. "You simply need that number of years to go from being an emerging manager to have something resembling a credible track record," he elaborates. "We find that the number of conversations increased significantly once past the holy three-year mark." However, both the surge in investor interest and the recent allocation from the Nordic foundation would not have been possible without a compelling track record for Protean Select.

Protean Select is an absolute-return-focused hedge fund that employs an opportunistic long /short equity strategy. Since its launch in May 2022, the fund has generated an annualized return of 9.4 percent, with annualized volatility of just 4.6 percent. Its inception-to-date track record shows a correlation of only 0.66 with the MSCI World Index, demonstrating, in Dackmo's words, that "it seems possible to achieve above-market returns with less than a third of the volatility."

Swedish institutional investors, in particular, have been cautious toward hedge funds in recent years – especially domestic ones – despite the presence of a wide range of local allocators. As the team at Protean Funds observes, "local institutions tend to keep relatively low allocations to hedge funds, and what limited exposure there is often ends up with international blue-chip names – the big, established players in London and New York." As Dackmo jokes, "It's a lot glitzier than giving money to five guys in a cupboard in Stockholm (well four, and a fifth in a garage on an island on the west coast of Sweden)." Therefore, "it is extra satisfying to welcome a big established and professional foundation among our investors."

While the new allocation and the growing number of institutional conversations may bring additional flows into Protean Select – currently managing nearly SEK 900 million – the team has been clear from the outset that the fund's focus is on returns, not asset gathering. From day one, they emphasized that the fund "will remain small, to safeguard participation in the size-limited Nordic investment opportunity set," with earlier indicated plans to close the fund to new investments at SEK 2 billion, although that number may end up lower.

"Building assets is a double-edged sword, as we all know it's harder to generate returns in a nimble way with a bigger asset base," acknowledges Dackmo. "If some of the currently ongoing discussions come to fruition – and we are picky when it comes to who we choose to accept money from – we will have to consider when to close our long/short strategies for additional investment," he concludes. "Returns come first, not assets."