

# Icelandic Opportunities

Stockholm (HedgeFonder.nu) - With near collapses in Greece, Spain and Italy one economy that ran into trouble and finally defaulted right at the beginning of the financial crisis in 2008 slipped many peoples mind. Iceland with a population of a mere 300.000 lies at the edge of Europe in the cold Atlantic, half way between the European and American mainlands. To put the size of the economy into perspective: The International Monetary Fund, IMF for 2011 ranked Iceland 118th by GDP with 14 billion USD, placing it just above Mozambique and Cambodia, but lower than the Republic of Congo or Senegal. At 43.000 USD GDP per capita (21st in IMF ranking), which puts Iceland on the same level as Germany the picture is of course very much different. Sweden's GDP per capita as example is at 57.000 USD (rank 9) and the United Kingdom 38.000 (rank22).

The turnaround and recovery story though for Iceland has been remarkable. Iceland's unemployment rate has declined consistently since the crisis, with 4.8% of the labor force being unemployed as of June 2012, compared to 6% in 2011 and 8.1% in 2010. According to the Economist Intelligence Index of 2011, Iceland has the 2nd highest quality of life in the world.

While there are plenty of funds operating in emerging markets and distressed securities, by our research there is only one alternative fund manager globally that is fully focusing on Iceland. Verto Invest is a fund manager headquartered in Vienna, co-run by an Austrian and Icelandic team. Verto Recovery Fund, launched in December 2011 under Julius Baer Multiflex SICAV umbrella, tries to make use of inefficiencies and poorly valued assets that still exist. Capital markets and the banking system are still recovering which opens the doors for attractive investment opportunities. And judging by the results in the first half year of trading for Verto, returning over 15% with a maximum monthly drawdown of 0,3% opportunities seem to be out there.

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Verto invests across several asset classes, from bonds, claims listed and unlisted equity and makes use of arbitrage possibilities arising from different exchange rates for onshore and offshore Icelandic Kronor. The companies' chief investment officer, Werner Braunöck, cherry picks promising assets from for example Iceland's defaulted banks' balance sheets after stringent analysis that can be turned around. One such example Werner tells us was Orka Energy, an Icelandic geothermal company which Verto co-invested and took a stake in through unlisted equity and debt instruments, actively managed and partially exited after only six months with an IRR of 40%, while remaining a minority shareholder. Among other opportunities are numerous international assets bought by Icelandic investors throughout the last decade, now resting in the lap of fallen banks, wind-up estates or still in the hands of distressed owners under pressure to sell. Moreover, currency generating companies and projects in export and services accept investments in Icelandic Krona that can be bought at auction discounts from the Central Bank of Iceland .

Verto is actively looking for fallen Icelandic bank claims sitting in institutional investors' portfolios from the likes of Glitnir, Kaupthing or Landsbanki or other Icelandic assets which it accepts as payment in kind and attempts to manage and restructure.

The company has established itself as an expert on stressed and distressed Icelandic assets. Though days are still early for the young fund, the first few months act as a proof of concept that opportunities in recovering markets are up for grabs, sometimes very close to home.

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