

# Interview: Grand Haven Capital

Stockholm (HedgeNordic.com) – Swiss based, Norwegian co-managed Grand Haven Capital run two long/short equity funds, Grand Haven Capital Neutral Fund and its sister fund Grand Haven Capital Fund. The funds apply a deep value approach and have concentrated portfolio structures. An impressive trading month in October 2013 returned in excess of +17% and +20% respectively for the two funds, bringing the year's tally to +44% and over +70% net return. Both funds on an absolute return basis top the tables of all 151 funds listed in the Nordic Hedge Index (NHX). While the picture looks slightly different on a risk adjusted ranking, this of course caught our attention.

We invited the portfolio managers Dr. Gregory Kenausis and Petter Fjellstad to an interview to learn more about Grand Haven's trading approach. And here is what they had to say:

**HedgeNordic:** Firstly, congratulations on your results in October, and the year so far. Can you tell us more about your investment strategy and how you achieved these results in 2013?



Dr.  
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**Dr. Gregory Kenausis:** Our strategy is to buy deep value, out of favour, Northern European small- and mid-cap stocks and to hold them until they return to fair value. We have about 10 core positions that make up about two thirds of the portfolio value. We did nothing unusual throughout the year, and have held most of the same positions throughout. The biggest contributors to the outperformance by far were the core positions, while the short book generated some alpha and our VIX-based hedging lowered the volatility.

**HedgeNordic:** You describe your investment approach as deep value. Could you elaborate a little more how you define, and find deep value stocks?

**Petter Fjellstad:** We actively seek out situations in which some development has caused a big drop in a company's share price. We then subject that company to very thorough analysis, including an assessment of whether it can reclaim its fundamental performance and of course whether management has got what it takes to make it happen. In doing so, we very often go beyond regular security analysis. Yes, we know it sounds boring and painstaking, and it can be, but the results can be formidable

**HedgeNordic:** How much 'Buffetism' would you say is in your investment philosophy?

**Dr. Gregory Kenausis:** The key to his success was simply his ability both to buy good companies when they are out of favour and then to hold them for many years. Our investment philosophy is to do exactly that.

**Mr. Petter Fjellstad:** A lot of people like to talk about Buffett and most claim to follow his strategy, but we have noticed that, when the chips are down, few have the required courage. We have shown that we can buy when others are fearful and sell when they are greedy. Some of our best cases were bought at the height of the credit crisis.

**HedgeNordic:** What advantages, and maybe disadvantages and risks do you see in running such concentrated portfolios as you do?

**Petter Fjellstad:** When we are right, we outperform the markets in a big way. In terms of being wrong in our high conviction cases, that has actually turned out to be quite rare. Once we like a company, we rarely miss on its fundamentals. So, the investments do tend to pan out sooner or later.

Our concentration has historically come with some volatility, especially in the risk-on/risk-off markets seen in the last several years. We racked our brains to come up with some way to lower the volatility. Since the beginning of 2012, we have been running a 20% to 30% short book and carefully employing some of Gregory's high mathematics in a VIX-based hedge position, and both have worked well for us throughout 2012 and 2013.

**HedgeNordic:** Can you help us differentiate your two funds, what do they have in common and where do they differ from another.

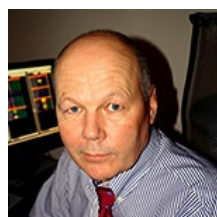
**Dr. Gregory Kenausis:** The two funds contain exactly the same positions, but the neutral fund has one additional position which is simply a short position in an appropriate ETF in an amount that takes out the beta weighted market risk.

**HedgeNordic:** So, one can argue, the outperformance Grand Haven Capital Fund has over the Market Neutral version is pure equity Beta?

**Mr. Petter Fjellstad:** Yep, you can.

**HedgeNordic:** Your track record over the years has been somewhat choppy, losing 50% of NAV in 2008, then more than doubling in 2009, and then adding another 34% in 2010, only to lose more than half once again in 2011, followed by an appreciation of over 100% since 2012. Is this volatility by design? What sort of investor do you feel it appeals to?

**Dr. Gregory Kenausis:** No one likes volatility in and of itself, but it is important to remember that volatility is a double edged sword. It creates inefficiently priced securities and consequently the best investment opportunities. And remember also that volatility is not the same thing as risk.



Petter Fjellstad

**Petter Fjellstad:** First and foremost, we are low risk guys. You do not have to have a cast-iron stomach or the balls of Genghis Khan to invest with us. The key risk is not the short term variability of the share prices but rather the longer term fundamental performance of the companies themselves, and I think we have always demonstrated a very good command of that. Our realized losses have actually been very low throughout what has been a challenging and treacherous period in equity markets. I very often have envied private equity guys who are not obliged to mark to market.

**Dr. Gregory Kenausis:** Family offices and high net worth individuals seem to understand best what we do. Institutional investors have also shown interest. For instance, we have had recent inquiries

from Temasek as well as the endowment funds of MIT and Yale, which is incidentally both my and Petter's alma mater.

**HedgeNordic:** Are you quite comfortable with the volatility the fund has, or is that something you want to see 'calm down' in future?

**Dr. Gregory Kenausis:** We try to minimize volatility whenever possible without compromising on the principles of the strategy. We have that short book and the VIX-based hedge, which have worked well, and we shall continue to use them going forward. The funds' volatility has indeed declined significantly and should be at much lower levels going forward than what was the case prior to 2012.

**Petter Fjellstad:** That's right. We have been able to 'calm it down' without killing the goose that lays the golden eggs.

**HedgeNordic:** Annualised performance since inception (2006) for both funds is a decent 6%. I don't want to let you go quite so fast on the volatility aspect, though. Why do investors need to go through such a rough ride to achieve 6%?

**Petter Fjellstad:** As we speak, the annualized net performance is up nearly +8% in a market that has been basically flat.

**Dr. Gregory Kenausis:** In other words, investors who have been with us since inception in 2006 are up about +70% as compared to +7% for the Dow Jones Stoxx European Small Cap 200 Index.

**HedgeNordic:** The fund can be seen as a classic 130/30 fund I guess (130% long, 30% short, resulting in a net market exposure of 100%). Can you talk us through under what circumstances you choose to short a company, and maybe give a concrete example? How has your short book contributed to the funds' performance in 2013?

**Petter Fjellstad:** Well, it's pretty simple. We short a company when we think the price is about to go down! But seriously, we look for overpriced stocks based on most of the same metrics we use to identify our long candidates – price or enterprise value to sales, free cash flow, book value, etc.... It always helps when the stock has a wide following and where investors make human sacrifices to honor management.

**Dr. Gregory Kenausis:** Our short book's structure is quite different from that of our long book in that our short positions tend to be more diverse, smaller in size and more liquid. In the past, we have shorted companies like Norwegian Air Shuttle, SGL Carbon, Tomra, Jeronimo Martins, and Bygmaxx, to name a few, and closed each of them out at a significant profit.

**HedgeNordic:** Beyond what you mentioned earlier, you seem to have some additional characteristics of a private equity fund, on occasion taking an active role in a companies' management. What advantages or additional risks for the investor does that bring? Can you describe under what circumstances you like to assume such a role?

**Petter Fjellstad:** I would not go so far as to characterize us as activist investors. In the past, we have tended to take an active approach, by offering management advice. Our input has always been taken seriously enough so that companies devote time to it in their quarterly reports. Sometimes, a bit of prodding to improve fundamentals can have a big impact on the share price.

**HedgeNordic:** Typically, more than half your market exposure could be towards the Nordic markets. What makes Nordic equity markets so appealing to your trading strategy?

**Petter Fjellstad:** Both Gregory and I know the Nordics, and the region seems to offer up plenty of opportunities. We also invest in some other Northern European countries but have historically stayed away from Southern Europe because of its poor transparency.

**HedgeNordic:** Your average holding period of 2-3 years is unusually long for a L/S equity fund. How actively and regularly do you re-evaluate positions in the portfolio and actually trade?

**Petter Fjellstad:** We monitor the development of our companies' fundamental performance as often as possible, but we refrain from frequently trading in and out of our positions, much to the dismay of our eager brokers. We are perfectly content to hold stocks for the long term until our target prices has been reached. That can sometimes take a while, but it is the waiting and not the trading that makes the money.

**HedgeNordic:** How does your exit scenario from a position work, when and how do you decide to close a position? Is the process comparable for winning and losing positions?

**Dr. Gregory Kenausis:** We are disciplined and boring. In the rare case where a company's fundamental performance does not develop according to plan, we exit promptly. We exit when the target price has been reached. We have had a lot of take overs (i.e. 14 in the last 7 years), and in such cases the buyer did the exit for us and at a nice premium.

**HedgeNordic:** Can you share a piece of market wisdom with us?

**Petter Fjellstad:** Always seek facts, run the numbers, talk to management but never seek, take or listen to advice.