

# Interview Staffan Knafve, Rhenman Global Opportunities L/S

Stockholm (HedgeNordic) – The question of what comes next for Rhenman & Partners has been answered after the Swedish asset manager's flagship fund, Rhenman Healthcare Equity L/S had a soft close in December 2015, as the fund reached capacity limits in manageable assets. Having received permission to market from Swedish financial regulator FI, Rhenman Global Opportunities L/S will soon start trading and is accepting allocations from investors. HedgeNordic had the opportunity to speak to the fund's lead portfolio manager, Staffan Knafve and here is what he had to say:

**HedgeNordic:** Let's start with what may be the obvious question: How come as a firm there was not the decision to leverage on the experience and reputation you built up in the Healthcare space? Was there no consideration to have a different color in the spectrum in that area, be it with a market neutral overlay, stronger private equity components, small and micro cap companies or even a dedicated short approach?

**Carl Grevelius:** From a short-term asset gathering perspective it would probably have been easiest to create a carve-out or something similar based on the flagship fund but we felt that we didn't want to distract the Investment Team that we already had in place with a new product. Accordingly, the decision was based on the principle "don't change a winning team". For us, absolute returns over time is pivotal and we want to stay fairly small and very nimble and we therefore don't want to go down the "massive asset gathering route" that would most likely lead to mediocre returns. Given that we had a close, long-term relationship with Staffan Knafve we felt that the optimal route was to get Staffan to head up a completely separate Investment Team for a new long/short fund, with complete focus on only one single fund, a structure identical to the existing, successful flagship fund.

**HedgeNordic:** In a nutshell, can you describe the funds trading strategy and investment philosophy.

**Staffan Knafve (pictured):** A concentrated global equity long/short fund that can invest anywhere in the world, in all sectors, and where all investment decisions are based on fundamental analysis.

**HedgeNordic:** Can you talk us through your investment process?

**Staffan Knafve:** A cornerstone in the philosophy is that the correct assessment of regions and sectors is imperative for good returns. Thus, it's a top down view of the world, aiming at deciding where to invest and not. In this part of the process I have strong support from the fund's Advisory Board, where the members all have lengthy experiences from various fields of the global economy. Having established favored regions and/or sectors, we then make the stock selection using a classic approach to determine the company's future operational and financial performance and to what extent this is reflected in the current price. As we are long term investors we put emphasis on companies' strategic targets and how to reach them rather than the short term outlook.

**HedgeNordic:** Why does the world need yet another global equity Long Short fund?

**Staffan Knafve:** I don't know about the world, but I believe this is the case in Sweden.

**HedgeNordic:** In the funds presentation, a prominent tag line is "back to basics". What do you

mean by that?

**Staffan Knafve:** Passive and technically oriented products have for a long time now increased their share of the financial markets at the expense of research driven, fundamentally based products. In this environment we believe a return to good old fashioned asset management, back to basics if you like, makes sense as competition in this field has eased.

**HedgeNordic:** Can you talk us through your asset allocation, how do you identify investment candidates, perform due diligence and determine time and size to enter a position. What makes you exit an investment?

**Staffan Knafve:** Too lengthy to answer here I believe. Also, partly covered above. However, if you shorten the question to when to exit: We can and will run with profits as long as we view any given investment case as solid. Valuations will not necessarily be a trigger for exits. However, if any company fundamentally deviates from our expectations, we will consider an exit, with little regard to price. As far as stop losses are concerned, we will have a strict view regarding short positions, but will be more flexible regarding the longs.

**HedgeNordic:** Like Rhenman Healthcare L/S, the new fund will follow a long/short equity strategy with a long bias. What do you expect exposures to be on the long and short side, what will likely performance contributions be from the short book?

**Staffan Knafve:** Over time, we expect long exposure in the range of 90-110 percent, and the short exposure in the range of 15-30 percent. However, special market conditions may prompt deviations from these ranges.

**HedgeNordic:** What are the key triggers that will identify a stock as a short candidate for you?

**Staffan Knafve:** Unsustainable valuation, given our view of the company's future operational and financial performance. Also, assessing when in time this will materialize is of course very important.

**HedgeNordic:** You mentioned the fact that the largest part of managers fail to beat their index and launching your own vehicle only made sense if you could actually surpass benchmark performance. Can you share your thoughts on why you believe this is the case and what your edge is to be one of the rare group of managers that does succeed in beating the index consistently?

**Staffan Knafve:** The multi-year trends towards passive and technically oriented management has led to a situation where fundamentally based investment managers have become relatively rare, i.e. less people taking a long term view based on research. Competition in that respect has thus decreased, improving the possibilities for those who have that approach and stick to it.

**HedgeNordic:** The holding periods you expect to have in the fund are rather long with two to four years in the long book. Apart from making your brokers unhappy, why do you aim to hold positions that long and what is the advantage?

**Staffan Knafve:** A company's fortunes, for better or worse, are not made overnight and short term stock movements are all but impossible to foresee. It can take an extended period of time before the investment community appreciates it in the way of stock pricing. Even if you are right, it can take time before you are proven right. Then, on the other hand, at that point in time, share price movements might be significant, making the wait worthwhile.

**HedgeNordic:** You describe your investment universe to consist of 300-400 stocks, which sound rather low given your global mandate. How did you narrow down the universe to arrive in that

range?

**Staffan Knafve:** Partly, as we will mainly take positions in large caps, the universe is naturally limited. Then, as we view the world as a matrix of industry groups and geographies that number of components are sufficient for the universe we need. Lastly, we believe 300-400 stocks are feasible to track on a continuous basis.

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

**Staffan Knafve:** There is never any such thing as a “New Thing”. Even if history does not repeat itself, human behavior is fairly repetitive in any given circumstance. Market trends have changed many times over the past century and will change again. “Back to Basics”!