

Interview: Carl Rydin - Origo Capital

Stockholm (HedgeNordic) - Last week, the Swedish activist hedge fund manager Origo Capital announced the hire of Carl Rydin (*pictured*) as new portfolio manager. Carl, who joins from the US long/short equity hedge fund Lucerne Capital, will be added to the team of analysts behind the Origo Quest 1 fund. In an interview with HedgeNordic, Carl explains how he identifies possibilities in the small- and mid-cap space and what he believes he could add to the current management of the fund.

Tell us a bit about yourself and your professional background

"In my most recent role, I worked as an analyst for the long/short equity hedge fund Lucerne Capital in New York where my focus was on bottom-up fundamental research in European small- and mid-cap companies. Prior to that I worked within corporate finance focusing on cross-border M&A transactions between US and European companies. I have spent the last 12 years in the US but I have always had a focus on European companies, and in particular Nordic companies."

What will be your main responsibility in your new role?

"I will be part of the investment team at Origo together with Stefan Roos and Staffan Östlin. My primary focus will be on identifying new companies to add to the portfolio but also to work with the existing holdings."

How do you think your background will benefit the management of the fund?

"My investment philosophy aligns very well with the current management of the fund. We are very research-driven investors with a long-term view where we focus on clear value drivers within the companies we own. Origo Quest 1 has a relatively concentrated portfolio which means that we need to have a thorough understanding of each of our holdings. Our mandate allows us to engage and positively affect the strategic decisions as well as the capital allocation of our portfolio companies. It is therefore very important for us to have an ongoing discussion with the management team and sometimes also with the Board of Directors of each company. This is exactly what I have been doing in my previous roles but towards somewhat larger European companies."

"As Nordic companies grow and reach a certain size, it is not uncommon that a large part of their revenues and assets are based outside of the Nordics. Having worked on a global scale in my previous roles I will first and foremost be able to contribute with an understanding of how markets work outside of the Nordics and what possible risks and opportunities that are present there."

What type of companies or sectors are you following more closely currently and where do you see value drivers?

"We follow Nordic small- and mid-cap companies in several sectors. We all work as generalists but we aim to split some sector responsibilities to maximize our previous knowledge of certain companies and sectors. Contrary to the large-cap space where a significant part of the index is made up of banks and industrial companies, there is a wider sector dispersion in the small-cap space. The fact that the smaller companies lack wide sell-side coverage is also something we see as a great advantage as we do most of our research in-house".

Describe how you work when you try to identify new investments, what do you look at?, what is less important?, what distinguishes your investment approach?

“We prefer companies that are able to grow their domestic and international market share while simultaneously improving their profit and cash-flow profile. Cash return on invested capital (CROIC) is a good way of measuring how successfully a company’s cash earnings are for each dollar invested in its operations. The quality of management is particularly important in smaller companies and we spend a tremendous amount of time trying to understand the quality of each management team and making sure their incentives are aligned with us as shareholders. The valuation must be attractive and we like to enter a new investment at a valuation that provides significant margin of safety as we focus on downside risk. Being patient and having a long-term view are extremely important aspects since there are a lot of investors out there that are too short sighted in our view, which obviously benefits long-term investors as market volatility increases. This long-term view also works in our favour as we typically identify clear catalysts where value can be unlocked but these actions often take some time to implement”.

“When it comes to finding candidates to go short, we use the same fundamental analysis to identify companies with accounting irregularities, balance sheet risk, and/or companies operating in industries with structural declining characteristics.”