

Taiga's Case for Value Investing

Stockholm (HedgeNordic) – Hunting for inexpensive stocks has been out of favor for an extended period of time now, with many value investors suffering long periods of underperformance. Taiga Fund, a Norwegian value-oriented long/short equity fund with a long bias, is suffering a poor performance streak its investors are not accustomed to after the fund delivered annual returns in excess of 15 percent in seven out of its first eight years of operations prior to last year. However, Taiga's founder and co-portfolio manager, Ola Wessel-Aas (*pictured, sitting left – with HedgeNordic's Eugeniu Guzun*), has a strong conviction his fund's value-driven strategy will reward patient investors in the long term.

Tough Environment for Value Investors

Taiga Fund gained 2.2 percent last year and is up 3.7 percent year-to-date through August, returns Taiga investors may not be accustomed to. After all, the fund's Class A NOK shares generated a compounded annual return of 15.8 percent since inception in July 2009 through the end of August of this year (the fund launched with Class A EUR shares with 15.5% annual returns since May 2008) in spite of the recent period of somewhat poor performance. "The recent period of underperformance is testing the patience of fund investors and more communication with investors is paramount in explaining how the strategy works over time," says Ola Wessel-Aas. "This is a tough environment for value investors. There is more skepticism towards smaller value stocks as investors are looking for protection in liquidity or growth," he adds.

According to Wessel-Aas, Taiga Fund's long portfolio is comprised of cheap stocks that are not expected to offer sky-high growth potential. Market participants are less interested in such investment opportunities within the small-cap space. However, the decision-making process of Taiga's investment team is not perfect. "Make no mistake, we also make errors and could have done a better job this period," acknowledges Wessel-Aas.

Fund Strategy, Investment Approach in Detail

Taiga Fund employs a value-driven investment approach, maintaining a long-biased and concentrated portfolio mainly consisting of small-cap companies in the Nordic markets. The fund only invests in single stocks, typically with a portfolio of ten core long holdings in addition to smaller "value calls" as well as opportunistic short positions aimed to contribute to overall performance rather than hedging market exposure.

Talking about the stock selection process for the long book, Ola Wessel-Aas tells HedgeNordic that Taiga employs a value-oriented approach of finding firms with sustainable business models that suit the cyclicity of their respective industries, strong balance sheets and that offer products and/or services with a sustainable value proposition. "We seek margin of safety when making an investment by looking for support in the earnings power of the company and the balance sheet," explains Wessel-Aas. The average holding period of the fund's core long positions is three years.

Discussing the fund's short book, Wessel-Aas says short positions typically account for only 5-15 percent of the overall portfolio. At the end of August, for instance, Taiga Fund's short positions accounted for 9.8% of net assets, up from 7.9 percent at the end of July.

New Regulations and Large Cash Hoard

Touching upon Europe's MiFID II rules, Ola Wessel-Aas says the new rules will lead to less analyst coverage in the already under-researched small-cap segment. Under MiFID II, fund managers and other clients now have to pay separately for investment research and trading with banks and brokers, a move widely anticipated to result in less coverage on small-cap stocks. Although the new rules will lead to less liquidity in small- and midcap- stocks, the new rules may well create more investment opportunities for Taiga Fund going forward. In a sign that few bargains currently exist in equity markets, Taiga Fund has 17 percent of its assets as cash. Should new regulations or market conditions indeed create more opportunities, Taiga has cash ready to be deployed.

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