

# HCP Black Prepared for Recession

Stockholm (HedgeNordic) – Talk of an imminent recession has steadily been picking up, leaving investors with the dilemma of where to park capital in the event of a downturn. Tommi Kemppainen (*pictured*), the CEO of Finnish asset manager Helsinki Capital Partners, has positioned the multi-strategy hedge fund he manages – HCP Black – for a gloomy scenario.

In an interview with HedgeNordic, Kemppainen explains the strategy behind HCP Black, shares his views on the global economy and how his top-down macro views translate into a defensive positioning for the fund.

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HCP Black, one of the three vehicles under the umbrella of Helsinki Capital Partners, is a multi-strategy, multi-style fund that employs active diversification across a wide range of non-correlated alternative and traditional assets. As part of its allocation process, the multi-strategy fund also invests in its sister funds: HCP Focus and HCP Quant. The fund is positioned defensively in anticipation of a recession.

“Over-indebtedness everywhere around the world and ultra-low interest rates are the root causes behind the current allocation,” argues Kemppainen. “We have been accumulating debt everywhere in the society for tens of years now; governments, companies and private individuals all have become more indebted than ever before,” says the portfolio manager of HCP Black.

“Since global interest rates have been cut down to zero, the maximum work has already been done to get everyone loaded up with the maximum amount of debt,” continues Kemppainen. “In my opinion, we are at a point where this long debt-increasing cycle comes to an end.”

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To make matters worse, all debt statistics do not reflect hidden debt such as unfunded liabilities. Fast population aging in Western countries coupled with increasing human life expectancy is translating into larger volumes of unfunded liabilities of social security, reckons Kemppainen. “All in all, the risk of depression is certainly higher nowadays than before, as both the short- and long-term debt cycles are pointing downwards,” he warns.

## Active Diversification as Potential Solution

HCP Black has been defensively positioned on the back of all the signs mentioned above for several years. At the end of last year, the multi-strategy vehicle allocated around one-fourth of managed assets to each insurance-linked securities and trend-following strategies. The remaining 50 percent of assets were allocated to gold, the firm’s other two vehicles, real estate, among others. “The portfolio managed by HCP Black is made up of investments that are as different from each other as possible,” argues Kemppainen.

The fund’s allocation changes over time but has predominantly relied on Tommi Kemppainen’s dim

bottom-up macroeconomic views for a number of years now. The allocation to HCP Quant, which employs a deep value investing approach using quant-based methods, has been gradually increased to nine percent at the end of last year. The increased allocation reflects the fact that “this type of value investing has been massively out of fashion for a long time,” and a much-awaited convergence between price and value will translate into good returns for both HCP Quant and the multi-strategy fund.

The allocation to HCP Focus, meanwhile, has been reduced from around 29 percent at the end of 2013 to merely five percent at the end of last year, reflecting Kemppainen’s defensive positioning in anticipation of a downturn. HCP Focus maintains a concentrated portfolio of intrinsically undervalued high-quality companies benefiting from network effects, companies many may view as overvalued. HCP Black was one of the biggest investors in HCP Focus during the latter fund’s first years.

In addition to investing in its sister funds, HCP Black allocates capital to trend-following strategies, real estate, gold, insurance-linked instruments, and other instruments and asset classes. The choice of instruments used to get exposure to a particular asset class varies, ranging from exchange-traded funds to direct investments and third-party funds. “Concerning instruments, we are agnostic. We try to find and use the most efficient way to get exposure to a certain asset class or group of securities,” explains Kemppainen.

### **Track Record and Target Return**

Despite being positioned for a potential recession, HCP Black can generate positive returns even in the absence of a global recession or depression. “Looking ahead, HCP Black’s current allocation is the best way I know how to invest when there is anxiety over a recession, depression and the end of a long debt cycle,” says Kemppainen. “This is full cycle investing, and all of our company capital we have been accumulating is invested in HCP Black to do well in bad times as well,” he continues. “Currently we have invested north of one million euros.”

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HCP Black generated an average compound return of 3.2 percent per year since launching in November of 2009 despite enduring three years of underwhelming performance as a result of a longer-than-usual underperformance of insurance-linked securities. Given the fund’s volatility in returns, Kemppainen says HCP Black investors should “anticipate an annual return between a positive 15 percent and a negative five percent 95 percent of the time for every 12-month period.” Should a recession befall soon, “HCP Black is well positioned to preserve purchasing power and even create value,” the CEO concludes.

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