Sissener’s Broad Pathway to Alpha Generation

Stockholm (HedgeNordic) – **Sissener Canopus** ranks as one of the best-performing hedge funds in the Nordics, a feat achieved thanks to an opportunistic search for performance and an ingrained risk-reward mentality. Founded by Norwegian household name **Jan Petter Sissener** *(pictured)*, Sissener Canopus is an absolute return long/short equity fund that has a global mandate with a Nordic focus.

“We search investment opportunities globally, but first and foremost, we think we have an investment edge in the Nordic markets,” Sissener tells HedgeNordic. The Norwegian asset manager’s investment philosophy is based on the belief that informational advantage can lead to superior investment results over time. “We believe that the ability to gain knowledge advantage of a company is proportional to the geographical proximity of said company,” explains Sissener. To build up the knowledge advantage, the Sissener team seeks access to a company’s management, customers, suppliers, and sell-side research.

For investors based in the Nordics, “risk typically increases with the distance from the Nordic region,” reckons the founder of Sissener. Whereas Sissener’s proximity to Nordic companies represents an edge over international peers, the informational advantage over local players becomes rather immaterial. Yet this risk-reward mentality builds the foundation of Sissener's approach to investing, a mindset that is "important in the stock selection process and, I believe, has served us well over the years."

Not the Typical Long/Short Equity Fund

Bjørn Tore Urdal

Sissener Canopus maintains a long bias and holds a concentrated portfolio of 30 to 35 high-conviction investment ideas, of which up to five are short positions. Besides, the Norwegian fund actively uses financial instruments across the capital structure of companies to optimize expected risk-adjusted returns. "In a nutshell, Sissener Canopus is a bottom-up stock-picking fund utilizing a broad specter of instruments to try to generate alpha returns," **Bjørn Tore Urdal**, who works shoulder to shoulder with Jan Petter Sissener, tells HedgeNordic.

While Sissener Canopus invests in both good and bad businesses that are mispriced, "we want to own businesses with established business models that generate positive free cash flows; businesses we understand, offer visibility into future cash flows, and have healthy balance sheets." According to Urdal, the companies the Sissener team seeks ideally operate in structurally-attractive industries. But inexpensiveness represents the main prerequisite for adding a company in the fund's portfolio. "An important characteristic of a company is that we believe there is a mispricing of its stock and the stock is undervalued," says Urdal.

To decide whether a stock is cheap, fairly valued or expensive, the Sissener team focuses on cash flows rather than relative multiple valuations. "We believe the best assessment of intrinsic company value is through discounting its stream of estimated future cash flows," states Urdal. "There is an element of truth to the saying that "cash flow never lies" as it reduces the risk of financial engineering," he argues. The focus on cash flows also makes the economics of businesses more comparable, "as cash is cash, regardless if you sell trucks or trousers."

"From time to time, we can even pick up the proverbial cigar-butts from the street as Warren Buffett called them," says Urdal. "Even businesses in structural decline sometimes represent good investments if valuations are low enough," he continues. The Sissener team, comprised of four investment professionals, complements the portfolio of long positions with derivatives.

"We are also very active in derivatives on single securities and are probably more active than most peer funds in this respect," argues Urdal. "Actively using derivatives on single securities are part of our investment strategy of trying to optimize expected risk-return on single names." The team typically writes put options and covered calls to collect premiums and improve overall risk management.

Apart from the active use of derivatives strategies, Sissener Canopus also actively invests in corporate bonds. "We have room to invest up to 20 percent of the fund in bonds," and the fund maintained an average exposure of 14 percent to corporate bonds since inception. With an average performance of around 11 percent since inception, "this exposure contributed nicely to the overall performance of the fund," says Urdal. The Sissener team also makes use of bonds to capitalize on deep balance sheet distressed situations. "When the opportunity set is ripe for shorting the equity while owning underlying corporate bonds, we do this trade," says Urdal.

Approach to Reducing Market Exposure

Sissener Canopus maintained an average net market exposure of 66 percent since its inception in April 2012, with the exposure evolving depending on economic and market conditions. The Sissener team mainly adjusts the exposure through the use of index options. "We typically buy out of the money put options on the large and liquid Nordic, European and US indexes," says Sissener. The fund also maintains a small portfolio of short positions, which also helps the process of adjusting the net exposure to the market. However, "we do not have short positions on individual companies for the sake of taking down the net exposure," emphasizes Sissener.

“When we have short positions on single companies, we do this with the intention of generating an absolute positive return on the short position,” argues Sissener, who points out that selecting short positions is always difficult. “You have the market and 90 percent or more of its players against you,” he says. Whereas the selection process of a short may represent a mirror image of the process of building the long book, picking short candidates “demands more.” According to Sissener, “high valuation in itself is not enough for selecting a short.”

For the short book, Sissener Canopus seeks companies under financial balance sheet distress, which also face deteriorating earnings and market conditions, or companies turning into industry dogs that lose competitiveness. “The likelihood of negative events gives good support and should be considered more in-depth when evaluating short positions,” argues Sissener. The team also relies on technical analysis to select short positions. “When the trading pattern of a stock is such that it seems buyers are getting exhausted, and maybe even seems to be under distribution, then that is a strong support signal for a short.”

Track Record

Sissener Canopus generated an annualized return of 12.6 percent since launching in April of 2012, exhibiting an annualized volatility in returns below 10 percent. That translates into an inception-to-date Sharpe ratio of 1.3. “With an average net market exposure of 66 percent, we generated four percent in alpha per year against a benchmark of Nordic, European and US indexes,” says Sissener. “Our own assessment of this performance is that we stand very strong against most European absolute return-focused peer funds.”

Sissener Canopus consistently hedged its currency exposure back to Norwegian kroner, which has been a drag on performance due to the depreciation of the Norwegian currency over the past several years. “The rationale for hedging the exposure was that we are focused on stock picking and do not take a currency view,” says Sissener, which has put the fund at a disadvantage relative to other funds that benefited from a weaker Norwegian kroner. The bottom line, however, is that “the performance contribution over time is well diversified across single positions and sectors, so we do not have large outliers that have skewed performance in any direction.”