Concentrate. Focus. Engage.

Stockholm (HedgeNordic) – **Accendo Capital**'s activist approach to investing reflects a mix of diplomacy, entrepreneurial authority, and sometimes even aggressiveness in the pursuit of creating value for shareholders and investors. "We are an activist fund maintaining a focused portfolio with our absolute best ideas," explains Henri Österlund, who manages the fund alongside Mark H. Shay and Kai Tavakka. How many ideas make the portfolio? Currently six. Sometimes less, sometimes more, but no more than ten at any given point.

High concentration is usually accompanied by elevated volatility in returns, but short-term fluctuations are not on the team's minds. "We seek to find the best ideas and actively engage with those investments to make sure they become solid investments in the long term," says Österlund. "Ten holdings are probably the maximum we can afford before starting to lose focus." And focus is vital for investors like Accendo looking to engage with their investments. "Accendo is an entrepreneurial investor," says Österlund, who emphasizes that "we invest with the same attitude as entrepreneurs invest in their own businesses."

Private Equity Mindset

Partially originating from Österlund's pre-Accendo background, the activist fund takes a private equity approach to listed equities. In fact, Accendo resembles a typical private equity investor in several respects. First, "similar to traditional private equity players, we embrace a focused and concentrated approach to portfolio construction," explains Österlund. Second, "we also invest with an agenda that puts forward initiatives aimed at developing those companies." The Accendo team seeks the ability to influence a company's governance and strategy, which enables them to "steer companies from A to B to create value."

In contrast to the private equity space, however, Accendo does not have a preference for high leverage. "Companies in our portfolio have a relatively low level of leverage on average," underlines Österlund. This leverage aversion comes is part of Accendo's own risk management. "It is imperative for us to make sure that we are not thrown out of the driving seat due to financial struggles, when banks take over the governance of the company, for instance," explains the founder of Accendo. "That said, we do prefer to invest in companies with solid balance sheets."

Accendo tends to acquire ownership stakes between five and 25 percent to initiate its collaborative campaign of value creation. The fund also seeks board representation to facilitate this value creation process. "Influencing a company from inside through the board is the most effective approach to creating shareholder value," reckons Österlund. Yet most of the credit should go to the management teams, he argues. "The management should always take the credit for what their companies have achieved," says Österlund, "that is something that we endorse and celebrate."

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Governance in Listed Companies and Success Stories

Accendo has succeeded in creating value through board representation and engagement on numerous occasions. As an active shareholder, Accendo usually puts forward a set of critical ideas that the team believes are essential for the progress of their investments. "In cases where we have been right with the ideas and the management teams have been working hard on them, these initiatives had a big impact on those companies both operationally and in terms of stock price performance," says Österlund.

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To facilitate the process of value creation, Accendo searches for companies with a favourable governance framework. "When evaluating investment cases, we always ask ourselves whether we can acquire a sizable enough stake to be in a position to influence a company's strategy and course," says Österlund. The Accendo team also looks for companies where other shareholders are willing to embrace their ideas. "If other shareholders are on board with our initiatives, progress becomes much easier."

Accendo's engagement increases the likelihood that most of their investments end up bearing fruit over time. The activist fund has realized losses on only a single position over the years, as the team does not usually give up easily. Accendo did give up on Swedish IT consulting firm Cybercom. "Probably the biggest risk for us is that we would become mentally attached to underperformers and never give up on them," acknowledges Österlund. More importantly, the activist approach operates as an effective risk management mechanism for Accendo. "The most important risk management for us stems from the work we do with our portfolio companies."

Accendo's investment in Finnish media house Talentum, now part of Swedish Alma Media following a business combination in September of 2015, ensured the company survived the turbulent market environment caused by the financial crisis of 2008. Accendo acquired a stake in former Talentum in 2008 "with the view that the company had great media assets and we wanted to steer the company to embrace the online business," explains Österlund.

The 2008 financial crisis, however, heavily impacted marketing spending and Talentum's revenue stream, which could have become a severe problem due to its indebted balance sheet. "We were able to sell off some assets to repay the debt, and the company was debt-free during the subsequent turbulent years," says Österlund.

"We were able to ride through the storm, and the company turned out to be the best-performing Finnish media stock when other companies were doing horribly." As he explains, "one key aspect of our strategy is to have patience, as there is a lot of work going on behind the scenes." Current portfolio names gaining commercial traction with Accendo's help as owners and board members include Remedy Entertainment (Finland), Doro (Sweden), and Impact Coatings (Sweden).

Misconception and More Thoughts on Concentration

Accendo Capital invests in public companies in Northern Europe, mainly targeting small- and mid-cap companies in the technology industry. "Historically, we have shown a preference for technology-related companies," says Österlund. Some people appear to have misconceptions about Accendo's deal flow and investment process, he points out.

"We do evaluate a broad range of criteria when deciding on which investments to make," says the portfolio manager. In terms of valuation multiples, for instance, Accendo maintains holdings that "are trading around ten times sales and others that are trading at an enterprise value to EBITDA of five," he explains. "It would be unjust to define us as a value investor or a growth investor. Each investment has its own merits and should be evaluated individually."

As a standalone allocation, an investment in Accendo may appear quite volatile due to its portfolio concentration. "The diversification issue disappears on the investor level," argues Österlund, as the fund's investor base – comprising professional investors such as family offices – already maintains a wide range of assets besides Accendo. "When investors invest with us, it is obvious that they back the ideas we have," says Österlund. "For most of our investors, with the exception of the portfolio management team itself, Accendo represents a small portion of their overall portfolios."

Leaving volatility aside, Accendo has delivered an annualized return of 10.4 percent since launching in March of 2008 and has managed to provide annual returns over 20 percent in six of the past 12 years.

This article featured in HedgeNordic's Special Report on Equity Strategies.