

The Value in Sustainability

Stockholm (HedgeNordic) – Many investors and fund managers do not want to disregard the well-being of the earth and society, and many investors are eager to generate both business and social returns from their investments. **CARN Long Short** is an Oslo-based long/short equity fund that aims to “do well by doing good.” Relying on a fundamental stock picking approach to investing, the fund founded by Christer Bjørndal and Andreas Bomann-Larsen seeks to build a concentrated portfolio with long-term holdings in sustainable companies in the Nordics.

CARN Long Short mainly invests in high-quality companies that have “excellent economic characteristics, outstanding management and a sustainable business model,” as well as operate “a business model that aligns with solving the Sustainable Development Goals.” According to Bjørndal, “as capital allocators, we have a social responsibility to make sure that we are not funding unethical or unsustainable businesses.” More importantly, “it is not only crucial that the companies we own are not hurting the planet and consumers,” they have to bring business, societal, and ecological benefits as well.

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Focus represents an essential pillar of CARN Long Short’s investment approach. For that reason, the CARN team concentrates on the Nordics and spends “most of our research efforts on small- and mid-cap companies, as we find the most compelling investment cases in the less-research part of the market,” explains Bjørndal. With about 1,500 listed companies in the Nordics, “most market players focus on about 10 percent of these companies,” reckons the portfolio manager. The focus on a niche of the market with less research coverage enables Bjørndal and the team to “find companies that are often overlooked and with much larger upside.”

Main Characteristics of Portfolio and Holdings

CARN Long Short maintains a concentrated portfolio of maximum 30 positions, with around 20 names on the long side and ten names on the short side. The fund’s net market exposure has oscillated between 60 and 80 percent since its launch in late 2015, and “that is where we want to be over time,” says Bjørndal. As the CARN team are bottom-up investors, the net exposure depends on the investment opportunity set.

The concentrated approach ensures that CARN Long Short maintains a very low overlap of stocks with stock market indices. “We do not care about market indices,” says Bjørndal, who adds that “we are truly active in the sense that we have a close to 100 percent active risk and our portfolio has large deviations from indices.” As the portfolio manager further elaborates, “we strongly believe that if a fund is marketed as an active fund, it should be truly active and not a “closet” or “index-hugging” fund.”

Bjørndal and his team mostly search the Nordic small- and mid-cap space for high-quality businesses, which usually “have strong balance sheets, are careful with debt, and have strong, resilient and recurring profit streams.” As previously highlighted, CARN Long Short invests in sustainable companies that “have the positive impact on society as the driver for value creation.” Whereas businesses may sustain poor management for a period, most businesses can eventually be

killed by poor management. The CARN team, therefore, prefers investing in companies with good management teams. “We invest with management that has proven to be good at execution and where interests are aligned with us as investors,” explains Bjørndal.

As the portfolio manager summarizes, “quality companies have strong balance sheets, a track record of delivering high returns to shareholders, and are in industries with high barriers to entry and good future prospects.” The team continuously searches for and monitors such companies, but will only invest when these companies are attractively priced or cheap. “Price is extremely important for us as investors, as that defines the returns we and our investors will get at the end of the day,” says Bjørndal. The team invests with a disciplined mindset by assessing how businesses are valued versus their underlying earnings cash flows and assets. “There are many companies we would like to own but are too expensive.”

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Because the market is a voting machine in the short term and a weighting machine in the long run, according to Benjamin Graham – the father of value investing, investment horizons represent a critical piece in portfolio management. Bjørndal would ideally prefer to own their holdings forever, “but as the world is a constantly evolving place, we regularly re-evaluate our holdings and positioning.” Yet, the CARN team have a long-term perspective on their investments. “When we analyze a new potential company for our long book, we typically have a five-to eight-year horizon in our analysis,” says Bjørndal. For maximum efficiency, the fund’s long-term-oriented approach requires a long-term view from investors as well. CARN Long Short’s portfolio management team stands shoulder to shoulder with their investors, as “we have all our money invested in the fund.”

As for the portfolio of short positions, the team running CARN Long Short mainly looks for “low-quality companies that are facing a structural decline and have high valuations.” In other words, the Oslo-based fund predominantly looks for structural shorts in richly-valued companies with business models that are becoming less competitive due to major changes in their respective industries or other internal or external factors. Whereas some may question the ethics of short selling, betting against certain companies can contribute to market efficiency and hence bring societal benefits. CARN Long Short, for instance, occasionally comes across companies with aggressive accounting practices and makes sure to penalize those companies by going short.

Thoughts on Value Investing

“There are many ways to make money in the market,” argues Bjørndal. However, his team views fundamental value investing “as the most robust and time-tested method in the investment management industry.” The team use the terms “value investing” and the old-fashioned “fundamental investing” interchangeably. This approach to investing “is all about knowing what we own by doing thorough analysis before investing, taking a long-term view and not overpaying,” explains Bjørndal. “We are not stock traders, we are long-term owners of great businesses.”

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