Thriving on COVID-19 Challenges

Stockholm (HedgeNordic) – Digitalization has certainly mitigated the impact of COVID-19 on businesses, economies and personal lives. After all, digitalization offers the vital infrastructure for many of us to continue working from home and see our families, friends and colleagues even during lockdown. To a certain extent, we can count ourselves lucky that COVID-19 has struck us in a digitalized world.

"COVID-19 has acted as a catalyst for digitalization, both in people's daily lives and at work," says Pasi Havia *(pictured)*, the fund manager of highly concentrated long-only hedge fund **HCP Focus**. To see the long-term picture through the short-term fog of uncertainty stemming from COVID-19 is difficult. But one thing is certain. "We will not return to the world before COVID-19," reckons Havia. "A lockdown is not the same as pressing a pause button and later pressing play again," he adds. "Some things change for good."

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Digitalization has long been a megatrend influencing businesses, economies, societies, cultures and personal lives. The coronavirus-induced challenges will likely lift the state of technology and digitalization to a new level. "This is a megatrend that has accelerated during COVID-19, and I do not see any reason why the acceleration would fade," says Havia. "The current shift in the use of digital services is one that would normally take several years," believes the fund manager.

Managed by a three-member team led by Pasi Havia since March of this year, HCP Focus is predominantly investing in companies in the fast-growing technology space benefiting from network effects. Already in the pre-COVID-19 period, HCP Focus owned 12 holdings well-positioned to face COVID-19 challenges, with the portfolio including long-term holdings such as Amazon.com, Facebook, PayPal, Etsy, Alibaba, among others. "HCP Focus is positioned very well," says Havia, who adds that "digital services constitute a majority of the fund's investments."

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"Many of the holdings benefit from digitalization and increased internet shopping," Havia comments on the pre-COVID-19 portfolio managed by HCP Focus. "COVID-19 forced people to use more these kinds of services," he emphasizes. "Some platforms like Etsy have seen a huge spike in search of corona-related protective gear," Havia provides an example of short-term ramifications from the coronavirus outbreak on some existing holdings. "On the other hand, Alibaba communicated that makeup sales have been much slower as there isn't so much need for makeup in a world where masks are used," says Havia. However, "these kinds of ramifications are probably more likely temporary, but they are interesting to observe and are interesting in their own way."

'Do Nothing' Approach

As a long-term and concentrated strategy, HCP Focus exhibits very low portfolio turnover. The coronavirus-induced market volatility and uncertainty did not trigger a sudden portfolio reshuffle. "There have not been any immediate changes" in response to the spread of COVID-19 and the imposed lockdowns around the world, according to Havia. This partly stems from "the fund's idea of having a long-term approach," he points out. "The companies that the fund is invested in change infrequently, approximately one company per year if looking back" at the fund's history since late

2012. “Amazon has been in the fund since its inception, and we see no reason to exit any time soon,” says Havia.

The team running HCP Focus was “sitting tight” when equity markets were in free fall and lockdowns were taking a heavy toll on economies and businesses around the world. “Very often ‘do-nothing’ is the right decision,” points out Havia. The ‘do-nothing’ approach paid off handsomely for HCP Focus in April and May. After incurring a loss of about ten percent in the first quarter of 2020, HCP Focus gained a little over 23 percent in April and an additional 15 percent in May. The fund is now up 28 percent year-to-date through the end of May. “Markets rebounded nicely, and especially the picks in HCP Focus have done very well since,” says Havia. “Whereas many other industries have been heavily hammered during COVID-19 lockdowns,” most holdings owned by HCP Focus “have been flying high.”

Always Stay Alert

The ‘do-nothing’ approach does not mean the team managing HCP Focus sits back idle. The team is constantly monitoring the companies inhabiting the portfolio and is always on the lookout for new opportunities. “We are now having our eyes on the Chinese companies in the fund: Alibaba and Baidu,” says Havia. “The escalating trade war between the U.S. and China has weighed down these stocks.” Baidu might get delisted from Nasdaq, reckons Havia. “To keep the fund highly concentrated at 12 holdings, one needs to go when the portfolio management has identified the next target company that is better than any current one.” New opportunities are emerging and mounting up.

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COVID-19 has created a fruitful environment for a host of new applications and businesses to thrive during and after the crisis. “Now the COVID-19 situation is transforming the world,” argues Havia. “Crisis situations are always opportunities for investors as they force changes that would take much longer to happen at other times.” The strategy behind HCP Focus has long been benefiting from a few megatrends and the team running HCP focus “looks for new target companies with this approach,” according to Havia. “We expect a few current trends, such as working from home, e-sports and others, to evolve into megatrends,” he points out. “These bring opportunities.”

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“There will be a bigger change in the society regarding how we work, use healthcare services, study and such in the future,” reckons Havia. “Cybersecurity, streaming services, education, gaming, virtualization” bring new opportunities to the table. “There are many interesting and promising companies to look into that fall into our interests.” While many promising companies are on Havia’s and the team’s radar, only a few, if any, will end up joining the highly concentrated portfolio. After all, “HCP Focus is a high conviction equity fund investing in growth opportunities using deep analysis on company long term strategy to find the future market place winners with current low valuations.”

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