Taiga Passes Toughest Test Yet

Stockholm (HedgeNordic) – Despite delivering an annualized return of 15.4 percent since 2008, the Oslo-based team running **Taiga Fund** has always emphasized the importance of downside protection rather than embracing a "maximum return at all costs" approach. The coronavirus-induced market volatility in March put Taiga Fund's small-cap-oriented long-biased strategy to its toughest test yet.

"We do not expect Taiga Fund to be immune to sharp equity market drawdowns," the team at Taiga Fund wrote in a letter to investors after the first quarter. "Despite this, the fund has previously proven relatively resilient due to solid valuation support in the long book, some short exposure and no leverage," the team led by Ola Wessel-Aas *(pictured)* and Andreas Petterøe added. The team's stock selection process for the long book involves looking for companies with strong balance sheets, sustainable business models that suit their respective industries' cyclicality and sustainable value propositions to their customers. For that reason, the portfolio of longs has "proven to be more resilient to market downturns due to relatively low valuations, strong financials and sound business models."

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“However, as the corona crisis unfolded in March the resilience we traditionally see in our longs evaporated.” Taiga Fund, which maintains a long-biased and concentrated portfolio mainly consisting of small-cap companies in the Nordics, was down 16.3 percent in March to end the first quarter of 2020 in negative territory at minus 19 percent. The fund’s portfolio suffered from liquidity constraints in financial markets and some cyclical exposure in small-cap capital goods companies.

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Despite suffering its largest drawdown since inception, Taiga Fund recouped more than its losses to end the year with a return of 12.4 percent. Taiga Fund’s portfolio companies “eventually proved their mettle last year,” with the team believing that “the composition of the fund and its underlying fundamentals protect our investors from permanent losses even if the fund is not immune to changes in market sentiment.”

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“Ending the year with a double-digit return and upholding our 15% CAGR since inception, was certainly not what we expected in March when the unprecedented lockdowns and liquidity-driven sell-off in financial markets struck us hard,” the team writes in a recent letter to investors. “The subsequent sharp turnaround in sentiment and record-setting new highs in equity markets in the midst of the greatest economic setback in the global economy in living memory are astounding.”

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At the same time, they remain confident about their prospects going into the new year, with valuation support in the long book “which remains within our typical range with a 12-month forward price-to-earnings ratio of below 14 and dividend yield close to 5%.” However, the team running Taiga Fund is raising concerns that “markets once again are in bubble territory.”