If you can make it there….

Stockholm (HedgeNordic) – Typically funds included in the Nordic Hedge Index have either been managed by Nordic-born managers, have been domiciled in one of the Nordic countries, or have been run by teams out of the Nordic countries. The latest addition to the Nordic Hedge Index however has a different claim to being listed. The **Lucerne Nordic Fund**, is a Cayman Islands-domiciled hedge fund run by a Brit out of New York but runs a strictly Nordic investment theme.

Warren Buffett famously said that allocating money out of Omaha, far away from Wall Street, helped him achieve investing success by being "undisturbed by irrelevant factors and the noise generally of business investments." While Jonathan Copplestone *(pictured)* of Lucerne Capital Management lives in New York City in the heart vibes of Wall Street, he is an ocean away from his hunting ground: small- and mid-sized companies in the Nordic region. "One of the most frequent questions that comes up when talking with potential investors is how can you have an investing edge sitting in New York?" Copplestone tells HedgeNordic.

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"Part of my answer is that we have better access to management than we would have by sitting in London, Stockholm or other cities because every Nordic company, large or small, comes to New York and we get to talk to them," says Copplestone. Since Lucerne Capital Management is a unique organization in New York because of its pure focus on small- and mid-sized European companies, "we get to see Nordic companies one-on-one when they are in town," according to Copplestone, who was a founding member of Enskilda Securities in London in 1982. "The other part of the answer is that I have never seen any correlation between managers' location and their performance," he continues. "One of best fund shops investing globally that I knew was based in Alaska, and they were absolutely spectacular investors."

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Copplestone relies on a bottom-up investment process to build a concentrated portfolio between 20 to 50 names from a universe of around 400 Nordic companies with market capitalizations between $200 million and $5 billion. A fund manager's investing success "is all about the process," considers Copplestone. And his proven and repeatable research process has borne fruit despite him being thousands of kilometers away from the Nordic region. Lucerne Nordic Fund has delivered an annualized return of about 32 percent since Copplestone started managing the fund in early 2015.

Bottom-up Focused, Return on Capital-Obsessed

"The investment process starts with the companies," says Copplestone, who has more than 30 years of experience working in Nordic capital markets. "I work very comfortably with the broking community in the Nordics, which is of a very high standard," he emphasizes. "But the key aspect of my process is meeting with the company management and meeting with the other stakeholders such as board members to discuss strategic priorities," adds Copplestone. "Those things you don't read in a research report." Regular discussions and meetings with corporate management help Copplestone avoid surprises in the portfolio.

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Copplestone regards return on invested capital as one of the best measures of financial success for a business, sharing the same opinion with the likes of Charlie Munger or Terry Smith. "When looking at individual companies, we focus on what they can make on the capital reinvested in the business," Copplestone tells HedgeNordic. "If businesses are deploying a lot of capital now because they are growing and are generating negative cash flows as a result, that's fine," he continues. "I don't need to see cash flows straight away, but I do have to see that in the next few years the companies can get good returns on that capital invested."

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"We are fixated on how much capital a business needs, and the potential returns on that capital," elaborates Copplestone. "That doesn't put us in the corner of value investors or cash flow-obsessed investors," he emphasizes. "In a nutshell, we are very much bottom-up focused, return on capital-obsessed," says Copplestone. "If I were to highlight a style preference, I definitely have a skew towards growth, but at the moment, I equally own low-growth businesses because the returns on capital are so good. Adaptability and flexibility are very important, they have served us very well."

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Unattractive Risk-Reward for Nordic Shorts

Despite running the Lucerne Nordic Fund with a net market exposure in the range of 29 percent to 106 percent over the last five years, Copplestone mostly runs a long-biased portfolio. Partly because profitable short ideas are more difficult to uncover but mostly because Copplestone is an "optimist, equity guy" who believes equity markets will continue to rise over time, "I am skewed very long," says Copplestone. "I run a hedge fund and I do short stocks occasionally, but it is so much harder to make money on shorts," he acknowledges. "If you try to make money by shorting, the window of opportunity is very narrow unless you are able to short the right stocks at the exact right time."

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“I haven’t come across better corporate governance anywhere, including the United States, which is one of the reasons the Nordic markets are so fantastic for investors,” says Copplestone. “It is not only the laws but also the culture that supports the laws,” he continues. This environment makes shorting in Scandinavia harder than elsewhere, “because underperforming management teams are identified and replaced much more quickly,” according to Copplestone. “You don’t see those long-lingering decaying businesses where the shareholders are not taking responsibility and not making management changes. It is a smaller pool of opportunities to short in the Nordics.” For that reason, Copplestone spends “the vast majority of my limited mental bandwidth looking for longs.”