

“Small” Compounders

Stockholm (HedgeNordic) – Accountant-turned-fund manager Andreas Aaen is looking for so-called “compounding machines” where few are looking: in the universe of smaller-sized businesses across the Nordics, the rest of Europe and the United States. “We mostly look for what we call small market leaders in expanding niches,” says Aaen, who launched his long/short equity fund **Symmetry Invest** out of the region of Aalborg in Denmark back in early 2013.

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“Sometimes investors ask how do we find market leaders by focusing on small-cap companies if market leaders are normally big companies with lots of resources,” Aaen tells HedgeNordic.

“Although most market leaders are indeed large companies, we have been able to find a lot of smaller-sized market leaders in smaller niches,” says the fund manager. “We are mostly focused on finding long-term compounders among smaller-sized companies, and these are normally founder-led companies.”

Founder-Led Compounders

Andreas Aaen and his co-portfolio manager Henrik Abrahamson, who joined Symmetry Invest during the summer of last year, are predominantly looking for smaller businesses with a sustainable competitive advantage in a small yet expanding market niche. “Most businesses we like operate in a small niche that is expanding, have an edge over the market and have none or reduced analyst coverage,” explains Aaen. Such businesses tend to be founder-led companies with a founder that acts as chief executive, president, board member or holds some other position of significant influence.

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“There are two reasons our strategy focuses on founder-led companies,” says Aaen. “One is that statistics show that investors get the best returns from investing in this segment,” points out the fund manager. “The second reason, which I have come to appreciate a lot, is that I just have more fund analyzing and looking at founder-led companies,” says Aaen. “Running Symmetry Invest is a 24-hour-a-day job, so if I have to stay up late at night, I need to have fun doing it,” he continues. “Interacting with the founders that have a real passion for their companies and their industries is just what I love to do.”

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By focusing on founder-led companies, Symmetry Invest tends to invest alongside people who often have a long-term vision and a sense of legacy, have significant “skin in the game,” and have incentives aligned with the ones of shareholders. These combined tend to lead to better capital allocation decisions, which is essential for long-term investors such as Symmetry Invest that are looking for “compounding machines.” Long-term wealth creation for shareholders, after all, involves reinvesting internally-generated cash or borrowed capital at attractive rates of return.

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"Share buybacks, dividends, or merger and acquisition decisions are capital allocation decisions that can create value over time," says Aaen. "But one thing I have come to appreciate is management teams that are really, really good at capital allocation within the company," he emphasizes. Aaen and Abrahamson are increasingly focusing on internal capital allocation, which may involve allocating capital towards marketing activities, training employees, better equipment, technology or user experience, among many others. "We spend a lot more time finding management teams that are really good at these internal capital allocation decisions, because it is much easier to understand whether one should do buybacks or pay out dividends."

Concentration of Focus

Symmetry Invest is a long-biased long/short equity fund running with a net market exposure between 60 to 80 percent, with the long portfolio housing between 12 to 18 names and the short portfolio including from 15 and up to 40 names. "We just do what has worked so well in the past for famous investors such as Warren Buffett, Mohnish Pabrai and other legends who recommend staying small, concentrated, and invest for the long term," says Aaen. Symmetry Invest maintains a concentrated portfolio to limit the downside effects of over-diversification stemming from the dilution of portfolio manager's attention, knowledge and time, with Aaen focusing on ten names and his partner Abrahamson focusing on five names.

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With Abrahamson joining Symmetry in the summer of last year, "I have become more concentrated within my own portfolio because he takes five positions himself," says Aaen. "I now concentrated on ten holdings instead of 20, which enables me to concentrate more on my best ideas," he adds. "I do not think one can analyze too many companies, I only have real conviction in a small number of ideas," emphasizes Aaen. "If looking at my returns in the past, one can see that my biggest investments have been the best-performing ones."

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As bottom-up investors, Aaen and Abrahamson steer Symmetry Invest's net market exposure depending on the opportunity set at a given point in time. "When the market is quite overvalued, it is easier to find short positions, but in a market environment such as the one in March of last year, I had an easier time finding longs," explains Aaen. "We do not try to time the market." The lead generation on the short side, however, is more automated. "We have a lot of data tools and internally-developed systems to get short candidates and then we do the due diligence manually on

those leads to decide what to short,” says Aaen. “The shorting is more event-driven and the holding period is much shorter.”

Performance in Focus and Constant Learning

Symmetry Investing has generated an annualized return of 23.3 percent since launching in March of 2013 through February this year, but this “compounding machine” ground to a halt – and rolled backward – in March of last year. With its long book housing founder-led companies characterized by low levels of free float, Symmetry Invest incurred a loss of 37 percent in March, but the fund still ended the year up over 40 percent. “In retrospect, we did all the right things from a stock selection perspective,” says Aaen. “We found the right stocks, we bought more of them and we earned a lot of money after the March period all the way through the end of the year.”

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“From a risk management perspective, I should have done a little better on the hedging side,” acknowledges Aaen. “That was something we improved a lot on during the course of last year,” he continues. “One thing I believe we are really good at is constantly learning, developing and adapting to the market environment,” argues Aaen. “We spent one day a week just reading books or letters instead of doing pure investment work,” he adds. “We have been agile around moving to where the opportunity set is, which involves a constant learning process.”

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Symmetry Invest gained an additional 18 percent in the first two months of 2021, helping the fund keep its status as one of the best-performing Nordic hedge funds in the universe. With an annualized return of over 23 percent, Symmetry Invest has delivered the second-highest annualized inception-to-date return among the funds with a track record exceeding five years. The strong performance in 2021 is “just a continuation of what worked towards the end of last year,” says Aaen. “Of course, I will say that I am good at selecting stocks, but it was also a little luck from some positions that just went really well.”

This article featured in HedgeNordic’s 2021 “Nordic Hedge Fund Industry Report.”