

# A Good Reputation is Worth Real Money

Stockholm (HedgeNordic) – The number of activists and the abundance of capital to invest have been increasing, with activist investors becoming a force to reckon with. While some management teams may be wary of shareholder activism, some executives in the Nordics are welcoming one particular activist with open arms. Throughout its 13-year journey, Nordic-focused activist investor **Accendo Capital** has built an intangible but powerful and hard-to-replicate asset: reputation – a reputation as a collaborative, value-enhancing shareholder.

“By now, there is a fairly good and wide understanding in the small-cap space in the Nordics about how we work,” explains senior partner Mark H. Shay, CFA, who manages the Accendo Capital portfolio alongside founder Henri Österlund and partner Kai Tavakka. “One thing we have noticed over time is that companies we are approaching today are, generally speaking, more informed about the work that we do and more positive,” he continues. “If you turn the clock back about ten years, companies did not really know what we were about. The idea of an activist investor gave rise to some uncertainty among companies.”

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The reputation as a collaborative, value-enhancing owner has been accelerating and broadening the deal flow for the activist investor. “Our deal flow today is more diverse and more active than it was ten years ago,” Shay says, highlighting one positive aspect of Accendo’s long track record. “We occasionally get calls from founders or main shareholders who ask us to take a look at a certain company,” he points out. “They may feel that what is missing from their overall group of stakeholders is an active, financially-oriented owner. We feel like we are never short of investment opportunities,” continues the senior partner. “We really need to be selective and find cases that are a good fit for us and where we are a good fit for the company and its owners on the other side.”

## What Accendo Brings to the Table

Accendo’s private equity approach, derived from Österlund’s pre-Accendo background, brings to small public companies in the Nordics a decisive benefit of private equity: a clear, dedicated owner. “One of the intangibles that we bring is the genuine passion for investing and for the entrepreneurial drive in our companies,” says founder Henri Österlund. “We do not just sit back and wait for the AGM and vote our shares one way or the other,” he continues. “Every day, from morning until night, it is really about thinking along with our companies how can we make them better? What can we do to help the management and the board move ahead?”

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As an activist investor that typically seeks board representation, Accendo draws upon an extensive network of experienced and knowledgeable industry experts who are ready to engage with companies and promote the activist investor’s interest in an entrepreneurial, active board of

directors. “We have a network of really interesting high-energy people that we work with and we are always keen to meet and work with more such people,” emphasizes Österlund. “When we can introduce them to our companies to make something happen, we do it.”

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Accendo collaborates with four senior advisors who assist the value-creation process both across its six portfolio companies and within Accendo Capital. “They have a broad range of skills and experiences that help us partly with our portfolio development, developing each of the holding companies, but also in terms of developing Accendo Capital as an investment management firm over time.” The senior advisors are helping Accendo to find answers to questions such as “How can we grow as a firm? How can we strengthen our offering to our investors, avoid risks, increase assets under management and diversity of our investor base in a productive way over time?” adds Österlund.

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Accendo relies both on its own and its network’s experience and expertise to create value in the portfolio companies. “The real value of involvement is the passion and the energy that we bring into our companies,” emphasizes Shay. “That is not just something that we are content to sit back and watch how things unfold,” he continues. “It is about being on our toes, looking at what large customer we could possibly bring into this company that they do not already know, or being in touch with a person looking for a job in the market that would be a great fit,” says Shay. “It can be all kinds of things over the course of a year or several years.”

## **Focusing on the “G”**

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Investors – both institutional and private– are increasingly adapting their investing practices to make them more environmental, social and governance (ESG)-aligned. “Our positioning there is really aligned with the ‘G’ part of the ESG, which gets actually very little attention,” points out Mark Shay. “A lot of the attention is on clean-tech investing, for example, which is an important part of our future, but the governance part is something that is frequently overlooked,” Shay says. “Even from the beginning in 2008 before people really started talking about ESG, we identified an opportunity in governance to help realize value and make improvements to companies.” The focus on governance is “about having a shareholder mindset, doing what is right for the shareholders at every step along the way.”

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“In terms of the other two components, the ‘E’ and the ‘S,’ we do not have a distinct formal strategy

around ESG investing, partly because it can lead to a strange focus if you let it run the wrong way,” comments Shay. As Accendo is a long-term investor with an investment horizon of five, ten or more years, ESG issues are fully embedded in the selection process without a formal approach to ESG.

“We are trying to find the best investment opportunities that are out there for the next five, ten or more years,” says Shay. “And when you look at a business commercially, clearly a plant that is dumping wastewater into the river behind the factory is not the kind of company that we would be investing in, or if we were, the first thing on the agenda would be to do a full clean-up and get back on track,” he continues. “An ESG dogma or doctrine can lead to some funny ideas and a lack of focus on what is commercially important.”

### **Accendo’s Place in an Institutional Portfolio**

Large institutional investors generally hold a wide array of asset classes, securities and investment vehicles in their portfolios, but passive, well-diversified portfolios can hardly capture the excess returns stemming from active ownership. According to Elise Auer, Accendo’s Director of Investor Relations, Accendo Capital fits very well in the portfolio of an institutional investor that “believes and sees evidence that active ownership can create excess returns.” There are many outstanding activist fund managers out there that are creating significant value by focusing on large companies. “There are, however, only a small handful that are doing similar work with the smaller-cap companies,” argues Auer.

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“The activist component amounts to us entering the company as an entrepreneurial owner,” explains Tavakka. “We do a lot of work in our companies at the board level related to capital allocation, which is maybe the most important thing that we do,” he continues. “Often small companies that are successful with good technology see tons of opportunities coming at them every day. The difficult part of the job as an owner is to try to select the best opportunities and say no to other ones.”

*This article featured in HedgeNordic’s “Finding Alpha in Equities” publication.*