

# Investing in Culture

Stockholm (HedgeNordic) – Successful founders and CEOs need the right skill set to manage a business and attract and optimize talent. Nina Hammerstad (*pictured*), formerly Chief People and Operation Officer at the world's largest sovereign wealth fund, has decided to use her skill set to embark on an entrepreneurial journey in the hyper-competitive investment management industry. Hammerstad established Oslo-based partner-owned firm REQ, which consists of two separate legal entities: asset management arm REQ Capital and real estate-focused arm REQ Alternative Investments.

"I have always enjoyed building things," Nina Hammerstad, formerly at Norges Bank Investment Management, tells HedgeNordic. "Building a business from the ground up and shaping its culture is a powerful motivator. It is important to have competent people to work with," she continues. "In my previous roles, I evaluated a lot of managers and came across a few that really stood out, and we now work together," she says. REQ has grown to 11 staff, "a down-to-earth group of people with a competitive mindset," according to Hammerstad.

*"I have always enjoyed building things. Building a business from the ground up and shaping its culture is a powerful motivator."*

## Acquisitive Compounders



Oddbjørn Dybvad

One of the managers who stood out was veteran fund manager from Odin, Oddbjørn Dybvad, who

will manage one of the two equity funds under the umbrella of REQ Capital – **REQ Global Compounders**. As the name suggests, the long-only equity fund managed by Dybvad seeks to invest in compounders – companies that are able to reinvest capital at high rates of return over time – with strong corporate cultures. “Reinvestment is a critical component of any successful investment idea, and our companies have plenty of room to reinvest capital both organically and through acquisitions,” explains Dybvad.

“Our companies often compound capital by using free cash flow to acquire small private companies,” Dybvad describes the typical holding of REQ Global Compounders. “Our acquirers have the ability to deploy the majority of their free cash flow to acquisitions and have tremendous future optionality,” he elaborates. “We often tend to see that optionality not captured in the numbers you see today. In our experience, this source of future value creation is often underestimated by the market.”

*“Reinvestment is a critical component of any successful investment idea, and our companies have plenty of room to reinvest capital both organically and through acquisitions.”*

“Our strategy to invest in these acquisition-driven compounders could resemble private equity funds with permanent capital without a fee structure,” Dybvad tells HedgeNordic. High-quality businesses with huge runway for growth stemming from plowing back capital into the business also tend to preserve capital in down markets, argues the fund manager. “It has been our experience that quality companies with consistently solid, relatively non-cyclical earnings growth tend to preserve capital in down markets.”

*“We like “skin in the game” by investing in companies where management has a lot of equity ownership in the company.”*

Management teams with great capital allocators at the helm represent one of the three main ingredients of Dybvad’s approach. “The second feature of our strategy is decentralized organizations with a lot of autonomy,” explains Dybvad, who authored a book titled Investing in Value Creators. “These are high-performing conglomerates” of the type Warren Buffett has built out of Berkshire Hathaway over many decades. “Finally, we like “skin in the game” by investing in companies where management has a lot of equity ownership in the company,” he says. “They treat the business as their own and have a long-term view that often does not involve giving the market guidance on short-term profit expectations.”

## **The Importance of Culture**

“The key characteristics of our companies are excellent capital allocation, decentralized organizations, and management with “skin in the game” that acts like a long-term investor,” summarizes Dybvad. With the team running REQ Global Compounders having a long-term investment horizon that is “directly tied to management execution,” corporate culture has emerged as one key focus point in the security selection process. “A strong, enduring culture is the single biggest competitive advantage in a fast-changing world” is the asset manager’s motto. The importance of organizational purpose and culture as a differentiator is just as important for the progress of REQ Capital as it is for the underlying holdings of its equity funds.

*“The key characteristics of our companies are excellent capital allocation, decentralized*

*organizations, and management with “skin in the game” that acts like a long-term investor.”*

“A company culture is an asset when your competitors know what you do, how you do it, but they still cannot duplicate it,” Hammerstad highlights the importance of culture. “We very rarely hear public investors talk about people, culture and leadership. So we think there are great opportunities for investors who spend a lot of time on this important topic,” she continues. “Our many years of investment experience have led us to believe that spotting super talent before others is one of the most underrated skills an investor can develop.”

*“A company culture is an asset when your competitors know what you do, how you do it, but they still cannot duplicate it.”*

“We try to find management teams that are excellent both inspiring human capital and that are also excellent investors,” Dybvad tells HedgeNordic. “These cultures become high-performance companies. People go in the same direction because of the leadership,” the fund manager emphasizes. “Capital allocation is an important part of the strategy and culture. Collectively these companies become high-performance companies that outperform over time.”

## **Top Down Culture**

“Culture starts at the top.”

“Culture starts at the top,” explains Nina Hammerstad. “The CEO is the Cultural Executive Officer. Our experience is that executives often do not fully realize the extent to which “who they are” influences all aspects of their business. Investors often do not fully appreciate the importance of management and its impact on culture.”

Based in Oslo, finding strong corporate cultures in the Nordics is a more straightforward process for the firm’s soon-to-be-launched REQ Nordic Compounders managed by Synnøve Gjønnnes. “We do our own primary research by talking to many former employees in the companies we consider as candidates for our funds, mainly in the Nordic countries,” explains Hammerstad. “The insights we gain from a structured process of talking to ex-employees are underrated. We have yet to discover anyone on the sell- or buy-side in fund management doing the same type of work, although this is quite common in the private equity arena.”

*“We do our own primary research by talking to many former employees in the companies we consider as candidates for our funds, mainly in the Nordic countries.”*

“We were surprised by the amount of feedback from this source of primary research,” emphasizes REQ’s CEO. “Ex-employees are willing to talk openly about their experiences and we are pretty quick to identify the consensus culture of the firm,” she continues. “We have excluded companies from our portfolios based on this source of primary research.”

Assessing the corporate cultures of companies outside the Nordics represents a more daunting task. Even so, the team at REQ Capital is “in the process of developing a powerful Cultural Index Model where we use Artificial Intelligence and Natural Language Processing to gather insights from employee written reviews on the recruiting portal Glassdoor,” Dybvad tells HedgeNordic. “We are

very optimistic about this project and expect it to become an addition to research on international companies.”

*“As we have evolved as investors, we have discovered that qualitative factors have a great impact on investment returns.”*

“As we have evolved as investors, we have discovered that qualitative factors have a great impact on investment returns,” emphasizes Dybvad. “Historical numbers and “moats” do not provide all the clues. It is often qualitative factors such as company culture and management’s approach toward capital allocation combined with organizations with lots of autonomy that provide excellent long term returns to investors,” he elaborates. “Taken together, these elements significantly improve the odds in our favor of generating strong long-term stock returns.”