

Ordinary is the New Elixir

Stockholm (HedgeNordic) - In an environment characterized by low economic growth, where earnings growth becomes scarce, investors have been willing to “pay up” for growth. “With interest rates or risk-free rates coming down continuously in the last two decades because of economies being in a slow-growth environment, clearly growth has been more valuable,” says Ola Wessel-Aas, the portfolio manager of long-biased long/short equity fund **Taiga Fund**. That partly explains the outperformance of growth companies marked by higher-than-average rates of earnings or sales growth against the cheaper-priced slower-growing companies.

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Despite Taiga Fund favoring less-expensive “mature businesses with sustainable business models accompanied by strong balance sheets and cash flows,” the fund managed by Ola Wessel-Aas and Andreas Petterøe has delivered an annualized return of 15.6 percent since launching in May 2008. “I could be tempted to agree that we have indeed met our return targets despite rather than because of market conditions,” Wessel-Aas tells HedgeNordic. “But we don’t pay so much attention to what markets generally like or don’t like, what type of style works and how one defines value versus growth,” he emphasizes. “Over time, the way we invest works in all of the environments that we have ever experienced.”

The Comeback of the Ordinary

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“Finding companies with the qualities and the prospects that we value will produce returns over time,” says Wessel-Aas. “You can find them in every market. It is sometimes more difficult to find them, other times, it’s easier.” Taiga Fund tends to invest in “mature businesses that offer products or services with sustainable value propositions and that will continue to be in demand over time,” according to Wessel-Aas. “We seek entry points at attractive valuations that can be driven by a lack of investor interest in the stock at that particular time, or due to perceived low growth in the company, or risks that we consider being temporary.”

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“It is dangerous to say that that we have been out of favor as a style, because I am not sure if our style is really defined as value as such,” argues Wessel-Aas. “We like growth, we just don’t like to overpay for growth,” he emphasizes. “We think that you are generally able to get low growth at a discount to the value that the stock represents. At least relative to the ability to get a discount on high growth, which is generally overpriced over time,” elaborates Wessel-Aas.

In an environment characterized by slow growth pre- pandemic, which was further exacerbated by the outsized economic impact of COVID-19, “companies that could evidence growth have been very valuable and investors have been rewarded for making those bets,” according to Wessel-Aas. “But with growth coming back as economies, not necessarily financial markets, enter more normal circumstances, many companies may grow more quickly than they had been prior to the pandemic,”

considers Wessel-Aas. “In that environment, high growth is going to be less attractive on a relative basis,” he continues. “And from that perspective, our low valuation type investments in perceived low growth companies will be more rewarding on a relative basis.”

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“There is certainly a time for value stocks, ordinary portfolios, or normal companies to outperform relative to popular tech companies,” argues Wessel-Aas. “That has been long lagging. We saw after the internet bubble burst in the early 2000s, those years in the aftermath of the burst were the most attractive for boring, ordinary businesses,” he points out. “Ordinary is the new elixir,” says Wessel-Aas. “We are committed to continuing to meet our return targets over time,” regardless of how the general market sentiment and how other investors are acting or what they favor.

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Taiga’s Sustainability Mindset

The portfolio management team running Taiga Fund is focused on limiting downside risk. “Margin of safety is where we start out in any investments. We always start with the downside,” explains Wessel-Aas. This focus on downside protection includes assessing all environmental, social, and governance (ESG) issues surrounding a business. “Doing the bottom-up analysis that we naturally do in order to discover risks in the underlying business that you invest in makes you aware of all of these issues, including E, and S and G that you could describe as non-financial risks,” explains Wessel-Aas.

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“While we recognize that sustainable investing is obviously a fashionable topic and something investors need to consider, it is tricky to describe exactly how you think about these issues and how you develop processes around them internally and actually make decisions on that basis,” acknowledges Wessel-Aas. For that reason, the Taiga team has developed a framework that defines how Taiga Fund is approaching responsible investing.

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“We take a broad perspective on sustainability,” starts Wessel-Aas. “It is for instance much broader than how it is defined in the EU taxonomy for sustainable activities, which is a subset of sustainability and tiny relative to all of the issues that you have to be aware of,” argues the Oslo-based money manager. “It is also very important for us that sustainability for a business implies an ability to survive and invest in its operations,” Wessel-Aas continues. “There is a profitability element that cannot be ignored. You cannot form an opinion on the sustainability of a business or its activities without having a view on its ability to invest in that sustainability.”

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“Secondly, the ethical component of investing is very important,” argues Wessel-Aas. “If you are looking at every stock independently from a bottom-up perspective, you will have a personal view of what is ethical,” he adds. “There is a moral and reputational aspect to what you do and what you are willing to be invested in, and the threats that you see as being acceptable or not,” says Wessel-Aas. “That leads to exclusions and decision-making, which is a very important aspect to how this portfolio is constructed over time. However, we do not want to be defined by what is fashionable and how others are thinking about that. Our framework is a reflection of our view and our understanding of what we think is ethically acceptable and not.”

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“Finally, there is an element of engagement, which we have always considered as an important component to ownership,” Wessel-Aas tells HedgeNordic. “This represents active ownership from our perspective, which involves the ability to engage with companies through dialogue, with management, access to the board of directors, paying attention to the truthfulness in their representations and their communication,” says the fund manager. “The ability to engage is an element which we value and an aspect that we always consider when making an investment in a stock.”

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Sustainability, ethics and engagement are three components captured in Taiga Fund’s responsible investing framework. “That is how we have been thinking about sustainable investing all the way,” says Wessel-Aas. “Being named after the largest forest in the world with its crucial role in the global ecology, we have always adhered to strict views on sustainability,” he says. “Although we take a fairly broad view as to what it all entails, sustainable investing is ingrained in our philosophy and processes.”

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