

Tidan is Different

Stockholm (HedgeNordic) – Tidan is different. River Tidan is one of the few rivers in Sweden that flows from south to north. Michael Falken, the CIO of hedge fund start-up Tidan, says their strategy aligns with its namesake. “We view our strategy as fairly unique and offers investors a differentiated source of alpha.”

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Michael Falken and William Wilson, recently joined by fellow Brummer alumni Gunnar Wiljander, the former CEO of Nektar – one of Sweden’s oldest and largest hedge funds, are launching a new hedge fund that employs a capital structure relative value strategy. “We benefit from eight years of research and development at Brummer, and combined, myself and Will at Goldman Sachs have over 40 years of experience employing capital structure relative value strategies,” Falken tells HedgeNordic. “Capital structure relative value is a neglected space. The siloing effect of equity and credit markets means it falls between the cracks and there are not a lot of managers operating in this space.”

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“Brummer was a particularly supportive and innovative platform, which we are very happy to have been part of. With the toolset that we developed at Brummer, we felt that it was a great springboard to set up on our own,” says Falken. The ex-Brummer trio is now launching Tidan under the umbrella of Tidan Capital in early October with the support of quant analyst Ali Hamdi and cross-asset trader Aram Hussein, both also formerly at Brummer & Partners.

The Basics of Capital Structure Relative Value - Value Transfer Alpha

Tidan’s strategy utilizes mispricings and dislocations within a company’s capital structure. The core idea focuses on going long undervalued securities linked to one part of the capital structure and simultaneously going short overvalued securities linked to another part of the capital structure. “Beneath the surface of broad, strongly-correlating market indices, there are thousands of companies having their own relationship between their debt and equity securities, where much larger dislocations can emerge,” explains Falken. “Because the space is neglected, employing fundamental research with a focus on understanding a company’s capital structure and capital allocation policy allows us to take advantage of these attractive dislocation opportunities.”

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“Our strategy focuses on the relationship between equity and credit,” elaborates Wilson. “When

going long credit and short equity, we look for companies that will transfer value from shareholders to bondholders. The simplest example is an over-levered company where the management team realizes the balance sheet is not appropriate and therefore plans to de-lever," he explains one of the two types of capital structure relative value trades.

"The other trade is the exact opposite. We are looking for value transfer from bondholders to shareholders," continues Wilson. "The simplest example is either the management believes it is appropriate to re-lever as the company is doing well or third-parties such as activists or private equity are circling around," he describes the second type of relative value trade.

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Tidan's trades are all carefully constructed to be market- and company-neutral. "All of our trades are constructed to isolate our value transfer view, where we feel we have a genuine edge. We call this Value Transfer alpha," says Wilson. "We know we have no edge in predicting a company's next earnings results or the next big factor move, so we target to hedge out all of that noise," adds Wilson. "We believe this contributes to our low correlation to other asset classes."

Enhanced Toolset

Tidan is employing an evolution of the capital structure relative value strategy run within Brummer-backed Carve. "We believe the original capital structure relative value strategy from Carve is attractive because there are not a lot of people doing it," says William Wilson, who left Goldman Sachs in 2018 to join Carve Capital. "But in no way are we relaxing. We are finding more ways to refine the strategy, enhance our toolkit and discover different types of opportunities that exist."

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"Tidan's strategy is similar to the one used at Carve in the sense that we participate in the capital structure, we have more than one position in every single company, one being a bullish and one being a bearish position," explains Falken. "But beyond that, everything is different. The way we approach portfolio construction is much different from what we did at Carve. We continued to develop the toolset, which is now much more enhanced. On top of that, we have an overlay hedge that we did not have at Carve."

Market Environment and ESG Value Transfer Alpha

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The soon-to-be-launched Tidan will seek to invest in around 40 investment opportunities at any given time, with both micro and macro factors constantly creating opportunities. "There are a lot of idiosyncratic events creating dislocation opportunities and we are looking for events driving value transfer across capital structures," Michael Falken tells HedgeNordic. "It is key to have the

experience to understand the dislocations that are going on in the market at any particular time,” adds Wilson. “These dislocations partly occur because market participants generally trade equity and credit in isolation from each other,” explains Wilson. “This happens across all the markets.”

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“The Environmental, Social and Governance (ESG) trend is also creating dislocations across the capital structure,” adds Wilson. “Our strategy resides within the world of capital allocation. The ESG theme is manifesting itself in the market through how and if capital is allocated to certain sectors and companies, causing capital structure dislocations,” he continues. “A greater number of capital structure dislocations are being born out of ESG events and that fits our core competence,” Wilson tells HedgeNordic. “If we see a company that has been deficient on the governance or environmental side, and we think that the board has the desire to fix that, that is an opportunity for us. The deficiency may be remediated and the dislocation then closes.”

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Tidan will maintain a portfolio of around 40 investment packages, with every package having at least two opposing positions in different credit instruments, equity, options or a combination of those. Investments are typically held for 6-24 months and the portfolio is expected to achieve a market-neutral target return of 7-10 percent net of fees for its investor base of professional investors.

A Different Direction

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Partnerships with several top-tier service providers serve as pillars for Tidan’s capital structure relative value strategy. “Working with institutions such as State Street as administrator, investor services and trade support gives us a robust institutional platform and enables us to provide the level of transparency to our investors which we desired,” highlights Tidan’s CEO, Wiljander. Scheduled to launch at the beginning of October, the team running Tidan expects the strategy to be capacity constrained at SEK 7.5 billion. “Our capital raising will initially focus on closing the fund at SEK 3 billion with a potential to raise additional capital to a maximum of SEK 5 billion,” says Wiljander. “We are looking forward to starting this journey in a different direction.”