SKAGEN funds

Hilde Jenssen, Portfolio Manager SKAGEN Kon-Tiki

For those looking for good investment opportunities, there are no shortcuts, says portfolio manager Hilde Jenssen.

Using examples from the SKAGEN Kon-Tiki portfolio, portfolio manager, Hilde Jenssen, explains what is important to remember when hunting for good investment opportunities. The experience is not always pain-free.

1. Understand how companies operate

Don't draw conclusions from quantitative data alone. Some of the most important information has nothing to do with key metrics or estimates. It might be a minor change in the organisation that reveals larger structural changes to come. One recent example is State Bank of India. When we talked to management last year, they clearly indicated that they were ready to improve efficiency in a number of key areas. This was the first time that the state-controlled bank had shown any willingness to change. As the shares were still unpopular and the price below our estimates, we participated in an equity issue. When Modi won the presidential election last year, State Bank of India epitomised the new Indian reforms and success. The company has since gained 79 percent in local currency.

These are some of the most important questions we ask ourselves:

- What is the company's objective?
- What motivates management and the employees to go to work each day?
- Does management have the competence needed to reach its goals?

- Does management have the same incentives as investors?

2. The best ideas often hurt
As an investor you have to be prepared to make difficult decisions even if there is a risk of getting it wrong. The Brazilian meat producer Marfrig is a good example. The share price more than halved over the course of last year and at the same time we increased our position to 1.5 percent. It turned out that the management's acquisition hopes since listing in 2007 didn't quite match up with their ability to sell, and this in turn pushed up the debt level. The new management has turned things around, however, and the company announced positive cash flow for the first time in Marfrig's history. Despite falling debt levels and the company's position as a global food processing company – whose client list includes McDonalds amongst others – the company is still priced as a back street Brazilian butcher. The potential for good returns in the future is definitely in place. If you want to beat the index over time you have to make difficult decisions, even if this means periods of underperformance.

3. Don't fall in love with your stocks
It is easy to become overly involved in an investment case when you have spent a lot of time on it. You feel vindicated when the company performs well and proud that you got it right. However, this is often precisely the moment that you should consider whether it is time to sell.

One example of this is Russian Sistema. After many years of excellent returns, the company turned into a bad investment overnight. The company had always been perceived as being resistant to political risk, as well as extremely well run by the oligarch Vladimir Yevtushenkov. That all changed last year, however, when Yevtushenkov was placed under house arrest on allegations of corruption.
Unlike in other areas of life, you should not fall in love with a company; you should always be ready for a swift divorce.

4. Some words about motivation
When I meet a CEO or founder, I tend to ask the question 'how did you get into this business?' That is when the polished mask comes off, glossy presentations are pushed aside and real feelings show through.

It is important for me to know that the person running the company is passionate about what they do. This is something that is embedded in the company's culture and cannot be quantified. Without this attitude it is too difficult to manage a fast-paced global company and deal with the stress this entails. Some of the most useful information has nothing to do with key metrics and estimates.

5. Have a long-term perspective
If you are a fundamental contrarian investor, you need to have a long-term perspective for three reasons. First, company values rarely fluctuate in step with short-term share prices; second, you can use short-term fluctuations to your advantage; and last but not least, you save a significant amount of money in brokerage fees. The average length of time an investment is held in the SKAGEN Kon-Tiki portfolio is 4-5 years.

6. Non-linear opportunities do not require linear spread sheets

SBI Holdings is Japan's leading web-based brokerage, with 50 percent of the country's online customers. The company is using its leading position to enter into fast-growing markets such as Korea, Cambodia and Vietnam.

Thanks to tax incentives, the demand for online brokerage services is currently taking off. The price level of SBI is still down at 0.7x P/B, however, for a 10 percent return on equity and 2 percent dividend. The 2005/06-levels are within reach; at that time the share traded at 1.5-2.5x P/B, indicating that the upside for the share price could double or even triple.

7. Hunting for good investments in emerging markets

Last year the US was perceived as a safe haven for investors flooding out of emerging markets. This year, however, the strong dollar may hamper the competitiveness of US companies, in contrast to those in emerging markets countries.

At the same time we are aware that the strength of the dollar is detrimental to companies with dollar-denominated debt which is financed in local, weaker currencies. There is no getting away from it; you need to have a thorough understanding of the capital structure when hunting for good investment opportunities. From a historical perspective, return on equity in emerging markets has converged with the developed markets' level of 11-12%. Measured in Price/Book terms, however, valuation in emerging markets is around 30 percent lower than that of developed markets and that creates opportunities for us to find low priced, high quality companies.