Interview with Anne Gudefin (Velanne Asset Management)

Steadyhand's Salman Ahmed recently sat down with Velanne's Anne Gudefin to discuss her background and investing style. Below is the transcript, lightly edited for clarity.

Salman: Let's start with the name — Velanne. Where does it come from?

Anne: I spent quite a lot of my holidays in the Swiss Alps close to Mont Vélan. The mountain overlooks a pass that the Roman troops used to get to Britannia. Of course, today Britannia is Britain, which is where our team is based, in London. Unfortunately, Vélan sounds too much like "villain" if you pronounce it properly so we thought it better to have the anglicized pronunciation instead.

Salman: We've got many clients who are hiking enthusiasts — I'm sure they'd like to know if you've hiked up the mountain.

Anne: Yes, it's about 13,000 feet.

Salman: You've had a successful career working at two larger organizations. You were managing global equity funds at PIMCO from 2010 to 2015 and Franklin Mutual Series from 2000 to 2009. Why did you elect to start up you own investment firm?

Anne: First of all, I should clarify, the Mutual Series team was only a 30-person or so operation even though it was part of the larger Franklin Templeton umbrella. So it was quite small for a company managing $80 billion. But, personally I much better like working in a small organization. I like that in small organizations you can't hide if you don't do your work. Things are simpler. And that's really the idea behind what we do at Velanne. We want to keep the team small because you want the main portfolio manager to focus on her/his investment philosophy so that they can be managing your money rather than managing people.

Salman: You have a highly capable team around you. Tell us how you've built it.

Anne: When I'm recruiting people, I look for four things. First, I want people who are very competent in their field. Second, I like people to have an entrepreneurial spirit and want to join a small company and face the challenges smaller teams do. Third, I want people to fit from a cultural perspective — people who you'd be happy to have a drink with or invite for a Sunday barbeque. And finally, they have to be "value at heart", people who are always looking for cheap stocks. Our investment philosophy isn't just the way we market our services, it's really who we are.

Salman: There are many investors out there who claim to be looking for cheap stocks. What is your investment philosophy?

Anne: I'm a contrarian investor. I like to buy something when others don't want it. That's why you need to do quite a lot of work on a company, because it might be a stock that nobody wants to own for the right reasons. I would say especially now that there are a lot of technological changes taking place. But you also have lots of companies that nobody wants to own because they don't look good in the short term, yet within a few years they may look very different and desirable.

Salman: Other contrarian investors invest in stocks that may be highly indebted, or have questionable business models, in the hope of a turnaround. You don't. In fact, you spend a lot of time assessing the quality of a company and the keys to unlocking that value.

Anne: That's right. I mentioned that we do a lot of research. Through the research process we are looking for four things. We are looking for a quality business model with high barriers to entry and pricing power. That allows you to nicely compound over the years.

We also want a strong management team, and by strong we really mean smart. Because when you have really smart people at the helm of companies they will make the right decisions at the right time.

We recognize that when you invest in value, you can have a pitfall of investing in value traps — companies that are cheap, but become cheaper. And that's why it's very important for us to see keys to unlock value. We expect this to occur [unlocking value] over three to five years, which is our investment horizon. The keys tend to be idiosyncratic to the company itself like a new management team coming in place to restructure a poorly managed business, the merger of two companies that has some logic, a change in ownership like an initial public offering, or a spin off. Often times as well, it is over-fear in a company, meaning that the market has priced in nothing positive, only the worst possible scenario.

Last, of course, is cheap valuation. It's interesting because I said before that we want quality companies. You can imagine, most of these companies are always very expensive. But once in a while they have an accident and that's when we like to buy them.

Salman: Can you give us an example of a stock you hold that will help investors understand the type of companies you invest in.

Anne: 21st Century Fox may be one that people are familiar with. It's a media company that owns 20th Century Fox film studios, the Fox television network and a majority in National Geographic Partners. If you look at just last year, the market only loved Netflix. Investors were willing to pay a lot for Netflix and the traditional media companies like 21st Century Fox were disregarded. Even though Fox had great content, they just weren't the hype of the day. We believed they had a very smart management team that realized the industry was changing and that they had to be stronger. Now they've announced a merger with Disney and the stock has jumped to the high $40's from the high $20's when we bought it.

Salman: A lot of value-minded investment managers aren't seeing a ton of opportunities in the U.S. today. But you're not one of them. In fact, almost half your holdings are domiciled in the U.S. Tell us your perspective.

Anne: You have a few companies in the U.S., maybe around 10% of the S&P 500 [the U.S. market], that everyone wants to own, meaning they don't want to own the other 90%. That's where we see opportunities.

We've already touched on media. We've also found value in the oil sector. It's partly because the market is making the assumption that everyone will be driving an electronic car tomorrow. We think it will take time for electric vehicles to gain mass market share, and therefore you probably have 20-30 years during which oil will still dominate. When the price of oil fell significantly a few years ago, we found ideas in energy services companies.

Another area where we've found value is asset managers. We think the Americans are among the best. The industry has been going through technology and regulatory changes, and the companies we own have experienced challenges in retaining assets but are run by some very astute managers. There are some very cheap stocks now that offer attractive dividends, and there is very little capital expenditure that they have to put their money towards.

Salman: In financials, you like asset managers, but in the past, you haven't held many banks. Why have you avoided this area?

Anne: We've avoided the really large banks because they're often black boxes and we like to understand the companies we own for our investors.

Salman: To that end, governance is a huge issue for you. Tell us how you think about it.

Anne: When you start to invest, there are always a lot of unknowns. When things don't happen the way you thought they would, you want to be able to defend your investors' rights. There are times we become active in a company by engaging with management if we don't think our investors' money is being used properly. And that's why it's very important for us to invest in a jurisdiction where you have rights — which is what you find in much of the developed world, but isn't always the case in developing markets. This is why we tend to have a small percentage of the portfolio invested directly in emerging markets. We prefer to invest in companies that are in the developed world, but have a large percentage of their revenues coming from the developing world.

Salman: Does the focus on governance limit you from holding smaller companies?

Anne: No, we own many companies that are considered small and mid-cap stocks. We consider any company with a market cap of over $1 billion. This is an area that isn't followed well by "the street", and there can be a lot of opportunities in the space.

Salman: The Steadyhand Global Equity Fund has had a high weighting in Japan. You don't hold a lot of Japanese companies today, nor have you held many during your time at PIMCO and Mutual Series.

Anne: Earlier I mentioned our four criteria for investing in companies, and one of them is identifying a key(s) that will unlock value. That's where a lot of Japanese companies don't pass our process. Having said that, Japanese companies are facing a lot of pressure from Chinese businesses. There is a 3,000 year rivalry between the countries. So the Japanese now know that their companies have to reform. It is slowly happening. For instance, we invested in a Japanese oil refiner recently, which is a merger of two companies. It's a sector where two companies now have 90% market share, so we can see improving margins and less pressure on prices. It may take time for the market to realize this because people have considered the companies losers for so long that they probably don't realize the dramatic changes.

Salman: Though Velanne is young, you've experienced a few market corrections during your time at your previous organizations. How have you navigated those periods?

Anne: Well, you have companies you like, you do the work, but you still want to buy a dollar of assets for 60 to 70 cents. And market corrections give us the opportunity to buy companies at the price we want. It's a great way for us to put money to work. It's like buying at a department store when there's a sale. The difference is that the stock market doesn't advertise when the sale is going to be. You just have to be ready and have done the work.

Salman: What kind of performance pattern should investors expect from your approach?

Anne: It's important to judge us on a long-term basis because that's how we invest. Of course, we expect to beat the market over a full cycle. We think a lot of that will come during market corrections and sideways markets when traditionally our type of strategy has done well. We don't expect it to fare as well in up markets. Indeed, that has been my experience when I managed money at PIMCO and Mutual Series, although even in up markets I was able to keep up and even outperform in some strong periods.

Salman: Well, thanks for taking the time to chat today, Anne. We're really looking forward to working together.

Anne: Thank you, Salman. We're excited too!