



# Alternative Investment Case: Fundamental Value

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# Agenda

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# Introduction to Fundamental Value

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# Introduction to Fundamental Value

## Asset Class Overview

- Fundamental Value funds are **discretionary** and **directionally long**/long-only funds that trade in the **public equities market**
  - They invest in **high-quality equities** in which they have a **contrarian view**, meaning that they believe that these companies are trading **below** their fair market value after a fundamental analysis
  - They rely on a mix of **share value growth** and **dividend yields** to generate returns, and typically have **longer holding periods** and **more concentrated** portfolios than most other asset classes

THE  
**BAUPOST**  
GROUP

**Adage**

Capital Management

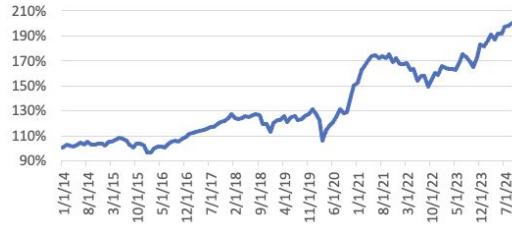
AKO Capital



Pershing  
Square  
Capital  
Management

## Performance Overview (Q1 2013 - Q2 2024)

HFRI EH: Fundamental Value  
Index Cumulative Returns



Since Q1 2013	HFRI ED: FVI	S&P 500
Annualized Returns	6.64%	11.37%
Annualized SD	10.18%	14.81%
Sharpe	0.5	0.66



# Introduction to Fundamental Value

## Alpha Creation

- **On the Long Side:** Two Drivers
- Alpha is generated by deep research into a company's future cash flow generation in order to create a **differentiated, and comparatively accurate**, view of the company
  - This is done through analysis of the macro, management, suppliers, competitors, and customers
  - As the market slowly realizes the mispricing, the price of the equity will **normalize** to fair value
- Many funds operate under the belief that an investment should be held as long as the company is still a **great business**
  - Significant returns can be generated from **compounding** on increasingly large earnings coupon

## Case Study: Buffett and Coca-Cola

- Down **35%** because of the Stock Market Crash of 1987
- Buffett recognized the **long-term value of the brand**
- Bought more than \$1 billion in shares in 1988



- Stock price is up **2500%** since initial investment
- Set to earn **\$776** million in dividends this year alone

## On the Short Side:

- Alpha is generated by **asset mispricings**
  - Some funds will realize that an equity is **overpriced**, and subsequently **short-sell** it
  - However, short selling is riskier than going long, which is why Fundamental Value funds are still directionally long/long-only



# Introduction to Fundamental Value

## *Other Considerations*

### Trading and Financing Considerations

- **Liquid strategies** because they are trading in the public equities market
  - This still depends on position sizing and the market capitalizations of the companies being traded
  - If a position is large enough on an **absolute** basis or **in comparison** to the average daily trading volume of a stock, the fund will have issues trading that position
    - A bigger consideration for funds with very few holdings or concentration in small-caps
- However, due to **longer** holding periods and **fewer** transactions, they are less affected by the **immediacy** constraint of liquidity
  - Lower turnover also lowers average trading and financing costs compared to other funds

### Risk Management

- Risk management primarily through **security selection**
  - Funds aim to know everything about their potential investments
  - Only enter a position if they believe that their **margin of safety** is large enough to protect the investment from most downside cases
- The risk of a fund is also heavily influenced by **position sizing** and **industry/market exposures**
  - Portfolio managers have control over the risk profile
  - They also work in tangent with other chief officers, or a risk manager branch
- Compliance risk is typically done by a chief officer that works in-house or by a compliance firm that the firm outsources to



# AKO Capital: Operational Due Diligence

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# AKO Capital: Operational Due Diligence

## *Organization of the Firm*



### Fund Background

AKO Capital is a **multi-manager** that manages ~21.5 billion USD across four funds:

- AKO main fund, which specializes in European L/S
- European Long-Only fund
- Global L/S fund
- Global Long-Only fund

The fund was founded to be **European-only**, but diverged to have global trading in 2013; does not disclose investor information, but their base is heavily comprised of endowments and charities, including the **AKO Foundation**.

### Founder Background

Founder **Nicolai Tangen** graduated from the Wharton School (University of Pennsylvania) in 1992. After leaving as an analyst at Cazenove, he joined Egerton Capital and worked to Fund Manager and Partner. He left in 2002 to start AKO Capital, serving as CEO and CIO until 2020. Now, he is the CEO of Norges Bank, responsible for investing the **Norwegian Sovereign Wealth Fund**.



# AKO Capital: Operational Due Diligence

## *Organization of the Fund*

### Fee Structure

- Shares in the funds can be redeemed **weekly**, with some exceptions around **month-end**
- Ongoing charges figure is 0.75% per year
- Maximum entry charge of 5% and maximum exit charge of up to 0.15%
- Performance fee of up to 15% of the outperformance in **excess** of MSCI All Country World Local Currency Net index
- High Water Mark

### Investment Team Structure

- Two main fund categories: the **AKO Global Fund** and the **AKO European Fund**
- Operationally, the two fund categories are split into **sub-funds**, with each category comprising of a **Long-Only** and **L/S fund**.
  - The Global Fund category has 4 PMs (1 being the CEO), 3 Senior Analysts, and 1 Analyst
  - The European Fund category has 3 PMs (1 being the CIO), 5 Senior Analysts, and 3 Analysts
- There are **5 supporting** teams: Data Science, Behavioral Analysis, Sustainability, Market Research, and Research Process
- Full supporting C-Suite, including a CCO, a Head of Trading, and a Risk Manager, imply **adequate separation of duties**



# AKO Capital: Operational Due Diligence

## *Firm and Leadership*

Patrick Hargreaves



- Chief Executive Officer and Portfolio Manager
- Joined AKO in 2011 from Goldman Sachs & Cazenove

Andrew Tierney



- Portfolio Manager
- Joined AKO in 2014 from Fidelity

Ellen Hoyle



- Portfolio Manager
- Joined AKO in 2011 from Barclays Capital, CRA Lee & Allen

Neil Dawson



- Portfolio Manager
- Joined AKO in 2015 from Citi and Deloitte



# AKO Capital: Operational Due Diligence

## *Firm and Leadership*

Andrew Dubin	Christina Ryan	Dina Guirguis	Angus Lund	Caterina Paolazzi
				
<ul style="list-style-type: none"><li>• Chief Operating Officer</li><li>• Joined AKO in 2011 from Grosvenor Capital Management</li></ul>	<ul style="list-style-type: none"><li>• Co-Chief Financial Officer</li><li>• Joined AKO in 2020 from Citco Fund Services Limited</li></ul>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li><li>• Joined AKO in 2023 from Balyasny Asset Management</li></ul>	<ul style="list-style-type: none"><li>• Head of Data Science</li><li>• Joined AKO in 2018 from Morgan Stanley</li></ul>	<ul style="list-style-type: none"><li>• Head of Behavioral Analysis Unit</li><li>• Joined AKO from PhD program of Linguistics and Psychology</li></ul>



# AKO Capital: Operational Due Diligence

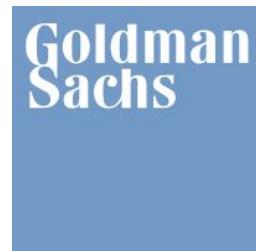
## *Counterparty Analysis*

- All of AKO's counterparties are **reputable, well-known** firms
- Thus, counterparty risk is **minimal**

Auditor

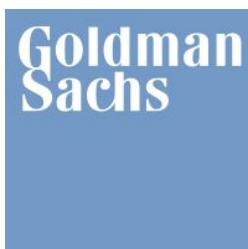


Prime Broker



Morgan  
Stanley

Custodian



Morgan  
Stanley

Administrator

C I T C O



# AKO Capital: Investment Due Diligence

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Focus: AKO Global Long-Only UCITS Fund



# AKO Capital: Investment Due Diligence

## Fund Strategy

- **Focus on Intrinsic Value:**

- AKO seeks to invest in companies that are trading at a discount to their intrinsic value.
- The firm conducts in-depth, bottom-up research to deeply understand a company's long-term earnings power and the sustainability of its business model.

- **Concentrated, High-Conviction Portfolio:**

- AKO builds a concentrated portfolio of 20-30 positions where they have the highest conviction.

- **Long-Term Orientation:**

- AKO takes a long-term view, typically holding positions for 3-5 years or more

- **Emphasis on Quality:**

- The firm invests in companies with strong competitive positions, high returns on capital, and opportunities for sustainable growth

## Risk Management

- **Diversification across sectors and industries**

- However, prioritization of high conviction ideas over industry diversification

- High margins of safety

- Focus on quality companies

- Aim to protect capital during periods of market stress

- **Separate risk team** that reports to the COO

- **Analysis from multiple standpoints, not just a value investing standpoint**



# AKO Capital: Investment Due Diligence

## Fund Edge

- AKO's edge comes from the numerous perspectives they use to analyze potential investments
  - Rather than leaving data analysis, market research, and earnings calls analyses to the investment team, AKO employs a number of different, non-traditional teams that inform investment decisions

Forensic Accounting Unit	Behavioral Analysis Unit	Alternative Data Unit																											
<ul style="list-style-type: none"><li>• Investigates the financial statements of initiated equities</li><li>• Creates a report from a purely quantitative standpoint</li><li>• Used as <b>risk management</b>, to detect financial fraud and embezzlement</li></ul>	<ul style="list-style-type: none"><li>• Analysis of company communications for indicators of uncertainty and transparency</li><li>• Employs individuals with expertise in <b>Linguistics and Psychology</b></li><li>• Score companies using an <b>internal grading system</b></li></ul>	<ul style="list-style-type: none"><li>• Utilization of non-traditional data sources beyond standard financial filings</li></ul> <p>Shower toilets sales as % of total toilet sales – expect to be higher/lower in 1 year's time*</p> <table border="1"><caption>Data for Shower toilets sales as % of total toilet sales</caption><thead><tr><th>Date</th><th>DE (%)</th><th>CH (%)</th></tr></thead><tbody><tr><td>Jun-13</td><td>100</td><td>100</td></tr><tr><td>Jun-14</td><td>95</td><td>100</td></tr><tr><td>Mar-15</td><td>100</td><td>95</td></tr><tr><td>Dec-15</td><td>95</td><td>100</td></tr><tr><td>Aug-16</td><td>100</td><td>95</td></tr><tr><td>Apr-17</td><td>95</td><td>100</td></tr><tr><td>Jan-18</td><td>100</td><td>95</td></tr><tr><td>Oct-18</td><td>85</td><td>71</td></tr></tbody></table>	Date	DE (%)	CH (%)	Jun-13	100	100	Jun-14	95	100	Mar-15	100	95	Dec-15	95	100	Aug-16	100	95	Apr-17	95	100	Jan-18	100	95	Oct-18	85	71
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# AKO Capital: Investment Due Diligence

## *Research Process*





# AKO Capital: Investment Due Diligence

## Fund Exposures

### Regional Exposure

- AKO Capital has a **heavy** focus on US with **minimal** exposure to Europe and Canada
- Highest exposure is to the United States at 81.82%, and second is Switzerland at 8.02%

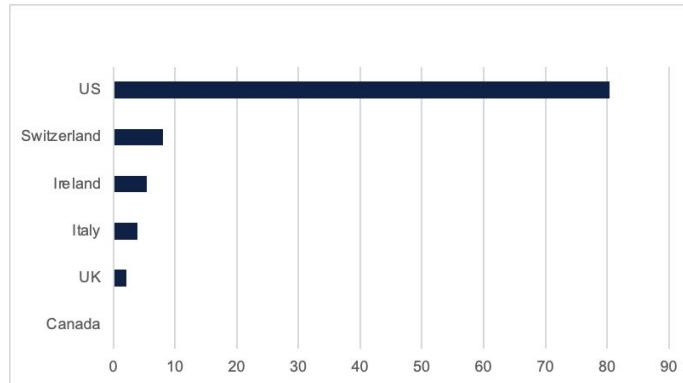


Exhibit 1: Portfolio % Breakdown by Country

### Sector Exposure

- AKO Capital has **strong** preference towards Technology, Financial Services, and Consumer (Cyclical)
- Followed by Healthcare and Industrials, both at approximately 11%

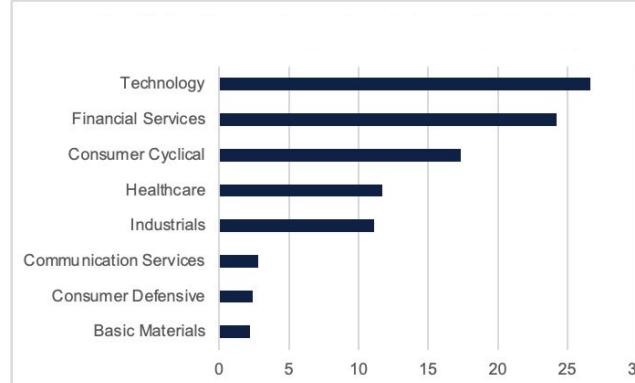


Exhibit 2: Portfolio % Breakdown by Industry

### Market Cap Exposure

- AKO Capital leans **predominantly** toward large and mega-cap companies with **very little** exposure to mid-cap and **no** exposure to small-cap

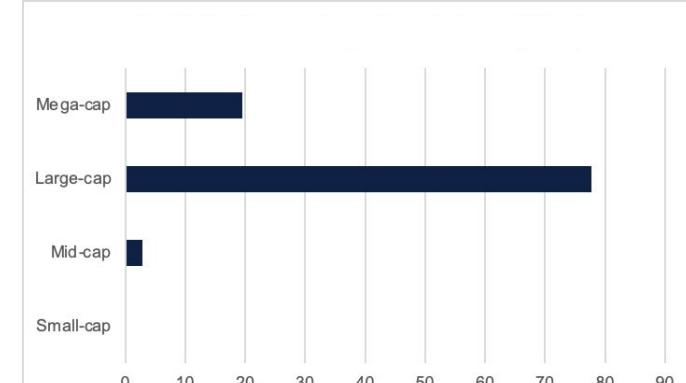


Exhibit 3: Portfolio % Breakdown by Size



# AKO Capital: Investment Due Diligence

## *Current Portfolio Holdings*

Holding Name	% of Portfolio	Shares	Reported Price at Q3 2024	Invested Value	Current Value	Change	Sector
ALC - Alcon Inc.	8.02	6,157,815	\$99.98	\$615,634,000	\$528,771,574.05	-14.11%	Healthcare
MSFT - Microsoft Corp.	7.1	1,265,260	\$430.30	\$544,441,000	\$523,729,071.80	-3.80%	Technology
GE - GE Aerospace	6.51	2,648,246	\$188.58	\$499,406,000	\$480,683,131.46	-3.75%	Industrials
V - Visa Inc.	6.42	1,790,775	\$274.95	\$492,374,000	\$552,167,563.50	12.14%	Financial Services
ICE - Intercontinental Exchange Inc.	6.24	2,979,588	\$160.64	\$478,641,000	\$472,860,615.60	-1.21%	Financial Services
MMC - Marsh & McLennan	5.74	1,973,234	\$223.09	\$440,209,000	\$447,726,794.60	1.71%	Financial Services
FICO - Fair Isaac Corp.	5.63	222,176	\$1,943.52	\$431,803,000	\$524,801,929.60	21.54%	Technology
ACN - Accenture	5.41	1,175,229	\$353.48	\$415,420,000	\$423,952,109.46	2.05%	Technology
INTU - Intuit Inc.	4.44	548,876	\$621.00	\$340,852,000	\$355,902,175.92	4.42%	Technology
MCO - Moody's Corp.	4.23	683,460	\$474.59	\$324,363,000	\$328,710,087.00	1.34%	Financial Services
BKNG - Booking Holdings Inc.	4.15	75,579	\$4,212.12	\$318,348,000	\$389,731,427.19	22.42%	Consumer Cyclical
RACE - Ferrari NV	3.97	649,656	\$468.52	\$304,375,000	\$284,049,092.88	-6.68%	Consumer Cyclical
ZTS - Zoetis Inc.	3.8	1,492,138	\$195.38	\$291,534,000	\$264,003,976.34	-9.44%	Healthcare
WAT - Waters Corp.	3.71	790,207	\$359.89	\$284,388,000	\$292,613,652.10	2.89%	Healthcare
AMZN - Amazon.com Inc.	3.61	1,488,281	\$186.33	\$277,311,000	\$294,173,622.46	6.08%	Consumer Cyclical
TMO - Thermo Fisher Scientific	3.41	423,473	\$618.57	\$261,948,000	\$217,948,848.91	-16.80%	Healthcare
ADI - Analog Devices	3.37	1,124,286	\$230.17	\$258,777,000	\$240,057,546.72	-7.23%	Technology
WMG - Warner Music Group Corp. C	2.8	6,862,125	\$31.30	\$214,785,000	\$219,450,757.50	2.17%	Communication Services
CPRT - Copart Inc.	2.48	3,625,764	\$52.40	\$189,990,000	\$226,392,704.16	19.16%	Industrials
PG - Procter & Gamble	2.39	1,058,026	\$173.20	\$183,250,000	\$187,397,565.12	2.26%	Consumer Defensive
LIN - Linde plc	2.2	353,609	\$476.86	\$168,622,000	\$161,083,043.86	-4.47%	Basic Materials
EFX - Equifax Inc.	2.11	549,812	\$293.86	\$161,568,000	\$139,525,791.24	-13.64%	Industrials
MSCI - MSCI Inc.	1.57	206,096	\$582.93	\$120,140,000	\$120,289,991.36	0.13%	Financial Services
CDNS - Cadence Design Systems	0.7	198,578	\$271.03	\$53,821,000	\$61,950,378.66	15.11%	Technology
CNI - Canadian Natl Railway Co.	0.02	9,911	\$117.14	\$1,161,000	\$1,102,004.09	-5.08%	Industrials

*Exhibit 4: Extensive Portfolio Breakdown by Holding*



# AKO Capital: Quantitative Due Diligence

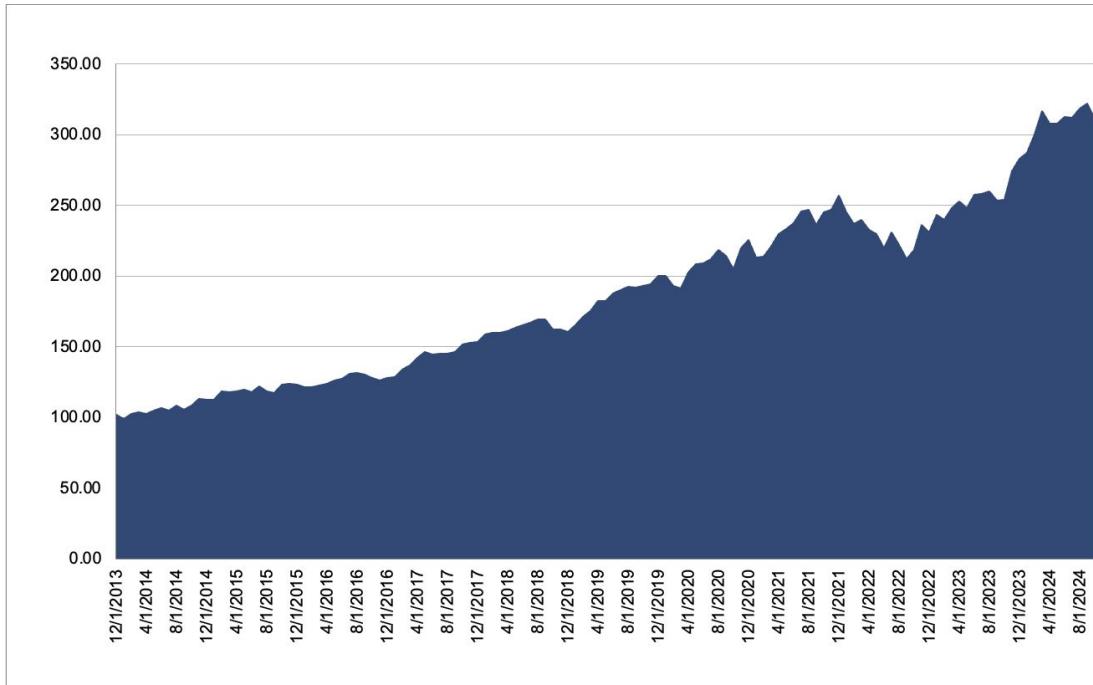
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Focus: AKO Global Long-Only UCITS Fund

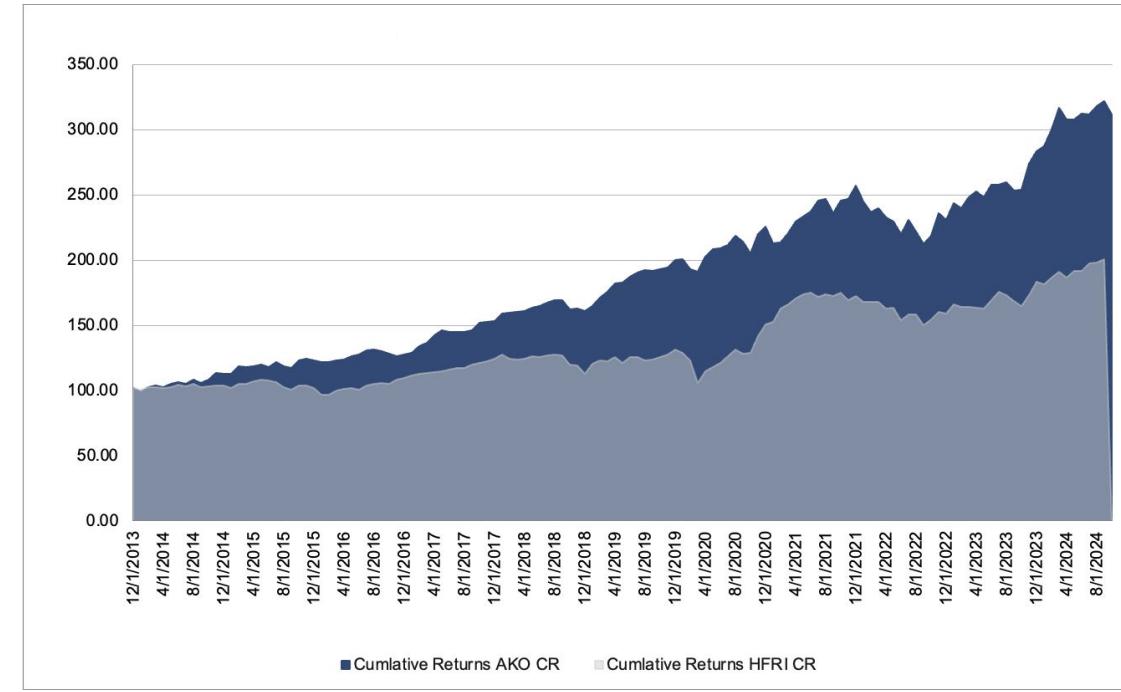


# AKO Capital: Quantitative Due Diligence

## *Cumulative Returns*



*Exhibit 5: AKO Cumulative Returns*

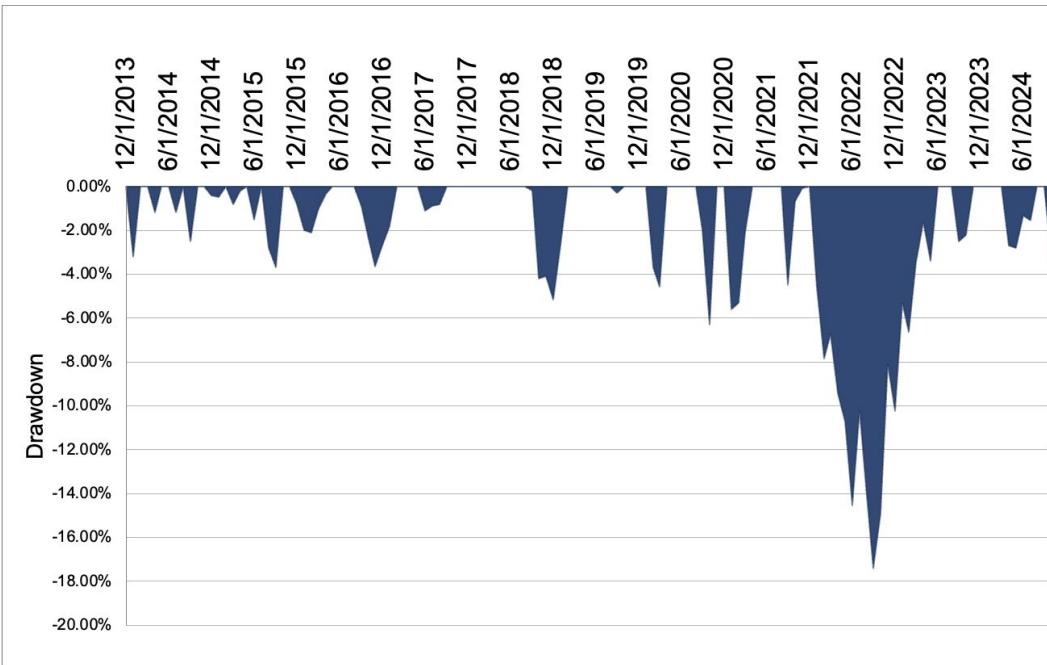


*Exhibit 6: AKO Cumulative Returns vs. HFRI*

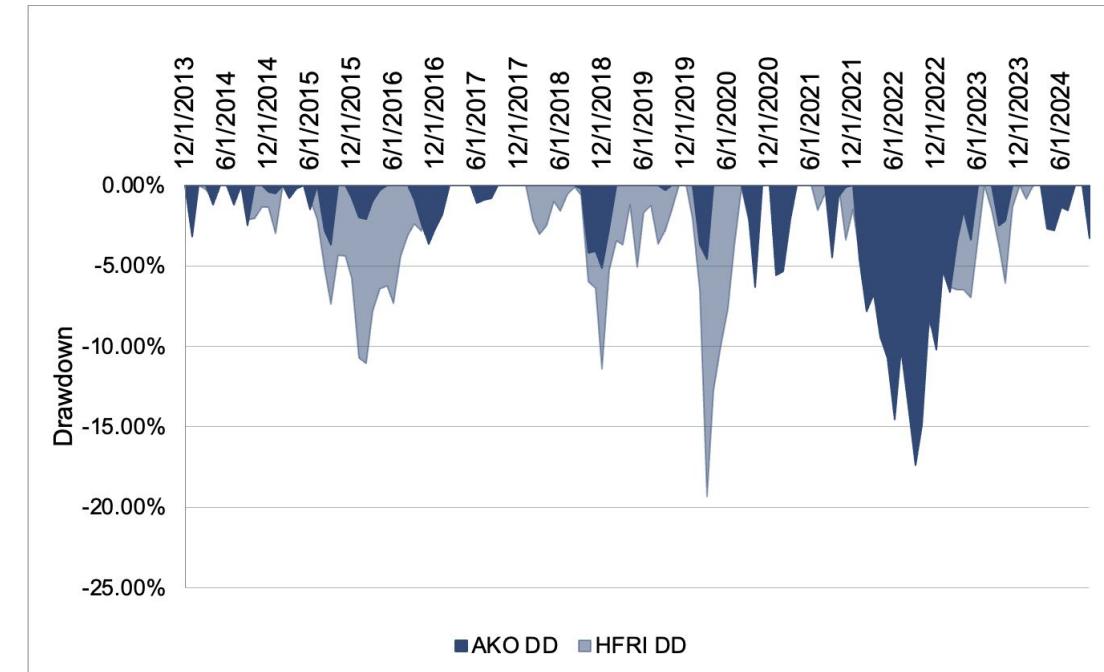


# AKO Capital: Quantitative Due Diligence

## *Drawdown Comparisons*



*Exhibit 7: AKO Global Drawdown*



*Exhibit 8: AKO Global Drawdown vs. HFRI*



# AKO Capital: Quantitative Due Diligence

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## Fund and Index Data

From Q1 2013	AKO	HFRI	S&P 500	EURO 600
Annualized Returns	10.97%	6.64%	11.14%	4.11%
Annualized Deviation	9.34%	10.18%	15.43%	13.98%
Risk-free rate	1.56%	1.56%	1.56%	0.44%
Sharpe Ratio	1.03	0.50	0.62	0.26
Beta US	0.46	0.58	1.00	0.75
Beta EURO	0.487	0.586	0.916	1.000
Alpha	5.44%	-0.48%	-	-

Exhibit 9: AKO Global Peer Overview



# Final Recommendation

## *Group Recommendation: Buy*

### AKO Global

- AKO Global provides investors access to **high-quality, differentiated** investing in the Fundamental Value hedge fund space
    - Combines traditional bottom-up analysis with **alternative perspectives** from their forensic accounting, behavioral analysis, and alternative data units
    - Members of the investment team are highly **experienced** and have **strong** track records
    - Strong **segregation** of duties and **segmentation** of front and back offices
  - The fund offers **flexible** redemption options, with **weekly** redemption periods with exceptions around month-end
  - AKO delivers **highly** efficient risk-adjusted returns compared to benchmarks, while reducing portfolio risk for investors
- Due to a **compelling** management and operational background, a **differentiated** investment strategy, and a **strong** track record of delivering alpha to investors, we would recommend a buy **AKO Capital** as a **buy** to potential investors