

As Henrik Didner and Adam Gerge's equity fund approaches its quarter century, the pair, two of Sweden's best known stockpickers, show no sign of changing an approach that has brought continued returns. **Jonathan Boyd** reports

Stockpickers not for turning

24 years ago in October, one of Sweden's best known fund management duos and their equity fund launched into the local funds market.

Henrik Didner, co-founder and now chairman of the board, and Adam Gerge, co-founder and deputy CEO, first met at Uppsala University in the Department of Business Studies, where they were PhD candidates and found that they had a common interest in equities.

After chatting for some 4-5 years, and on completion of their studies, they decided to set up a business. This is when the idea of running a fund company came about.

"If one is to do anything well, then you need to be interested. Academia was not it," says Gerge, stressing the interest in equities.

At the time both were in their early 30s, but they had been following equities since they were teenagers, as a long standing hobby.

"It was a real equity interest," stresses Didner, "over time we had developed this interest, into what is happening to companies."

Launched 21 October, 1994, the *Aktiefond* – literally translated as 'Equity fund' – has since been joined by four other funds; Småbolag, Global, Small and Microcap, US Small and Microcap. It still accounts for the largest share of total AUM of some SEK74.3bn (€7.2bn, as of end July).

The performance figures are a likely reason behind the continued ability to draw investors to the fund: the *Aktiefond* has averaged return of 16.47% annually over the past 10 years to 24 September 2018 including the rebate for those Swedes invested through the PPM platform operated by the Swedish Pensions Agency.

According to *Fondkollen*, the fund comparison service

ADDITIONAL FUNDS

It took some time before Didner and Gerge felt the time was right to add further funds to the range.

"Every time we have launched a fund, it is with the idea that they will be of benefit over the long term. And we have to be willing to invest ourselves," says Gerge.

Adds Didner: "And there are funds that are very complex. We do not want to make things too complex."

"And it is about performance. If you have done well previously you have help on the journey."



Henrik Didner (left) Adam Gerge, Didner & Gerge

operated by the Swedish Investment Fund Association, the fund ranks first out of 59 funds over 10 years, in its sector of Swedish equity funds.

Over five years it ranks 40 out of 77, and over three years it is 57 out of 85. The fund is now managed by Adam Nyström and Gustaf Setterblad, as Didner and Gerge have passed on the daily portfolio management responsibilities; whilst also shifting daily executive decisions for the company to Helena Hillström, who took over that role in November 2011.

The duo stopped doing management in 2014, since when their role have changed slightly.

As Didner explains: "We did everything ourselves in the beginning, but hired Helena, who is now CEO."

However, they did start stepping back from back office and other functions within a few years of launching. There has also been ongoing hiring in response to factors such as increasing compliance and other regulatory demands on the industry.

"Compliance was easier then; now we have two people full-time on compliance," explains Didner.

"It was a different world then. If we started today, we would have to hire these people."

Adds Gerge: "We had SEK1m (€96,000) in capital when we launched."

The philosophy of the business has also impacted its development, as Gerge explains: "Many have launched

0.1% Decrease in annual growth rate of households' loans from MFIs in Sweden in August 2018

hedge funds, because they can earn more if it goes well. But this is a challenge for those targeting average savers."

Didner & Gerge also started by focusing on direct customers, before platforms such as Avanza even existed. When they got to around 27,000 direct customers they then shifted to platforms; some 15-20,000 direct customers still remain. This reflects the decision to start at the retail rather than the institutional end of the industry. Today, four out of the five funds on offer are available via the PPM system, while they are also available via platforms, pension solutions and elsewhere.

PHILOSOPHY

A constant throughout Didner & Gerge's business development has been the commitment to bottom up stock-picking in concentrated portfolios.

The *Aktiefond* could theoretically have as few as 16 holdings, although it has in practice ranged from 25-35 since launch. It has beaten its index by about 4.5% on average annually over 24 years, notes Gerge, but this has come off a firm commitment to taking a long term investment horizon.

"You need to be long term in terms of the companies, to think about long term developments of companies," he says.

"You should not get caught up in share price movements in the market," adds Didner, who also says, "very few macro events influence shares over time. We never read the *Financial Times*. It is about following the companies. It is a good paper but does not help when it comes to investing in equities."

Gerge says that: "For companies that are more cyclical, [macro] may have some effect. But we do not have the ability to predict the economic cycle. When put together a portfolio, then irrespective of up or down cycles, then companies can provide good returns. It is about whether companies should be in the portfolio."

"We do not think about what is happening in the stock market," Didner continues.

"Our rule is to be a minimum 95% invested, but we have tended to be more than this."

Twice in their management career, Didner and Gerge have experienced a halving of the stock market.

When that happens, it is "hard to find the end of the rainbow in terms of timing," notes Didner.

"When the market is down 50% people ask why we held on."

A CONTINUED FOCUS

Didner & Gerge remain focused on equity also in the other strategies offered covering asset classes such as Nordic and US small cap. However, there are no firm decisions about growing the range.

"We have not made any decisions yet," Gerge says of expanding the range

"It has to be a fund that has a place in the market over the long term. And we need to find the right people. Our funds are all managed by two people."

NEW IDEAS CHALLENGE

Having succeeded as boutique entrepreneurs, Didner and Gerge have firm views on the challenge facing potential new entrants in today's climate of compliance.

Launch costs have been driven up sharply since the 1990s because of costs associated with staff, and it takes more staff to launch nowadays, they say.

"We started unpaid and on a low rent," says Didner

"There was more opportunity for an independent manager at the time," adds Gerge.

One of the reasons for this was the dominance of the banks in the local fund industry at the time.

"*Finansinspektionen* [the Swedish Financial Supervisory Authority], had hardly been involved in questions about setting up a fund. It was about being in newspapers as there was no internet. So, we got 'free' ads by being written about. It helped generate noise. There was also a hook in having the academic background and being based in Uppsala," adds Gerge.

"We got good press. It is not the same today; it is a sea of funds."

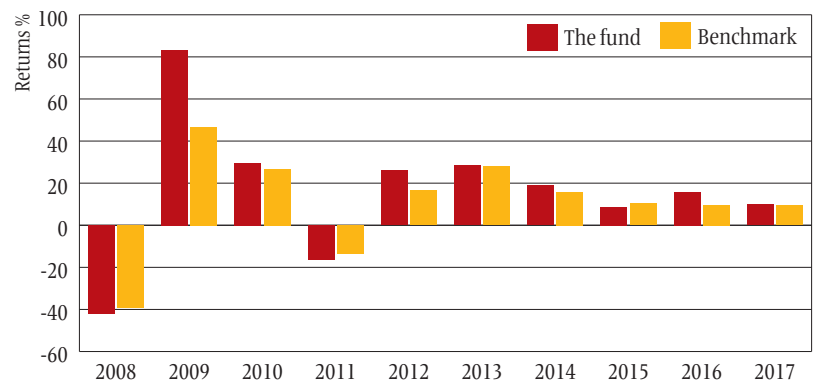
Adds Didner: "It is a heavy burden for an individual manager, especially if the market is going down. So, we feel that two people is the best model."

As to the focus on equities, Didner says "it is what we know."

"Never say never, but we have never been near anything else. It has been plain, no shorting. It goes back to the establishment of the business. Shorting requires a different way of thinking. But you cannot have too much going on in your mind to do a good job. Our focus is long only and what is going on in companies."

On the succession planning question, both are firm in the view that it should be about evolution rather than revolution. Also, while the portfolio managers may sit in Stockholm, there is no question of moving the company's headquarters from Uppsala, the city where it all began. ■

PERFORMANCE vs BENCHMARK



As at 1 February 2018 Source Didner & Gerge