
PARADIGM CAPITAL

**“HAS VALUE INVESTING IN EUROPE CHANGED SINCE THE GREAT
FINANCIAL CRISIS? ”**

17 OCTOBER 2024

**THE BEN GRAHAM CENTRE'S 4TH
EUROPEAN VALUE INVESTING CONFERENCE
ATHENS**

JAN HUMMEL

MAJOR CHANGES TO VALUE INVESTING SINCE THE GFC...

Low Interest Rates and Central Bank Policies

- Post-GFC monetary easing favored growth stocks
- Traditional value stocks became less attractive
- Negative real interest rates and low inflation reduced the time value of money ~ 0

Structure of inflation

- Decline is uneven
- Dangerous to pay for companies with higher profit margins since 2020

MAJOR CHANGES TO VALUE INVESTING SINCE THE GFC...

Quantitative and Passive Investing

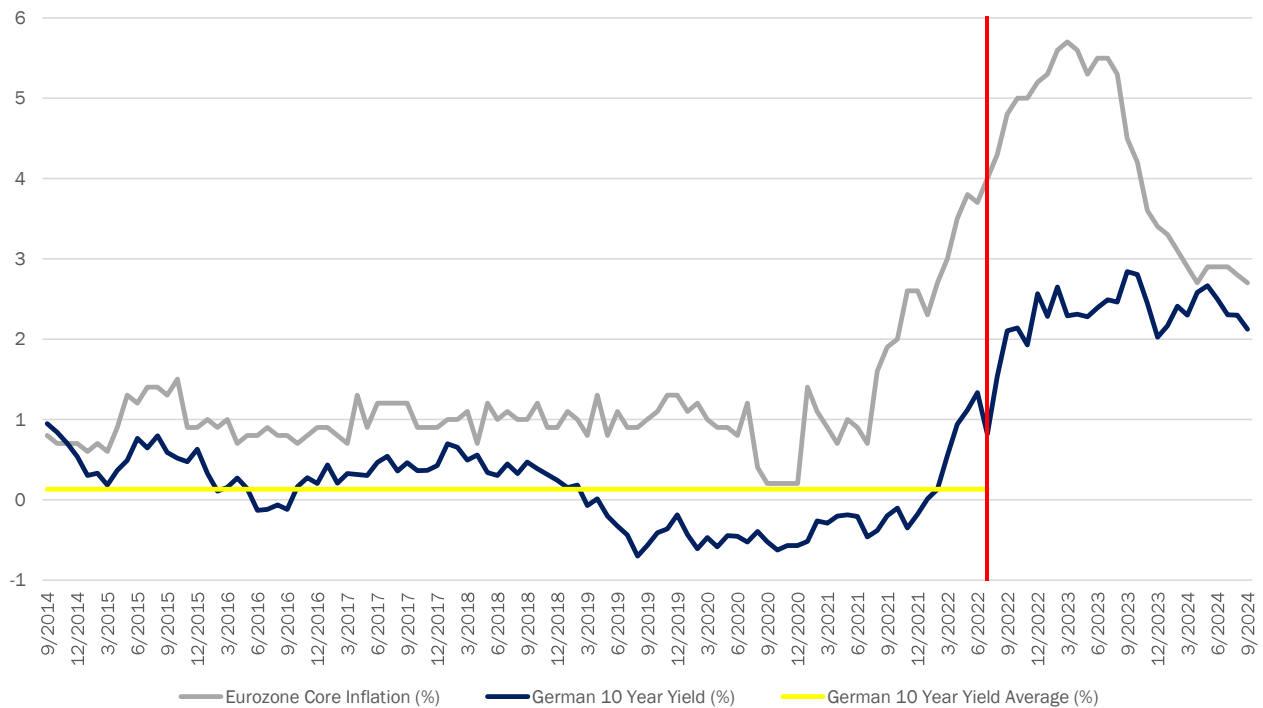
- Rise of passive index funds and quantitative strategies
- Capital concentration in growth-heavy stocks

Rise of Technology and ESG / Responsible Investing

- Dominance of tech stocks shifted investor focus
- Importance of ESG/Responsible investing increased
- Growth and sustainable investments gained popularity given lower traditional hurdle returns

Market Volatility and Uncertainty

LOWER RISK-FREE RATES REDUCED RISK PREMIUMS FOR EQUITIES ...



**ASSUME THAT EQUITY RISK PREMIUMS DROPPED
FROM 7% TO 5.5 % FROM 2014 TO 2022...**

- Equity risk premium declined by ~ 20%
- What is the effect on multiples ?

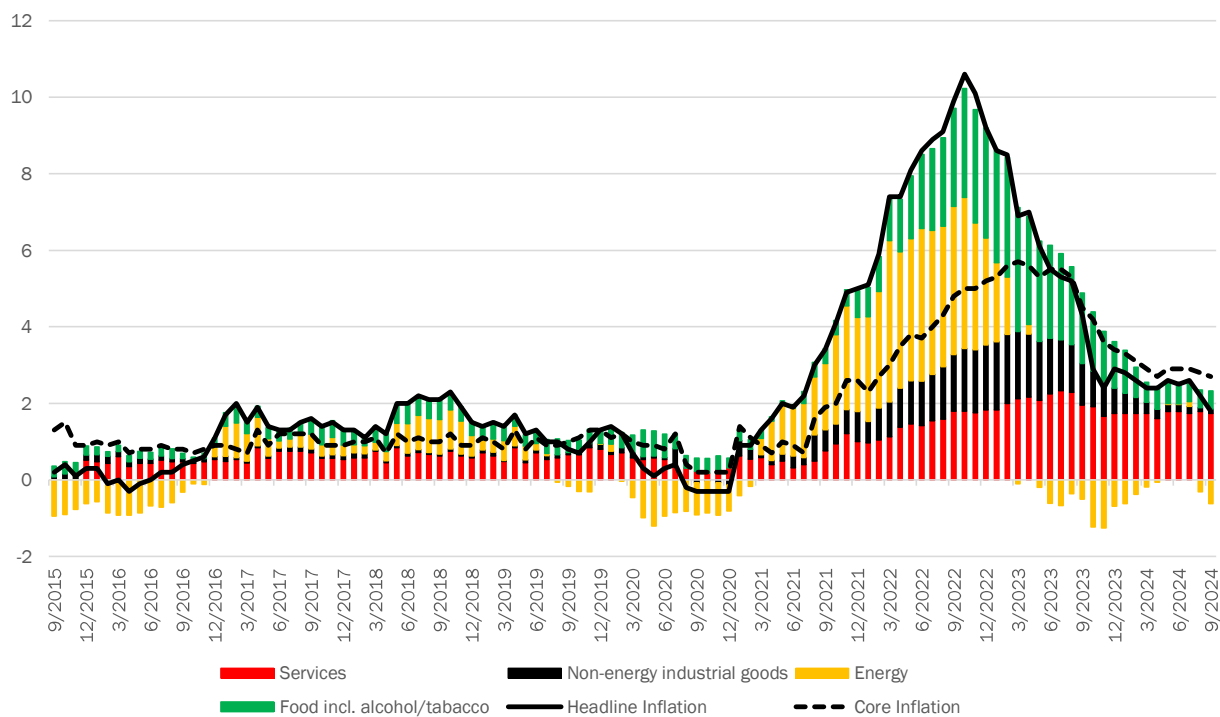
MULTIPLES COULD AS A CONSEQUENCE DROP...

❑ 5.5% ~ 18.2x

❑ 7% ~ 14.3x

However, history of multiples show little impact from reduced risk-free rates...

STRUCTURE AND CHANGE OF INFLATION ALTERS THE FOCUS OF VALUE INVESTING ...



UNEVEN INFLATION CREATES INVESTMENT OPPORTUNITIES...

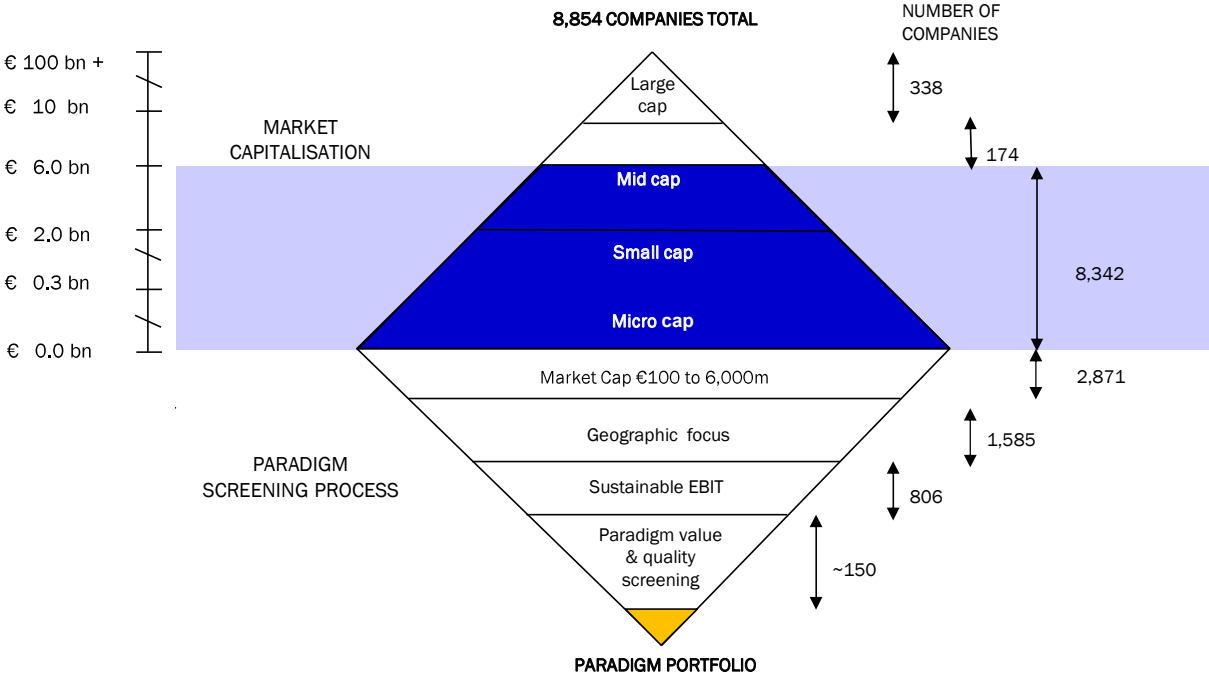
- Manufactured goods back on path of deflation
- Service inflation persistent around 4%
- Local service monopolies create pricing power

PARADIGM CAPITAL'S VALUE INVESTING APPROACH...

- Investments in an imperfect space/Mispriced securities/Mid and Small Caps in Northern Europe (Sweden, Norway, Denmark, Finland, Germany, Austria, Switzerland, UK/Ireland)
- Deep fundamental research
- A concentrated portfolio
- Lower risk: hedging techniques/Special Investment Opportunities (SIO)/Cash
- Outperformance since inception is derived from a low failure rate of investments and less than a handful of outsized returns

PARADIGM CAPITAL SPECIALIZATION...

Approximately 512 mid and large caps account for about 84% of the total European market cap but only for 5.8% of all companies.



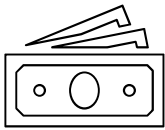
Sources: Bloomberg and Paradigm Capital

PARADIGM CAPITAL PORTFOLIO CONSTRUCTION WILL BECOME INCREASINGLY CRITICAL...

- Selection
- Weighting
- Temporal aspect

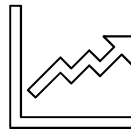
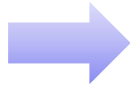
WHY HEDGE...

- ❑ Cash availability and liquidity management
- ❑ Risk management



Hedging Strategies

Used to maintain liquidity
Ensures cash availability



Investment Opportunities

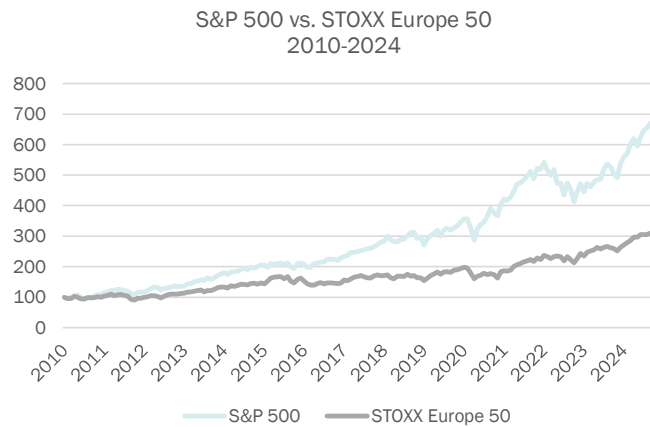
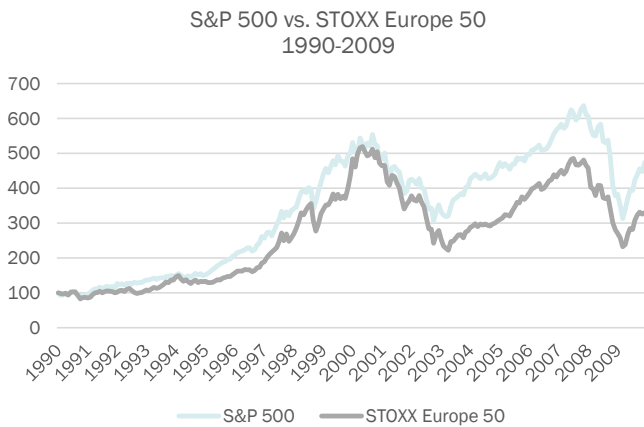
Allows quick action on attractive investments
Reduces exposure to market downturns

PARADIGM CAPITAL HEDGING TOOLS...

- SIOs
- Derivatives
- Individual shorts
- CDS/CDX
- Cash

HOW HAS EUROPE VS. US DONE SINCE THE GFC...

- ❑ European managers will improve on efficiency, awareness of deploying capital in a proper way, European investors will not accept money being thrown out the window, shareholder friendly environment, valuations will keep going up if those two other things are happening.



HOW HAS THE PCV PERFORMED...?

