Spotlight

Atlantic's Roepers Chooses 'Liquid Activism,' Sees Mid-Cap Value Opportunities

Alexander Roepers, Founder and CIO, Atlantic Investment Management

- Has chosen to engage in liquid activism to include "sizing" as a tool for alpha generation.
- Sees secular trends on the long side in aircraft-part manufacturers, streaming broadband and internet companies and specialty chemicals.
- The $1.4 billion firm has gained 11.5 percent this year through April, after returning 12.2 percent in 2016.

Interviewed by Simone Foxman on May 2. Comments have been edited and condensed for clarity.

Q. Describe your strategy.
A. We're looking for value in mid-cap stocks, and when we find something, we're going to employ strict buy/sell discipline. We're not going to trade in and out of a bunch of names, but we will fluctuate the exposure to an individual name based on how the stock is trading. Very few people can do that.

Just so you know: 99.6 percent of all professionally managed equity in the world is in 30 or more stock portfolios. So, say, only 0.4 percent is in highly concentrated portfolios like myself and the other concentrated managers that are typically activists. Being activist is labor intensive, it's exhausting, it has reputational risk. You do your activism on your largest positions where you think it will make a difference. Concentrated managers are the ones who can do it.

The majority of the activists are willing to engage in what I call illiquid activism and therefore cannot do the sizing that I'm doing. So when another activist jumps in, they cannot really sell on that. Or, they're on the board, so they're restricted. So, I'm a little unique. The firm uses active sizing of its positions as an additional alpha generation tool.

Q. Where do you see opportunities right now?
A. There are a lot of interesting names. We're fully invested in all regions. A bifurcated market with high valuation in mega-cap growth stocks has created many mid-cap value opportunities. Some specific names we're in — in the U.S. — are Owens-Illinois, Diebold Nixdorf and CommScope Holding. In Europe, we like GKN, Schaeffler and Clariant.

Q. Where are you short right now?
A. I look at the Russell 2000 Value as a treasure trove of short ideas. There are many technically over-bought and over-valued growth stocks that we look at. In retail land, there are some problems, thanks to Amazon and other things. We are looking at the retail space and mall-type REITs, particularly those that have a Sears as an anchor.

Overall, we have an eclectic bunch. We're not a one-short kind of company. If we're fundamental, concentrated longer-term on the long side, we're exactly the opposite on the short side. Our shorts are diversified, actively traded and tactical considerations are as relevant as fundamental considerations.

Q. Where do you see secular trends on the long side?
A. Secular trends might include manufacturers of aircraft parts, as an example, if we can get them at the right valuation — not aircraft makers themselves, but the component suppliers.

Other areas are around bandwidth for broadband and internet to bring streaming video into the home, but it is very company-specific — CommScope and Arris International.

Also, the specialty chemical area, which is undergoing rapid consolidation and has interesting re-ratings stories, such as Clariant and Eastman Chemical.

Our stocks should perform without us or anybody else being successful in changing things, because we're looking for stocks at the low end of their historical valuation range and their performance should be at a higher multiple. Now, we're not just going to sit there. We're going to push and do due diligence and write letters and try to enhance and accelerate it and become in a prime position to understand what's going on in the company.

Q. You don't use leverage. Why?
A. Leverage on public equities can literally take you out. I never understand people doing margin debt on public stocks. I think a loan on your house makes sense, it's not going to go anywhere. But I suggest to all of my clients: don't lever your investment in my fund, don't do any margin debt in your stocks.

Q. How does your portfolio break down geographically?
A. The top six selections of our positions in the U.S., Europe and Japan are in the global fund. We have additional longs in each region, including in China, that are in our regional hedge funds. We are activists in virtually all of the top names in each region. It begins with conversations to management, after which we send follow-up letters.

Q. Can you really do activism in China?
A. I'm going for my 28th trip to China and Japan in 13 years. We've been actively investing there for nine years, and in Japan for 13 years, where this constructive style of activism really works. It's all about the tone.

At a Glance

Career: Founded Atlantic in 1988; before that worked at Thyssen-Bornemisza and Dover
Education: MBA, Harvard; BBA, Nijenrode University, Netherlands School of Business
Languages: Fluent in Dutch, German and French