Emerging Manager monthly

A Publication of
Financial Investment News

June 2013 www.emergingmanagermonthly.com Vol. VIII, Issue 6

Team Spins Out of DDJ Capital, Offers Opportunistic Value Strategy

Applied Fundamental Research has been launched by two former investment professionals that have spun out of DDJ Capital Management.

The Cambridge, Mass.-based firm is headed by co-founders Ted Wagenknecht and Kevin Curran and is being supported by DDJ with initial and ongoing capital. DDJ will have a minority equity stake in the firm, which will offer a value opportunities strategy that has been managed by Wagenknecht since inception in August 2010. Wagenknecht was a principal and portfolio manager at DDJ, while Curran was a research analyst.

"I had been running this vehicle since 2010 and really decided that this was my passion-I believe that this is absolutely the best way to compound capital in a risk averse manner over time, and I wanted to focus the entirety of my time, effort and talents on this strategy," Wagenknecht explained. "The opportunity was really there to spin this fund out, take it out of a bigger firm and take it to a place where this could be the sole focus for the both of us."

The firm, which was launched last month, declined to comment on assets under management in the opportunistic value strategy, which invests both long and short across the capital structures of North American small-cap and mid-cap businesses.

"We seek to identify dislocations between intrinsic value and market price and capitalize upon either the security, the business, the industry or the valuation-specific catalysts that correct that disparity between intrinsic and market value," Wagenknecht said.

The ability to opportunistically move in and out of credit across the capital structure is an aspect that he thinks differentiates the firm's strategy beyond its fundamental research.

"The decision point at that stage really is a function of what returns can be generated for the difference in risk of accepting the proposition of either being a lender to a business or an owner of the business," he noted.

The strategy's focus on the equity or credit markets ebbs and flows with the broader economy and what the markets are offering at any point in time. "Right now, there are much more attractive opportunities in special situations and equity securities than in credit securities," he said, adding later, "But markets change over time. There are no hard and fast limits on our weightings."

Ted Wagenknecht

Kevin Curran

The strategy is a concentrated portfolio of about 30 to 40 positions. "We tend to have more of a long bias but the changes, if you will, in our net exposure over time are driven by what we believe our companies are telling us about the business climate through their performance numbers every quarter," Wagenknecht said.

The firm looks to hedge for three reasons: to capitalize on specific idiosyncratic opportunities that are identified through research; to reduce factor-specific risks contained in the portfolio through long exposures; and to guard against significant market pullbacks.

To create a unique alignment mechanism with its investors, Wagenknecht and Curran have told investors that they will reinvest no less than 50% of their carry after taking into account any taxes on their LP and/or GP interests back into the fund. "We call this True Partnership," Wagenknecht said.

Looking forward, Wagenknecht believes the firm has addressed many of the concerns that come with evaluating emerging managers from an infrastructure and operational point of view, and from a strategy perspective sees its flexibility and cross capital structure approach, as well as an upcoming three-year track record as attractive to investors.

"We should appeal to opportunistic investors but we should also appeal to investors for whom this opportunistic cross capital structure mandate really provides a solid mainstay between their credit and equity exposures," he said.