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Radin Capital Sees International Opportunities In U.S.

Radin Capital Partners picked up its first U.S. institutional clients earlier this year in its international small-cap value equity strategy and is prepared to take advantage of the continued push of active assets into capacity-constrained asset classes.

Brad Radin

The Toronto-based firm was founded in 2011 by CEO and CIO Brad Radin, previously a head of the global small-cap equity team at Franklin Templeton Investments, and currently manages just over $500 million in assets–primarily through two global all-cap retail mutual funds for Industrial Alliance, a Canadian insurance company.

"That was the initial piece of business that allowed us to build an institutional caliber firm from Day 1," Radin said of the funds, which are now north of $400 million.

Earlier this year, the firm saw its client base expand into the U.S. when it received international small-cap allocations through manager-of-managers Bivium Capital Partners with the New York City Employees Retirement System and Teachers' Retirement System of the City of New York, as previously reported by EMM.

The firm has also recently added an allocation through manager-of-managers FIS Group.

Chris Amodeo, a partner at the firm responsible for business development and sales, said Radin Capital has set aside capital for emerging manager programs because the allocations can help get the firm's name out there and allow the firm to grow its track record while paving a path to getting foundations and endowments and other intuitional clients in the U.S. marketplace.

The international small-cap strategy has a dedicated track record dating back to July 1, 2015 and prior to that was a carve out of the global equity portfolio. Since its launch in 2012, the strategy has an annualized return of 14.9%, compared to 10.9% by the MSCI ACWI ex-US Small Cap Index

"We love international small-cap because we feel it is one of the least efficient parts of the global equity manager space and there is a better opportunity to generate alpha," said Radin, who noted that it is also an asset class that is well suited for smaller managers due to liquidity constraints.

Radin called his investment philosophy a classic, opportunistic value approach that looks to purchase good companies at bargain basement prices. "These are good companies that had a challenging year or two and disappointed the street and they have some problems that need fixing. These are not distressed companies," he said.

The focus is on identifying companies that are trading at a low price in relation to what they will earn in five years in a normalized environment.

"It is our view that we as value investors do not get a chance to buy good companies at bargain basement prices when everything is going well. We only get a chance to buy those companies at bargain prices after things have gone wrong," he said.

The process begins with screening companies that appear on the surface to represent value and from there do a deep dive fundamental analysis. Radin said the fundamental aspect of the process is key.

"That is how you determine whether a company is a good company or just a cheap company with a lot of problems," he said. "We want to understand the industry, the competitors, the company and, most importantly, the problem that the company is in the process of fixing."

Radin said each company faces a unique problem that needs to be addressed and the problems can range from broader macro issues that are out of a company's control but need to be addressed to self-inflicted wounds.

"We don't like overly complicated situations," he said. "We like simple, mundane everyday business problems that are relatively easy to fix but require patience from an investor's perspective."

The problems are made even simpler because the firm looks for companies that know what the problem is.

"We want a management team that says, 'here are the problems and here is our plan to fix those problems,'" Radin said, adding that practically every good company faces one of these moments every dozen years or so. "It is not the end of the world for these companies but it is a great opportunity for value investors like ourselves to buy a company at a bargain

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basement price."

Radin said that the firm's portfolio has some characteristics that often surprise investors, including 70% of companies paying a dividend, with an average year of 3% and more than half of the companies holding more cash than debt.

"Those statistics, I think, help investors realize these are not companies that are lined with debt that might not make it," Amodeo said. "These are just businesses that have had their own internal problems where investors have just looked elsewhere. We step in at that point with the comfort that they understand the problems."

The strategy typically holds 40 to 50 names and has an average holding period of four to five years.

The firm allows no more than 40% in one sector and no more than 30% in a specific country and will not be more than 5% in a particular stock.

"We realize that large, sophisticated institutional allocators, they have a decent sized passive indexing portion of their equities, and that is fine. We fit really nicely in that world because we look nothing like the index," Radin said.

The MSCI ACWI ex-US Small Cap Index has 4,290 companies as of Nov. 30, with the largest individual company weighting at 0.35%.

"It is really not an asset class that is easily approached from a passive indexing point of view," he said. "In this asset class, there really isn't an index alternative."

And in the active space, the firm's strategy is one that aligns with the needs of institutional investors, Amodeo said.

"We fit very well with pension funds and other investors with longer term time horizons. Having the patience and fortitude to allow a company to execute on its plan to fix individual problems, we have the patience to see that to fruition," he said.

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