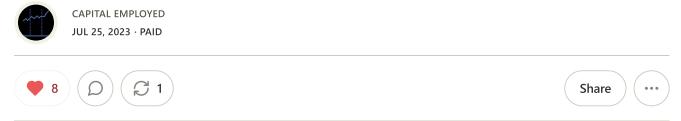
## Interview #71: George Livadas (Upslope CM)

Long/Short Public Equity Investment Strategy



For this issue we had the pleasure of interviewing George Livadas, Founder and Portfolio Manager of Upslope Capital Management.

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Hi George, thanks so much for taking the time to do this interview.

Can you please tell readers about your background, and how you got involved in investing?

Of course, and thank you very much for having me, Jon. I was a late bloomer to professional investing and divide my career into two stages: first half was investment banking and second half investing.

I was a Russian major in college and only started to develop a personal interest in stock-picking after graduating. Eventually, I made my way to business school in the fall of...2008. And it was during those two years that I really fell in love with investing and alternative investing in particular. I was glued to my screen – investing my own money – and obsessed with the game of trying to protect capital and make money during the financial crisis. I still vividly remember watching the Flash Crash in real-time.

I technically belonged to a few of the MBA program's investing clubs, but, I confess I wasn't all that interested in doing formal stock pitches. Mostly, I kept to myself on the investing front, and was just focused on my own portfolio and trying to figure "it" (the crisis) out. It really clicked for me that investors have a wide range of tools at their disposal – not just "long stocks and hope for the best" – and this meant I was naturally drawn to long/short investing. I had *no* idea what I was doing at the time. But, I absolutely loved trying to figure it out.

As much fun as I had investing on my own, after graduating I needed a job. I had interned at a CLO manager (Monroe Capital), but there were no full-time openings. The job market was still lousy and I'm a mediocre interviewer on a good day. So, I hid out in investment banking a bit longer, and joined BMO Capital Markets' FIG investment banking coverage team in New York. I mostly covered exchanges, brokers, and other non-bank financials – areas I still spend a lot of time in today.

After tagging my VP promotion, I stepped back and re-evaluated my career. What could I *really* see myself doing long-term – "what doesn't feel like work?" The answer was extremely obvious. I made the unusual move to request a transfer from IB to research. BMO had just hired a top-ranked analyst from Deutsche Bank that needed to build out his team. Mark Wilde, aka "Dr. Paper" covered "packaging and forest products" and I saw it as an excellent opportunity to learn a new sector under a veteran. I cannot say enough good things about Mark and my time working for him – he is truly one of the few genuine articles on Wall Street.

Unfortunately, my timing was bad and after a year my family and I decided to move to Denver for personal reasons. Given my very late start to professional investing, it made sense to rip the band-aid and move to the buyside. I took a job at a start-up long/short fund and started the strategy that would become Upslope's a year later.

What type of businesses or situations do you like to invest in? Are there any specific quantitative or qualitative characteristics you seek?

I naturally gravitate to predictable, less-cyclical, "quality" businesses that tend to fall somewhere in the GARP-to-value spectrum.

On the long side, I think of "needs" and "wants" and bucket ideas depending on how many boxes they tick. Some "needs": understandable (to me) business model, supportive or neutral secular trends, obvious and straight-forward competitive advantages, solid cash flow per share generation (minimal stock comp or adjustment shenanigans), straight-forward and motivated management, and reasonable valuation.

On the "want" side, I look for: potential "forever" holdings (know it when you see it), under-utilized balance sheet, scarcity value, identifiable catalysts, and significant insider ownership. Aside from all of that, I have a non-fatal allergy to hedge fund hotels.

I've owned stocks that were popular among hedge funds, but in general I have a fairly extreme bias against them (for longs, at least).

You have a fascinating portfolio, at one end you have a high-quality compounder in Diploma, yet at the other end you have Glatfelter which seems to be struggling and lower quality. Can you shed some light on how you structure your portfolio?

I bucket Upslope's longs into two broad categories: "Core" and "Tactical." Core longs are compounder types that check most of the needs and wants noted above – higher quality, secular growth, good balance sheet, strong free cash flow, solid management.

Tactical longs look more like traditional value investments – "obviously" cheap, but with some hair – be it temporary challenges, strong cyclicality, stretched balance sheet, etc. Typically, I size Core positions larger than Tactical (12% max at cost vs. 8%), and expect to hold Core names longer, as well (generally hold Tactical longs ~6–18 months).

While I'm fine to be overweight either category, I've always tried to have some balance between the two. Markets go through long cycles and I don't believe one can just switch styles on a dime without years of practice.

Since you mentioned it, I should note that I sold Glatfelter in Q2. It had been a small position and I just couldn't get comfortable enough to size it up to a full position.

#### How do you generate your ideas?

There are a few big pillars that I lean on for generating ideas. First is utilizing my past expertise – sector coverage of financials from when I was a banker and packaging from when I was in research.

Given my investment banking background, I also spend a lot of time looking at transactions – M&A, IPOs, SPACs, etc. Transaction-sourced ideas mostly work out to be shorts. In addition to past expertise, the other big pillar is what I describe as "embrace curiosity and expand competencies."

This involves working through what holes I might have in the portfolio – do I need something a bit more cyclical today? Are there any sectors that are particularly hated or loved that I should be looking at?

I'm also a big believer in the "walking around method" for idea sourcing – just paying attention to everyday life and news-flow for ideas. While it's a bit of a chaotic way to source ideas, I firmly believe the randomness adds value as it leads to a more differentiated and uncorrelated portfolio than one sourced primarily from screens, Value Investors Club and hedge fund ideas dinner picks.

# Where are you finding good ideas at the moment? Is there any specific industry or country where you're currently finding good value?

Recently, I've been very active in my two core sectors – exchanges and packaging. I do own more in packaging today than at any time in the past few years. On the exchange front, I recently added Japan Exchange Group (brief write-up is in Upslope's Q2 letter), which I think is both cheap and has several potentially growth-accelerating catalysts ahead.

For packaging, I believe the sector is set up nicely to benefit from stabilizing or receding inflation (in addition to costs, it should help with volumes, which is what matters to packagers), steady demand during uncertain times (most end markets are staples-like – healthcare, food and beverage, etc.), and reasonable valuations today. I'm also spending some time in healthcare, given its defensiveness and lousy performance YTD. But, I haven't done much on that front yet.

Can you talk about two specific companies in your portfolio you're bullish on? What was the thesis for investing?

Two ideas I like today are Man Group (EMG.LN) and Aptar (ATR).

## Man Group (EMG.LN)

Based in the U.K., Man Group is a leading hedge fund and alternative asset manager with \$145 bn of AUM and a market cap just under £3 billion. Alternatives products comprise 70% of AUM, while the remainder is long-only public equities and fixed income.

Man is one of the only publicly traded alternative managers focused on liquid markets. My admittedly biased (since I'm in the same broad industry) view is that public alternative strategies should see a relative uptick in flows in the coming years, as allocators and investors face the reality of higher-for-longer rates and the eventual prospects of a recession.

These are all headwinds for Man's indirect competitors (especially private equity), many of whom I believe institutions are already over-allocated to. Elevated macro volatility – to a point – is also generally a positive for many of Man's strategies. Second, despite Man facing headwinds from rising allocations to private alts for many years, Man has generated positive net inflows over the long-term, including 12 of the last 14 quarters.

Typically flows contribute ~2% to AUM growth – not exactly rapid growth, but there should be upside if we see a real shift in the allocation environment, as I suspect.

Importantly, this all tells me a lot about Man's position in the broader industry: if someone is going to allocate to liquid alts at all, Man is clearly in the running. Third, Man shares are cheap at just 9.5x 2024 earnings.

Estimates do assume performance fees, which may or may not materialize. However, performance fees are assumed to contribute ~35% of earnings ahead. This seems reasonable, if not conservative, given past performance. Notably, even if one assumes zero performance fees (a ridiculous assumption for the long-run), shares are still trading for just 15x earnings.

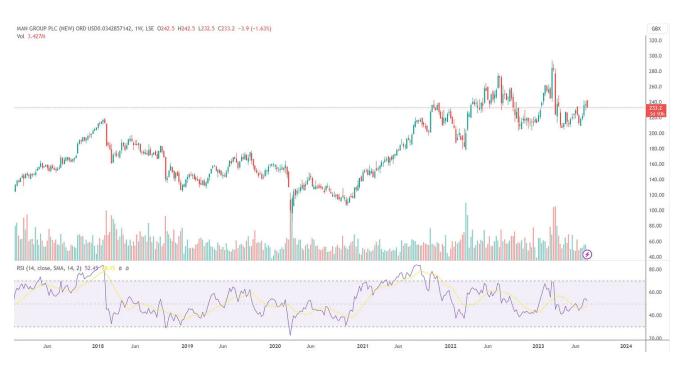
Fourth, Man has a very strong balance sheet (net cash), a long history of good free cash generation, an active buyback, and a 5%+ dividend yield.

Finally, I'd note that Man generally has outsized exposure to Europe. I view this as a net positive, given valuations and my own market outlook. But not everyone may agree.

Risks? I mostly worry about performance risk of Man's various strategies, which are a bit of a black box from the outside. They got dinged a bit during the CTA bust in March of this year, but overall have managed through it well.

Like other services businesses, Man is a people business and has human capital retention and compensation cost risks. Lastly, Man recently announced the retirement of its CEO.

The transition seemed reasonable on all fronts and the new CEO (Robyn Grew), a 14-year veteran and previously President of Man, seems very qualified and capable.



## **PAptar** (ATR)

Aptar is a position Upslope has owned since inception and admittedly I've banged the drum on it forever.

The company has two main verticals: pharma packaging and what I'd describe as "traditional" packaging (e.g. fragrances, homecare, food, beverage). The broader theme for the company is dispensing solutions. Examples of products they produce include perfume sprayers and nasal inhalers. What's interesting about Aptar is it's always been an odd duck.

It's covered by traditional, industrial-oriented packaging Analysts. Superficially, it looks like a traditional packager: 60% of sales come from traditional, non-Pharma packaging units. But over time, EBIT contribution from Pharma has risen steadily due to greater organic growth and higher, steadier margins.

Today, Pharma now contributes ~75% of segment EBIT. The Pharma business looks and feels very different than non-Pharma. End markets are not cyclical, competitive products are incredibly sticky (often folded into FDA approval processes), growth is solid, and margins are high.

The opportunity has always been two-fold: (1) the business gets better every year as it naturally becomes more of a pure-play Pharma packaging company, and (2) an opportunity exists to accelerate this shift, should management ever choose to separate the business lines or more fully commit to the transition. Frankly, at this point the thesis is awfully well-worn, so I will cut to the chase.

The first part continues to play out, which is why I have been as patient with the stock as I have been over the 7+ years I've owned it.

On the second front, significant change is *finally* afoot, providing reason for optimism that capital allocation is set to improve markedly. Consider the following changes over the past year:

- Multiple new board members, including the CEO of Enovis (previously engineered and executed a split at Colfax that looks an awful lot like a potential Aptar split),
- New Chairperson of the Board (May 2023),
- New head of IR (prior head was a 30-year veteran employee that I would, respectfully, characterize as the face of the "old guard"),
- Recent re-segmentation of non-Pharma.

Does this mean a split is imminent? I really don't know. But it makes me more optimistic about capital allocation in general. And, combined with recent fundamental momentum, I'm as excited about the stock as I have been in a while.



Yes, but for me that means being fully invested on both sides of the book (long + short). Given narrow breadth and outperformance of high-short interest stocks YTD, I see lots of opportunities on both sides of the portfolio.

I am equal parts shocked, irritated, and thankful that we short-sellers get another bite at the apple for so many of these completely unsustainable, nonsense companies that will head to zero sooner or later. At the same time, plenty of boring value-oriented stocks have gotten completely left in the dust of late.

Lawrence Hamtil (writes an excellent blog at Fortune Financial Advisors) recently flagged a blog post by Man Group (coincidence, I swear) that noted: "the drawdown in the MSCI World Minimum Volatility Index (relative to the standard index) has reached an extreme level that is only comparable to the DotCom tech bubble and the post-Covid market risk rally."

It has not been an easy year for a defensive long/short style by any means, but I'm really excited about the set-up from here.

### What book would you recommend every investor read?

I'll cheat and do two. McKinsey's Valuation book is dense and probably a bit too academic, but was foundational for me in terms of understanding how value is really created.

As a banker, I was always taught that valuation is determined pretty much by...growth and margins alone. Reading Valuation helped correct that.

At the other end of the spectrum, I'd recommend The Art of Execution. It's a quick and easy read and I really enjoyed it. The book helped me get into the right mindset for managing positions within a portfolio.

## Thanks George for a great interview.

For more information on Upslope Capital Management visit upslopecapital.com

George can also be found on Twitter @UpslopeCapital

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