



## **Interview with Karim Salamatian, CFA, Partner & CIO of Viresco International Capital Management**

*Eurekahedge*

Viresco International Capital Management LLC is an alternative asset management firm dedicated to investing in the global clean technology sector. Founded in 2008, the firm manages the Viresco Opportunities Global Fund LP, which consists of long and short strategies of publicly-traded equity, debt and derivative securities. The company is based in San Diego, California and has an office in Asia.

The firm's global breadth, fundamental research investment approach, long-term philosophy and infrastructure focus allows for superior absolute total returns without enduring high volatility. The firm is committed to delivering investors a low volatility clean technology investment proposition.

Key areas of focus are: energy efficiency, alternative energy, environmental technologies, enabling technologies and distributed generation

### **1. What is it about sustainable investing, and particularly clean technology, that interests you? What kind of returns can one look forward to when investing within this sector?**

I think all investors and fund managers need to consider the double-bottom line impact in their activities. Profits and social responsibility are no longer mutually exclusive, but two components that I believe will become integrated to even more investment strategies going forward. Investors have tremendous tools at their disposal to enact social change through investing. The breadth and global nature of markets allow investors to seek out opportunities that can address both requirements.

We have chosen clean technology because no matter whom you are or where you live, the imperative needs for clean water, waste treatment, emissions reduction and clean energy are obvious. We hope to impact global sustainability through our investment strategy so that real world solutions can be achieved.

### **2. Could you shed some light on the geographical diversification of your fund's portfolio – in terms of the regions you plan to invest in and the extent of your exposure to each of the regions?**

We focus on developed markets that have strong government regulation promoting clean technology solutions and emerging markets where the current sustainability profile dramatically lags that of developed markets. As a result, our greatest exposure is to Europe where government regulation is the most progressive. Europe represents 40% of our portfolio. Asia is second at 32%, with the bulk of this invested in emerging Asian markets. North America represents 20% of the portfolio but could potentially grow if we see more progressive environmental and climate policies from the Obama administration. South America represents the balance. Over time we expect Asia to become a larger piece depending on how we see government-driven demand shaping up.

### **3. Within the clean technology space, what are the different sectors (such as alternative energy and wastewater treatment, for instance) that you intend to allocate to? And, on what basis would you determine the extent of your allocations to each of these sectors?**

Viresco focuses on five key clean technology sectors: 1) energy efficiency 2) alternative energy 3) environmental technologies (water & waste) 4) distributed generation 5) enabling technologies.

Our investment strategy focuses on infrastructure and high ROI solutions. Therefore, our largest weighting is to energy efficiency at 39% of the fund. Second is alternative energy at 30%. Given the global need for water & waste solutions, environmental technologies represents 20% of the fund. Lastly, distributed generation and enabling technologies split the balance.

Given our view that energy efficiency is the "true" alternative energy, this will likely be our largest exposure for the foreseeable future.



**4. Also, speaking of your portfolio, what are the different types of securities and asset classes (equity, debt, etc) that you plan to invest in? And what are the different trading strategies that you will employ?**

Viresco's mandate allows us to trade equity, debt and derivatives. The portfolio is comprised of 25-30 core positions (both long and short), and we use derivatives to hedge and/or enhance returns around those core holdings. We intend to always maintain hedged positions to deliver on our goal of low volatility returns. And once again, in today's environment, our hedging is very active.

Given that many clean technology companies do not have public debt, the debt component of the fund is very low. We estimate that 10-12% of the companies we follow have public debt. Over time we expect the debt position of Viresco to increase.

Finally, we use currency derivatives to hedge our foreign exchange exposure. We do not hedge 100% of our currency exposure, but keep our exposure to emerging currencies at virtually zero.

**5. Do you plan on using leverage to enhance the returns of your fund? If so, how much?**

Viresco's mandate allows for leverage up to 200%; however, in today's market our prudent stance is to keep cash high and leverage low. We do not see enough clarity on the global market at this point to use high amounts of leverage. We will be opportunistic and use leverage in the future to bolster returns should our conviction warrant. Leverage will always be used responsibly and never deviate from our strategy to generate low volatility returns, which is tough to do in today's market if high levels of leverage are used.

**6. At any given point in time, how many positions would you be holding? How often would you review each of these positions? And what ratio of long to short positions do you plan to maintain on average?**

Our portfolio consists of 25-30 core positions that are both long and short. Currently, we are 70% long and 30% short among the core positions. This does not include call option writing to hedge long positions or the inverse for puts.

Our investment approach is based on fundamental research whereby we take long-term macro views and drill that down to specific security selection. While we maintain and review our positions almost every day, we have an investment horizon of 2-3 years. We invest in opportunities that we believe will deliver returns of 100% over a 3-year time period. Therefore, our fund has low turnover and is based on strong conviction in our ideas.

**7. Could you walk us through the risk management tools that you have in place for your fund?**

We have made considerable upfront investments in quantitative IT systems for continuous risk reporting. Our systems provide us real-time position, geography and currency exposures as well as complete VaR reporting. In addition, our real-time P&L capabilities allow us to monitor leverage, liquidity, trade execution, settlement and all corporate actions.

In addition there are several parameters we have set, such as not initiating a position at 10% or greater of the fund, hedging all exposure to emerging currencies and keeping leverage low.

Our greatest risk and volatility management tool is our security selection whereby we choose long candidates based on free cash-flow yield > 5.5%, net debt-to-enterprise value < 25% and dividend yields > 1.5%. Currently our portfolio has an average free cash-flow yield of 12.3%, average net debt-to-enterprise value of 7.3% and an average dividend yield of 2.3%. Investing in more mature, established companies that are moderately leveraged and return cash to shareholders will deliver superior long-term returns in most market conditions.

From a business perspective, we are committed to providing full transparency in everything we do while ensuring that all appropriate steps are taken to minimise risk both internally and externally. This includes



but is not limited to:

- Business continuity plan
- Business continuity and disaster recovery plans for service providers
- Corporate handbooks along with policies and procedures which are provided to and reviewed with all employees

**8. Based on the risk/return profile of your fund, which classes of investors, according to you, is the fund best suited for?**

We believe Viresco can offer a compelling investment proposition of low volatility superior total returns. Both high net worth and institutional investors are demanding clean technology investments, so we have really built our organisation and fund on their demands. Both are looking for a differentiated exposure to the space in a global context. With an international investment team and international strategy, we can deliver this. Also, investors are looking for superior risk management and investment discipline. Once again, our approach and business processes deliver this to both high net worth and institutional investors.

I will say though that we do get more interest from a social concern stand-point from high net worth individuals. Family offices around the globe are rapidly become more savvy clean technology investors.

**9. How has clean technology fared over recent months when the rest of the market has seen tremendous turbulence? Could you give us your near- to medium-term outlook of your target sectors?**

Unfortunately, I cannot say that clean technology has held up better than the overall market as asset prices have been hit hard by the credit crisis and concerns over the impending global recession. Demand growth, which was historically very visible, has come into question. Since the beginning of September, global clean technology indices have declined by 52% versus the MSCI decline of 32%. Unfortunately, the global clean technology indices are heavily weighted to alternative energy, which has led the declines. If we were to weight more to energy efficiency and waste & water, the relative performance would have been somewhat better.

We cannot see an end to the volatility in global markets until mid-2009 when the true corporate earnings outlook will be clear. That being said, clean technology demand will continue to dramatically outpace overall economic growth. Sectors such as energy efficiency will outperform because there is an imperative need for all companies to find ways to use energy and water more efficiently to lower costs. We believe in a recession, energy efficiency investment can still be justified given its immediate and high internal rate of return.

Alternative energy sectors will see a slowdown in demand, primarily in emerging markets where government regulation does not mandate adoption. Developed country governments will have to rely on existing and new incentive schemes to promote the development of alternative energy – especially if oil stays near US\$60/barrel. Instead of 50-75% annual growth in demand for renewable energies, we expect 30% growth in 2009.

All in, we expect clean technology sectors to grow 15-20% in 2009, which should yield strong earnings growth of at least that rate. Now not all companies in the space will perform equally. Therefore, we will use our short capabilities to capitalise on companies with inferior balance sheets, cash flow profile and/or competitive positioning.

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