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THE WALL STREET TRANSCRIPT**

## **MONEY MANAGER INTERVIEW**

### **WARREN J. OLSEN**

### **SCB Global Capital Management, LLC**

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# Seeking Significant Returns with High-Conviction Ideas

WARREN J. OLSEN, SCB GLOBAL CAPITAL MANAGEMENT, LLC



**WARREN J. OLSEN** is Chairman and CIO of SCB Global Capital Management, LLC.

He served as Vice Chairman and CIO of First Western Financial, a private banking and wealth management firm, which he co-founded. During his tenure, FWF grew to \$4.5 billion in trust and investment management assets, and \$700 million in bank assets.

He served as Director and President of the Morgan Stanley Funds and the Morgan Stanley Institutional Fund. He graduated magna cum laude from Villanova University,

holds a B.S. in business administration from Georgetown University, and was a member of the board of regents and the board of advisers at Georgetown University's School of Business.

## SECTOR — GENERAL INVESTING

**(AGW500) TWST: SCB Global recently launched its first fund.**

**What made you decide to start a fund, and what's your approach?**

**Mr. Olsen:** We launched our first fund, the SCB Global Opportunities Fund, fairly recently — in April of 2015. After more than 25 years in Chief Investment Officer and other executive roles, personally, I was looking to get back to hands-on money management. My business partner and I wanted to create a firm more in the traditional private investment partnership mold, with the flexibility to seek out interesting investment opportunities without being put in a style box.

We're relative value investors, and we call our fund a global opportunities fund because we're looking to build a portfolio of 20 or so high-conviction ideas invested on a global basis. We invest in both long and short positions, and are fairly agnostic as to market cap. Our process allows us to be global with a fairly small team because we start with a top-down analysis of macro themes and use that analysis to guide us as to where we want to spend our time doing bottom-up research.

**TWST: Can you give us some additional background**

**about the firm?**

**Mr. Olsen:** SCB Global Capital Management was formed in 2014 by myself and my business partner, Russ Matthews, whom

I met when we worked together at First Western Financial. Russ manages everything in the business that's not investment-related. That includes investor relations, sales and marketing, operations and infrastructure. We think all of that, in addition of course to portfolio management, is really important to run a successful hedge fund. To have a world-class organization, you need great infrastructure, which also includes very strong service providers. For example, PricewaterhouseCoopers is the fund's auditor, and ALPS is the fund's administrator. Morgan Stanley is the prime broker.

**TWST: Can you tell us a little bit more about the SCB Global Opportunities Fund? What's the philosophy behind the fund?**

**Mr. Olsen:** With the fund, we're looking to create significant investment returns throughout all market cycles with a transparent, liquid, risk-aware method, and do this in a noncorrelated, idiosyncratic manner. At our core, we're relative value investors. Our fund is truly an opportunities fund and fairly

### Highlights

*Warren J. Olsen discusses SCB Global Capital Management, LLC and the SCB Global Opportunities Fund. Mr. Olsen is a relative value investor, and he looks to build a portfolio of about 20 distinct high-conviction ideas on a global basis. He invests in both long and short positions, and is fairly agnostic in regard to market cap. The goal of the fund is to create significant returns across all market cycles. When it comes to stock selection, Mr. Olsen uses a top-down, bottom-up approach. He starts with a strong global and macro view to determine themes. Then, Mr. Olsen identifies and performs fundamental analysis on individual equities that fit the themes. Companies discussed: Finmeccanica SpA (BIT:FNC); General Motors Company (NYSE:GM); Casey's General Stores (NASDAQ:CASY); iKang Healthcare Group (NASDAQ:KANG); Yandex NV (NASDAQ:YNDX) and Tesla Motors (NASDAQ:TSLA).*

concentrated. We tend to think in terms of ideas in the fund, and we like to run the fund with about 20 distinct investment ideas.

***“We express our ideas solely through liquid securities. We don’t do anything in the private space. Our holdings are primarily in individual equity names. Occasionally, we’ll own or short indexes, often through an ETF. Sometimes, we’ll use other types of securities to express our ideas.”***

One investment idea may encompass more than one position, but again, we think in terms of having 20 totally discrete ideas. I think that’s really important in terms of risk control. You can run a fund where you have two or three themes that you express in 20 different ways, which is great when it works, but it’s not so great when it’s not working.

We express our ideas solely through liquid securities. We don’t do anything in the private space. Our holdings are primarily in individual equity names. Occasionally, we’ll own or short indexes, often through an ETF. Sometimes, we’ll use other types of securities to express our ideas. For example, right now, we’re short the euro against the U.S. dollar. Or we may arbitrage different securities in a company’s capital structure.

**TWST: Can you tell us a bit more about your process of equity selection? What do you typically look for?**

**Mr. Olsen:** We use a top-down, bottom-up approach. That means we start with a fairly strong global and macro view of the world, which we use to identify where we want to spend our time on finding what we think are the best opportunities. For example, in terms of equities in the developed world — as opposed to emerging markets — we aren’t seeing any really compelling valuations. We’re not seeing valuations that scare us in developed markets, but we’re not seeing compellingly cheap valuations either. In the emerging markets, we’re seeing better valuations, but we have macro-level concerns.

Having said that, we tend to be more constructive right now in Europe and in Japan versus the U.S. We look for interesting individual names that work along our themes, and we do a lot of fundamental bottom-up work on a company before we are willing to make an investment. So for example, as I mentioned, we’re constructive on Europe, especially southern Europe, which I would consider Italy, Spain and Portugal. The reason from a macro perspective is that we think that you’re going to see some considerable quantitative easing from the ECB. Quantitative easing tends to push up risk assets, primarily equities.

We also think that economies in southern Europe are growing at a slightly higher rate than people are giving them credit for. At the margin, we see valuations being better. For example, we conducted research on Italian companies and found a really interesting Italian aerospace defense contractor called **Finmeccanica** (BIT:FNC). We think the Europeans have been behind in terms of defense spending in the last few years, and they need and want to

catch up. Obviously, there is heightened sensitivity with what’s going on with the large influx of immigrants and also the recent Paris attacks. We owned **Finmeccanica** well before the Paris attacks; however, this event sadly reinforced the fact that Europe’s living in a much more dangerous world.

When looking at **Finmeccanica**, we saw they had a new CEO implementing a bit of a turnaround strategy and looked as if they were beginning to run more efficiently. Valuations on traditional metrics — like price to earnings, price to earnings growth, enterprise value versus EBITDA, price to sales — were compelling for us. We started with the macro view, but that really only informs us where we think we will see more opportunities. We do extensive qualitative and quantitative work on a company before we’ll establish a position. Again, we’re not a macro fund, but we do use our macro views to inform on where we may want to spend our time and, ultimately, invest.

**TWST: You mentioned the defense sector. Do you think that’s an interesting sector to invest in right now, especially given recent events in Paris?**

**Mr. Olsen:** Given what’s happened with the European economy since 2009, I think they’ve fallen behind a bit in defense spending. So that was our thesis in buying the European defense contractor that I mentioned. I think the problem with reacting to a tragedy like Paris and saying, “It’s a great time to buy defense stocks,” is that it’s a knee-jerk reaction. Everybody is thinking that way.

What we’re trying to do is think in terms of how we can look at opportunities where we’re thinking a little bit differently than other people. The defense contractor, for example, we owned that before the tragedy in Paris, in part because we were aware that we’re living in an environment with heightened security risks. So it’s more of an indication that the initial thesis may be right, as opposed to reacting to the tragic events in Paris.

**1-Year Daily Chart of General Motors Company**



Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

**TWST: Do you have any geographic, size or sector limits?**

**Mr. Olsen:** We don’t have any specific sector or geographical limits. We will take reasonably concentrated positions in a geographic or an industry sector. However, we always try to be sure that we have around 20 discrete ideas in the portfolio. For

example, if you have 80% of your portfolio in financials, then the question really is, “Do you really only have one idea?” We do have size limitations on individual positions. We generally won’t go above 10% for a long position or 5% for a short position.

***“We force rank all of our ideas on a conviction basis — in other words, how convinced we are that we have an opportunity to make money on the names. We also look at beta-adjusted positions, market cap and other metrics.”***

**TWST: How do you weight the individual ideas?**

**Mr. Olsen:** We force rank all of our ideas on a conviction basis — in other words, how convinced we are that we have an opportunity to make money on the names. We also look at beta-adjusted positions, market cap and other metrics. What we want to do is ensure that we look at position sizing based on our conviction on the individual name. We’re looking to create a global opportunities fund, not something that replicates an index.

In our current portfolio, our largest position is **General Motors** (NYSE:GM), a big U.S. global company. The thesis is that it’s very well-priced on a forward earnings basis, at around 7 times currently, with around a 4% yield. We think **GM** has a terrific global franchise. Our second-largest position is a smaller-cap U.S. convenience store chain that operates in the Midwest.

**TWST: Can you tell us the name of that?**

**Mr. Olsen:** Sure, it’s called **Casey’s** (NASDAQ:CASY). To give you a sense for the opportunistic — or some might say eclectic, which is a word we embrace, by the way — nature of our portfolio, our third-largest position is a Chinese health care company, and our fourth is a Russian Internet company. The health care company is called **iKang** (NASDAQ:KANG), and it runs preventative health care centers in China. The Russian Internet company is called **Yandex** (NASDAQ:YNDX).

So on one hand, we have **GM**, a large-cap U.S. company, right in the middle of the fairway so to speak, a name you see in a lot of portfolios. On the other hand, we have holdings that may seem a bit more esoteric, but they are a result of our approach of assessing macro themes and then doing fundamental research. The Russian Internet company is a good example of where we started by looking at broader valuations. At the time of our initial investment, we thought Russia was probably one of the most compelling markets in terms of valuations, so this guided us in terms of finding what we believe is an interesting opportunity.

**TWST: Are there any sectors right now that you really like? And if so, why?**

**Mr. Olsen:** In terms of geographic sectors, we do like the emerging markets. We think they’ve gotten so out of favor, and there have been a lot of headwinds against them. So we’re finding what we believe to be some interesting opportunities. We think we may be a bit early there so we looked to hedge out some of the

emerging-market risk, in terms of hedging the overall markets.

In terms of industry sectors, we don’t have anything on a global basis that’s really speaking to us. In the U.S., we’ve had a reasonable position in the large money center banks based on the idea of liking their relative valuations. We think a lot of the regulatory and litigation risk is behind them, or at least it is level set at this point. In terms of going forward, we think that even in a low interest rate environment, the major money center banks should do fine, and if we see rising interest rates, they should benefit.

**TWST: What is your general outlook for the economy, and how does that determine your investment strategy?**

**Mr. Olsen:** We look at the outlook for the economy as one piece of how we invest. We’re probably in the consensus camp where we don’t think the U.S. is headed into a recession, but we think U.S. growth will be slowish in the 2% to 2.5% range. We think Europe is probably going to be a little bit stronger than people are expecting, and Japan is going to bounce around a little bit better than zero. In China, we are in the soft-landing camp where we think China grows at around 6.5%. We think India continues to be a pretty good story.

For us, it’s much more about thinking about what’s happening at the margin and how that’s affecting equity prices. So for example, in Japan, which has struggled to get some growth and create some inflation, we think they will continue to struggle. But we think that the Japanese government is committed to pushing growth. That should lead to additional quantitative easing, and we think that will be good for equities. This makes us a lot more constructive on Japanese equities than we would be just looking at the overall Japanese economy. To invest in Japan though, we still need to find what we think are some good companies at reasonable valuations. We believe we’ve been able to do that.

#### 1-Year Daily Chart of Casey’s General Stores



Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

**TWST: Are there other holdings within the portfolio that you’d like to stick to or that you see as a solid foundation?**

**Mr. Olsen:** As fundamental, relative value investors, we generally take a longer-term view with regard to our holdings. We tend to own individual securities, and they tend to be common stocks. Occasionally, we’ll own some derivatives against common stock, usually pretty vanilla options, in terms of either trying to

enhance exposure or hedging. What we're trying to do is be very liquid and as transparent as practical. Candidly, we think there is a danger in trying to be overly creative or overly complicated with financial engineering the portfolio.

**TWST: Within portfolio construction, how do you mitigate risk? What are the measures that you generally take?**

**Mr. Olsen:** The idea is to try to understand all the types of risk that you have. On the investment-risk side, our biggest way to mitigate and understand risk is the idea of having 20 separate ideas and understanding how these ideas may interact from a portfolio standpoint. That's probably the biggest factor.

We run quantitative models, and we do look at value at risk in terms of limits for the portfolio. But you have to understand that those quantitative models will always have limitations, and they're backward-looking. So they're just trying to give you a best guess. Our belief is that part of understanding risk is comprehending the limitations of the tools you use to mitigate risk.

The other factor with investment risk is trying to make sure we understand the type of risk that we want to own to get a return. Occasionally, we want to own both the individual company and the market risk, but then sometimes, we don't want to own the market risk. We just want the individual company risk, obviously keeping in mind that you can hedge that out to some extent. The other risks that we look at are: understanding counterparty risk in terms of who we're doing business with, and the organizational risk in terms of having a robust infrastructure and hiring the right people.

**TWST: Then, how often do you adjust the portfolio according to the risks that you evaluate?**

**Mr. Olsen:** We're monitoring the portfolio on a daily basis. However, we're not traders; we're fundamental investors. So when we take long or short positions, we're not doing that as a trade. We're doing that as an investment. But we will react to changes. What we look to do is to have processes in place to make sure that we're aware of where we are on the risk spectrum.

We meet once a month to force rank the portfolio according to conviction. We sort through the highest-conviction names to the lowest-conviction names. The lowest-conviction names tend to be easier to address because we can evaluate if they should be in the portfolio at all, but we also focus on the high-conviction names because we want to make sure that we haven't put ourselves into some kind of groupthink where we're all drinking the Kool-Aid, so to speak. If we have really high conviction, we reflect upon what we may be missing. In terms of capital allocation, we reflect on, "What can go wrong here?"

**TWST: Why do you short individual securities? What is the impetus behind that?**

**Mr. Olsen:** It is important to understand for our strategy that we're not just shorting to hedge against long positions. We have an active short book of individual names. We'll short individual stocks for one of two reasons. The first reason is where we think a company's business model is fundamentally broken, meaning they're basically in a decline that they can't fix. The second reason is when we think that a

company is essentially priced for perfection, where they just can't grow into their valuation.

In the fundamentally broken business model category, since the inception of the fund, we've had a short position on U.S. for-profit higher education stocks. In this sector, you have companies that, in our opinion, are not delivering value in terms of quality education for their students. Furthermore, the business is almost fully dependent on federal government funding. Default rates for student loans at for-profit institutions are much higher than default rates at not-for-profit institutions. You're seeing the results of all this in terms of declining enrollment. The cost of for-profit education is high relative to an online degree from a U.S. public university. We just think it's an industry whose need to exist is questionable, and so we've had short positions in several of those names.

An example of what we'd call a priced-to-perfection stock would be **Tesla** (NASDAQ:TSLA). We think that **Tesla** is fundamentally a decent company but find the current valuation to be disconnected from reality. We're talking about a company that might deliver 50,000 cars in 2015. We just don't believe that they can grow into their multiples. We don't think there's anything wrong with the company itself or the product that they deliver. It's just that the marketplace is enamored with an idea that we don't think reflects economic reality.

**TWST: Do you have any general advice that you would like to share with investors?**

**Mr. Olsen:** Even though I've been in the investment management business for well over 25 years now, that certainly doesn't mean that I know even close to everything about investing. However, probably the most important advice I would give is to have an investment process that you can articulate and which you stick to. You need to have the discipline to stay with it. There is an infinite amount of wrong ways to manage money, but there are also a lot of right ways. So the trick is to find one of the right ways and then stick to it. That takes discipline and a lot of patience. You truly need both of those. You need the ability to not be afraid.

I tell people that because we're relative value investors and look for things that are a little out of favor, we tend to be early. So when we enter into a position, we assume that it's going to continue to go against us for a while until the market recognizes what we're seeing. That can be tough because you might look wrong for a period of time — and maybe even stupid — but if you believe in your process, and you're disciplined and patient about it, you have the opportunity for potentially compelling investment returns.

**TWST: Thank you. (KK)**

**WARREN J. OLSEN**

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