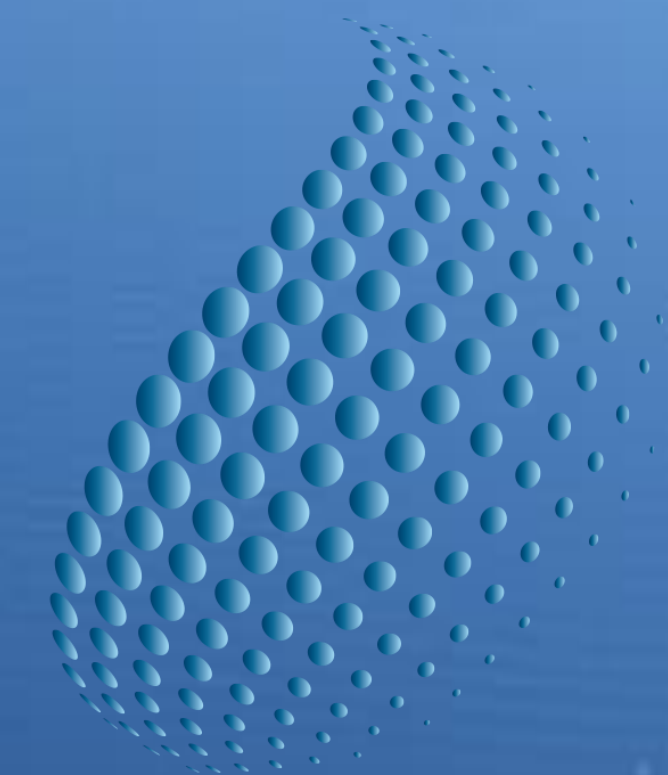


# A different kind of quality

By Oddbjørn Dybvad



**REQ CAPITAL**

INVESTING WITH INSIGHT

The investment world is a fiercely competitive arena where distinctiveness becomes the linchpin to achieving enduring success. Value creation necessitates differentiation. A quote we recently encountered harmonizes perfectly with our core convictions:

*"Buying high-quality companies will not lead to outperformance vs. your competitors or the benchmark unless you define 'high quality' differently vs. your competitors" (Arjun Tuteja).*

In the investment context, we interpret "quality" as companies exhibiting a consistent ability to reinvest significant portions of their free cash flow at high returns on capital over extended periods. We aim to curtail fundamental risk by spreading our investments across diverse products, clients, and end markets.

While our interpretation of quality echoes that of many quality investors, our investment pathway in quality companies deviates significantly from the typical "quality investing" approach. We prioritize established, acquisition-driven compounders, permitting us to incorporate companies with extraordinary quality into our portfolios.

### **Exposure to private quality companies**

Our quality-centric approach differentiates us from the typical "quality portfolio" prevalent in the market. As we aren't burdened with managing multi-billion-dollar portfolios, we have the flexibility to indirectly invest in high-quality private companies owned by listed acquisition-driven compounders. This provides us with unique access to smaller private entrepreneurs who are profit-oriented, an opportunity which typically eludes conventional fund managers.

Our approach involves the identification of exceptional capital allocators, often labeled as "Outsiders", who possess a unique mindset towards capital allocation. They astutely employ their free cash flow to acquire smaller, profitable businesses within private markets at appealing valuations. These entities foster a long-term, autonomous, and decentralized culture.

Rather than zeroing in on traditional "quality jargon" such as "moats" and "market positions," our focus gravitates towards capital allocation and an entrepreneurial corporate mindset. The quality companies we find are typically located in the less congested small and mid-cap market segments.

### **Embracing the Challenge**

What makes deviating from the norm in the investment realm such a daunting task? The answer is straightforward:

Embracing a unique approach introduces the potential for failure and misunderstanding. Adopting fresh perspectives demands time. However, within this challenge lies the opportunity for those who dare to be different.

### **Forsaking the Conventional**

We are at ease with our departure from conventional quality investing methods. While our definition of quality investing aligns with many, we employ a unique and distinctive strategy. We maintain confidence that our investors, who have entrusted us with their capital, will reap substantial rewards in the long run. We appreciate your support as we journey towards a divergent type of quality investing.

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