OCEAN PARK INVESTMENTS: FINDING OPPORTUNITIES IN EVERY MARKET CYCLE

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Like many of his colleagues, J. Dennis Jean-Jacques, President and Chief Investment Officer of Ocean Park Investments, has experienced his share of market downturns – the 1998 Russian debt crisis, the Long-Term Capital Portfolio collapse, 9/11, SARS, and the Great Recession of 2008, among others. In each of these events, however, he saw solid opportunities. That insight inspired him to launch Ocean Park Investments.

Founded by Jean-Jacques in 2016, Ocean Park Investments is a Stamford, CT-based alternative investment firm focusing on industrial-related companies in the US and European markets. The firm's two strategies seek to make investments that draw upon sector expertise in recognizing, structuring, and evaluating consequential changes that are often the catalysts for opportunities. The firm employs two distinct strategies:

Ocean Park Absolute Return invests on the behalf of clients who are looking to make allocations that will compound their capital peacefully over time – those concerned about extreme volatility to come and major downtrends in the markets but also want to earn a reasonable return over time. "When I talk about Absolute Return with the team, I often think of my mother-in-law who is a retired schoolteacher," explains Jean-Jacques. "Generating 30%-plus returns in one year, then having the value of her portfolio get cut in half the next does not help her much. It is not the losses that she can't take, but the level of uncertainty in the future that grips her."

Ocean Park Omaha is a more opportunistic, active ownership strategy that looks at smaller capitalized companies. The objective of Omaha is to unlock sustainable value in its portfolio companies while helping clients earn longer-term, superior risk-adjusted returns by investing in a focused number of assets or securities acquired under favorable conditions, on a company-by-company basis. "Omaha's focus is specialized for clients who want more outsized returns in a longer-term perspective who are not really concerned about volatility," says Jean-Jacques, whose book, "The 5 Keys to Value Investing," was published by McGraw-Hill.

This strategy was created because equity dispersions at times become extremely elevated among the smaller capitalized, industrial-related companies with uncommon risk-return profiles that are significantly undervalued or are undergoing/likely to undergo significant change and are ripe for a three to five-year investment. In addition, Ocean Park has found that smaller industrial companies are often further behind in governance, stakeholder wellness and environmental issues that are often overlooked in the public marketplace.

AN EARLY CHANGE IN APPROACH

Jean-Jacques is an industry veteran, having invested more than $3.2 billion of client capital in the US and European public markets during various cycles over the last 20 years. During the first decade of his career, he conducted deep-dives into publicly-traded companies. He was an equity analyst in the 1990s at Fidelity researching companies for managers like Peter Lynch and later apprenticed with investor Michael Price at Mutual Series before managing long and short portfolios at multi-strategy platforms for a decade.

A graduate of Harvard Business School, the idea for Ocean Park took root around 2011 when Jean-Jacques noticed a structural shift was taking place in the public markets. Exchange-traded funds, quant funds, and rules-based strategies were becoming bigger players in the public markets as opposed to human-managed stock pickers. By 2016 the number of ETFs eclipsed the number of publicly-traded companies. As a result, mechanical strategies crowding into traditional factors and buy-and-hold strategies focusing on 5-plus year returns were causing opportunities with investment time horizons between short-term quantitative trading and longer-term investing to be inefficient.

With the opportunity identified and the firm's structure in place, the time came to raise capital. However, during the bull market of 2016, convincing potential investors of the need to have a portfolio focused on buying and shorting companies proved exceedingly challenging – particularly with a strategy named Ocean Park Low Net Fund.

Though there was interest in the firm's more opportunistic Omaha strategy, leadership wanted to pursue investors with a single strategy during its formative years. "We soon hit the road to meet with institutions, and that was when we hit our first wall," recalls Jean-Jacques. "It seemed everything we were doing was wrong. We were too small or too hedged; too industry-focused; our performance was not long enough, etc. Also, no one knew what the heck Low Net Fund meant and what the strategy was supposed to do."

The firm had to adjust its general approach. First, management changed the strategy's name from Ocean Park Low Net Fund to Ocean Park Absolute Return to better illustrate what investors should expect. Cash was spent mainly on items that would maintain performance. Capital investment in areas that had no impact on improving returns was reduced. For example, in 2017, Ocean Park relocated from a pricey office tower in New York City to a mid-sized, more affordable office complex in Stamford, CT.

Lastly, given the startup firm's limited resources, management initiated a one-degree-of-separation policy and focused exclusively on potential investors either the team or their friends personally knew. "In other words, no more blind dates," says Jean-Jacques. "We leaned heavily on those we already had an established relationship with to help us remedy any perceived shortcomings of Ocean Park as a new, emerging firm."

AN OPPORTUNITY IN A DOWNTURN

An example of Ocean Park's strategy in action came during the trade war of 2018 when the S&P 500 was down some 20%. As an opportunistic strategy, Ocean Park Omaha considers making investments only when the market is down at least 10% or the specific opportunity is down at least 30%. Since the firm already had an interest in Prologis Inc., a large industrial warehouse company, in its Absolute Return portfolio, they decided to look for an opportunity in this space for Omaha.

The investment committee noticed the industrial market enjoyed substantial asset appreciation from secular, fundamental tailwinds driven by e-commerce. As the team already had significant experience in the industry through their research on Prologis, they decided on a deep dive in the sector. In doing further research, they uncovered Liberty Property Trust (LPT), a smaller company in the same sector as Prologis and suitable for the Omaha strategy.

LPT shares were trading around $42 and had consistently traded at a discount to the company's net asset value while the source of return on capital employed was getting better. Also, LPT was operating in a consolidating sector with public and private equity firms actively involved in buying warehouses. Unfortunately, due to missteps and poor governance, LPT could not close the public market valuation gap, despite all of LPT's public peers trading at premiums to their net asset values.

The Omaha team outlined operational changes and deemed LPT's Board needed to be replaced.

The same team later uncovered critical stakeholder wellness concerns and the investor base grew increasingly involved and vocal. A year later, as operational improvements started to take hold, the Board was eventually replaced via LPT being acquired by Prologis for an approximate 30% gain. “And the only reason we had that opportunity was the trade war and panic in the market gave us the opportunity to pick a position in the company at a very good valuation,” says Jean-Jacques.

As we move into a post-COVID-19, more uncertain economy, two strategies that not only allow investors to compound a capital return but also do it at a faster rate than either one of those strategies individually, becomes increasingly compelling. “We cannot predict the future and we tend not to comment on the markets,” says Jean-Jacques. “What we can say is that once-in-a-lifetime opportunities are happening in the markets every few years now.”