

## Rising stars

# A TALE OF TWO EUROPEES

We identify the managers whose returns put them in line for future rating



**Amy Williams**

Reporter

In this month's Rising Stars we're focusing on European equities, a sector of two distinctly different halves. On one side are the core countries of Germany, Sweden and Poland that appear buoyant, boosted by export led growth. While on the other side is the ever more precarious looking periphery.

But as any good fund manager knows, the whole is greater than the sum of its parts, so who is seeing the bigger picture? Who is getting it right? Here we chart some of the rising stars in this contradictory sector, revealing the managers that are quickly making a name for themselves by delivering strong risk adjusted returns, but, due to insufficient track records are not yet eligible for a Citywire rating.

First up with a manager ratio of 1.59 is Rory Bateman, head of European equities at Schroders. Bateman has been running the firm's ISF European Large Cap fund since July 2008, so if he maintains his current form it won't be long until he is eligible to join Citywire's rated elite. Over the year to the end of February 2011, Bateman has posted a return of 26.81%, while the average manager returned 17.71% over the same period.

A theme the team successfully played in mid 2010 was that of a bond market bubble. In this instance, they moved the portfolio towards value rather than growth as Bateman explains. 'We played this through the insurance sector, we took a large position in Legal & General and also owned the Prudential. AXA especially came through for us as the company tilted itself much more towards profitable growth, there was a genuine improvement in profitability.'

While on the whole avoiding Europe's periphery, Bateman can find pockets of opportunity in global stocks that are listed in these browbeaten markets. 'We continue to avoid domestic peripheral European companies, however a firm such as Técnicas Reunidas, although listed in Spain does business internationally and so is exposed to energy refining growth globally,' he said.

More recently, on the stock selection side the fund has received a major uplift from French luxury goods conglomerate LVMH's takeover of Italian jewellery and watch maker Bulgari in March.

The deal values Bulgari at some €3.7 billion, a near 60% premium to market prices, so with a 2% position in the portfolio, the ISF European Large Cap fund has received something of a windfall. As Citywire went to press the performance figure to reflect this was unavailable.

Next up with a manager ratio of 1.57% is Wahid Chammas who runs the Janus Europe fund alongside Guy Scott, Carmel Welso and Adam Schor. With a one year total return of 28.17% this fund has returned more than Bateman's, however, on a risk-adjusted basis it slips into second position. The fund seeks to be broadly sector

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**Wahid Chammas**

Janus



neutral, with its experienced analysts each searching for the very best stocks that their field has to offer. 'We're obsessed with outperforming every sector, every sector has to deliver alpha,' said Chammas.

Chammas says that when dealing with an 'idiosyncratic' region such as Europe, stock selection is especially important. 'There could be no more varied continent, we own Spanish and Italian stocks but only where we really believe they are well placed to benefit from this chaotic macro environment.'

But it's not all about stock picking, as some macro themes do make it into the portfolio such as inflation, outsourcing and industry consolidation.

'We do think rates are going up so we're finding the companies with pricing power. We've seen that pricing power is not automatic – when food inflation is this high, we've found that a lot of companies have been able to sustain margins, but they may have to offset volumes.'

In third position with a manager ratio of 1.34% is Lee Freeman-Shor manager of the Skandia European Best Ideas fund, which has returned 31.90% over the reporting period, the second highest in this month's top 10. The fund takes a manager of manager approach whereby Freeman-Shor selects nine managers and gives them each a mandate to invest in their 10 highest conviction stock ideas.

'My job as the architect was to create an uncorrelated source of alpha. Unlike typical funds, the 90th stock is not someone's 90th best idea. There's no padding, no filling, no wasted capital,' said Freeman-Shor. 'For anyone to get into the portfolio they have to be able to manage a 10

stock portfolio. From my experience there are a lot of the managers who can't do it. It's largely behavioural, most struggle in the execution of ideas – so the actual buying. If property is about location, location, location, fund management is about execution, execution, execution.'

Some of the managers Freeman-Shor has been convinced by are the hedge fund and long only guru Crispin Odey, of Odey Asset Management; Didier le Menestrel of Financiere L'Echiquier, who Freeman-Shor describes as 'France's answer to Warren Buffet'; and Barings' growth manager James Buckley.

Achim Wagner and Birgitte Olsen from Swiss asset manager Bellevue take up fourth and fifth position respectively with the Bellevue Europ Opportunities and Entrepreneur Europe funds. While Olsen has the highest performing fund in our top 10, returning 32.70%, she falls into fifth position on a risk adjusted basis scoring a manager ratio of 1.23%. Her colleague Wagner fares better on a risk return basis with a manager ratio of 1.27%, but returns 27.47% – over 5% less than Olsen.

Wagner says 80-90% of his returns have been achieved through stock picking with the main contributors spread over various industries. He highlights some of the fund's recent best performers as German semi-conductor company Infineon, Danish healthcare stock Novo Nordisk and German car manufacturer BMW.

Wagner recently sold Australian-listed coal miner Rio Tinto, which he had held from the fund's launch in October 2009. 'We switched into Anglo American because we think that iron ore will peak this year and aluminium will suffer from high electricity costs.' Another tactical play is to try and figure out which Japanese companies will suffer from supply issues due to the recent earthquake and identify the European competitors that will benefit. 'We already held them and increased our exposure after the Japan quake,' said Wagner. These stocks, he says, are in the areas of fish farming, capital goods and semiconductor equipment.

While Wagner and Olsen share ideas, Olsen's Entrepreneur Europe fund is built on a distinctly different premise. 'In the fund we invest in entrepreneurial companies, the idea is that 50-90% of these people's family or personal wealth is invested into the firm so it is of high importance to drive the business forward.'

One of her favourite stocks is Australian listed industrials company Andritz, she explains her reasoning: 'The CEO holds 39% of the company, it has a very good order book, standing at about 1.5 times sales. It also won a contract in Brazil to provide infrastructure for three years to the one of the country's largest hydro power plants.'

She is also overweight in beverages. 'We think these are now the more defensive type of companies. The likes of Campari [a family owned firm] suffer less from raw material prices. Unlike food companies, a lot of the expense in these types of companies goes on advertising and promotion and with better data out of US, this is a good sign,' she said. ■

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Fund managers currently tracked by Citywire

citywireglobal.com



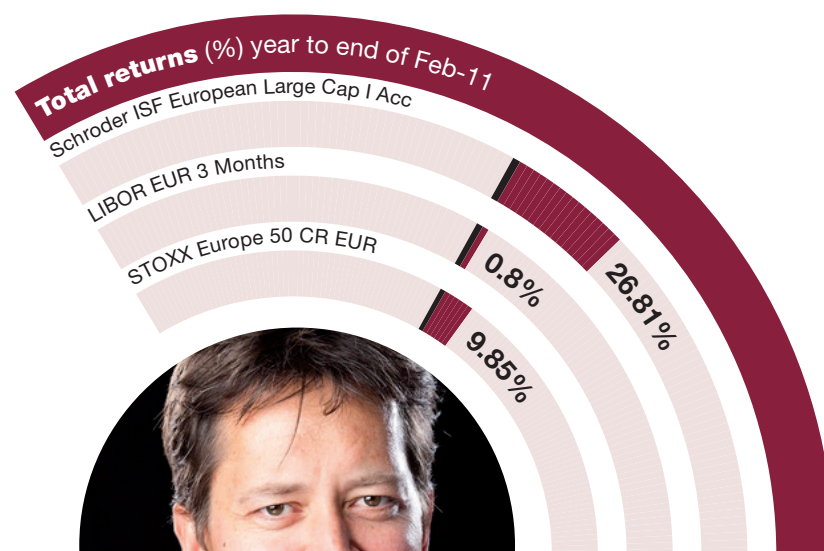
Name	One-year manager ratio	One-year total returns (%)	Contributing funds	Manager start date
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### TOP EUROPEAN EQUITY NEWCOMERS OVER ONE YEAR

Rory Bateman	1.59	26.81	Schroder ISF European Large Cap I Acc	01-Jan-09
Wahid Chammas	1.57	28.17	Janus Europe I EUR Acc	01-Nov-08
Lee Freeman-Shor	1.34	31.90	Skandia European Best Ideas A1	10-Apr-08
Achim Wagner	1.27	27.47	Bellevue F (Lux) BB Europ Opportunities I EUR	30-Sep-09
Birgitte Olsen	1.23	32.70	Bellevue F (Lux) BB Entrepreneur Europe I EUR	30-Apr-09
Daniel Hemmant	0.92	25.63	BNP Paribas L1 Equity Europe Growth I C	25-Nov-09
Guido Dette	0.82	25.32	RR Analysis TopSelect Universal	01-Jan-10
Firmino Morgado	0.73	24.31	Fidelity Funds - European Aggressive A EUR	05-Nov-08
Didier van de Veire	0.71	22.92	Petercam Equities Europe Cap, Petercam Equities Europe Recovery Cap, Petercam Equities Europe Sustainable Cap	10-Jan-09
Dean Tenerelli	0.65	24.03	T Rowe European Equity I EUR	06-May-09
<b>Average manager</b>		<b>17.71</b>		

## IN FOCUS

### Quality pays off for Bateman



**Rory Bateman**  
Schroders

### Rising stars Best and worst quarters



**Achim Wagner**  
Bellevue  
Bellevue Europ Opportunities, Entrepreneur Europe



**Wahid Chammas**  
Janus  
Janus Europe



**Lee Freeman-Shor**  
Skandia  
Skandia European Best Ideas

BEST QUARTER	BEST QUARTER	BEST QUARTER
Aug 2010 - Nov 2010 <b>11.28%</b>	Nov 2010 - Feb 2011 <b>7.7 %</b>	Aug 2010 - Nov 2010 <b>13.95%</b>
Compared to market <b>5.33%</b>	Compared to market <b>8.16%</b>	Compared to market <b>5.33%</b>

WORST QUARTER	WORST QUARTER	WORST QUARTER
Feb 2010 - May 2010 <b>1.93%</b>	Feb 2010 - May 2010 <b>3.35%</b>	May 2010 - Aug 2010 <b>1.55%</b>
Compared to market <b>1.03%</b>	Compared to market <b>1.03%</b>	Compared to market <b>1.66%</b>

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Over the year to the end of February 2011, Bateman has posted a return of 26.81%, while the average manager returned 17.71% over the same period.

'My role is to ensure that we get the very best ideas into the portfolio and we put a large amount of conviction behind these ideas, we don't replicate the benchmark,' says Bateman. To achieve this, he and his team run the fund with a strategy of two thirds stock selection, one third thematic overlay.

One stock that has served him particularly well of late is Italian jewellery and watch maker Bulgari. The fund received a major uplift in March when French luxury goods conglomerate LVMH took over the company in deal that valued the company at €3.7 billion, a near 60% premium to market prices.