

Bestinver Internacional: "We seek out inefficiencies"

Source: *ESPANSIÓN* 1/09/2003

• How "we filter stocks"

As the fund only has two managers, our first challenge is to OPTIMISE the time that we dedicate to evaluating companies (which is 95% of the time). For that, the first filter is experience: so, for example, we do not go looking for cyclical stocks that are priced at a P/E of 20x at the "peak of the cycle", nor do we buy any pharmaceuticals at a P/E of 40x, etc. Dominating this first filter is the cornerstone of the fund because from the start it excludes all overvalued sectors and companies.

We only ask for a copy of the annual report for the past five years when we have seen "something" in a specific company. That "something" may be: 1) a broker report that makes us realise that a good business is cheap; 2) comments by the company's executives about how good one of its suppliers, customers or competitors is; 3) conversations with other fund managers who share our philosophy and have found "something"; 4) again, experience, but this time at the most concrete level, i.e. when we evaluate company X and we like it, but its price is high, and now its price has fallen because of external factors.

These "filters" allow us to manage a set of 500 "attractive" companies in the US, Canada, Europe and Japan. For the moment we do not cover emerging markets, except for very real exceptions where we might know the management team very well. In an average year we read around 250 annual reports and we visit/talk to some 300 companies.

• Why have 100-120 stocks?

With Bestinver Internacional we "seek out inefficiencies". This means that our added value is more knowing how much businesses are worth in light of their characteristics rather than in knowing that company X is going to grow 20% five years in a row (something we think is impossible to guess). So, what we value at Bestinver Internacional is the CERTAINTY of companies' valuations whose prices change randomly from day to day.

As a result, having 100-120 stocks we can better take advantage of the change in the relative attractiveness of our investments. For example, if company X has gone up 70% and we start to see things that we don't like, we exchange it for company Y where nothing bad has happened yet it has gone down 10% since we began to buy. This "competition" goes on among the fund's stocks, with the result that we wind up OPTIMISING the difficult art of "knowing when to sell". With Bestinver Internacional, this is a simple question: when our target price is reached, or when we find a better alternative.

Against possible criticisms that 120 stocks "are a lot", we have to point out that our 25 best ideas comprise 45% of the portfolio. So we do not lose "leverage" on the scarce EXCELLENT opportunities that arise, and at the same time we are a) diversified and b) alert to changes in the relative attractiveness of valuations.

- **The big advantage of the international fund**

In general, the smaller a listed company is, the more inefficient its stock market price is since few brokers cover it, it is not in the indices, and many types of investors are not authorised to buy it. Because of the limited size of Bestinver Internacional, we can spend time on these companies (which furthermore are usually more transparent in their communication with investors since they don't have quarterly earnings targets which necessitate creative accounting to be reached) and invest a significant percentage of the fund in them. If we were 50 times larger, we would have to constrain ourselves to bigger companies where it is more difficult to find added value, though we do not exclude forming a fund for these types of companies as well.