



Spanish Banking 'Skeletons' Spook Top Fund Performer Bestinver

By Charles Penty

Dec. 23 (Bloomberg) -- The "skeletons" on the balance sheets of Spain's banks have made Bestinver Asset Management, whose funds are the country's best performing over the past decade, averse to stocks most affected by economic swings.

"We are very pessimistic on Spain because we think there are still skeletons to come out of the cupboards -- basically marking to market the true value of real estate on the balance sheets of the banks," Managing Partner Alvaro Guzman, 36, said in an interview. "It's not just the banks we're out of but anything that has a Spanish cyclical component."

The crash of a Spanish real estate market, which caught banks with 324 billion euros (\$462 billion) in loans to developers, will limit economic growth and tax revenues, perhaps forcing an eventual bailout of the country by Germany, said Guzman, who helps manage 2.8 billion euros at Bestinver. Half of the top 10 holdings at Bestinver's main Iberian fund are Portuguese and the fund manager prefers German debt to Spanish, in line with its negative view on Spain's economy, he said.

Bestinver, founded in 1987, began as a firm investing funds for the Entrecanales family, which controls Acciona SA, a company with investments in wind energy, construction and toll highways. Led by Francisco Garcia Parames, the firm runs seven funds and follows the so-called "value investing" philosophy of investors including Warren Buffett.

Germany's BMW

Bestinver funds are the best performing Spanish funds in the past ten years, according to Bloomberg data. Bestinver Bolsa FI, the Iberian fund, has had annual average returns of more than 15 percent. Bestinfond, a fund that invests in Spanish and international shares, has gained an average 14 percent. By comparison, the best performing fund over 10 years by Banco Santander SA, a Latin American stock fund called Santander Acciones Latinoamericanas FI, has returned 8.7 percent a year.

Bestinver Internacional FI, a non-Spain international fund whose top holding is German carmaker Bayerische Motoren Werke AG, has gained 73 percent this year, making it the best performing Spanish-domiciled fund that's not focused on the performance of Latin America or other emerging markets.

To be sure, Bestinver has been hit hard by an economic slump that saw monthly net outflows from Spain's 162 billion- euro mutual fund industry from May 2007 to August this year.

Bestinver's assets under management have dropped 34 percent from 4.2 billion euros at the end of 2007, according to the Spanish mutual and pensions fund association known as Inverco.

Portugal and U.K.

Bestinver's negative view of Spain doesn't mean there aren't good Iberian companies to invest in, said Guzman. The Bestinver Bolsa Iberian fund's top holdings include Semapa-Sociedade de Investimento e Gestao SGPS SA, a Lisbon-based holding company that controls Portucel, Portugal's biggest paper company.

Other holdings in the 362 million-euro fund include Ferrovial SA, a company whose holdings such as the U.K.'s Heathrow airport make it more of a British company than a Spanish one, said Guzman. Other investments include Acerinox SA, a stainless steel company, which is now a net exporter, and Repsol YPF SA, which is investing in Brazil, he said.

"You can see that in our portfolio there's nothing with a strong cyclical component," he said.

Guzman isn't alone in being negative on Spain as the budget concerns hurting Greek bonds spread to other southern European economies. It'll be important to see whether further damage to Greece's credit ratings sparks a "cascading game" where the "market just starts going after Spain or Portugal," Goldman Sachs Group Inc. Chief Global Economist Jim O'Neill said in an Dec. 22 interview with Bloomberg Radio.

Help From Germany

The main bets for Bestinver's international fund include BMW, which the firm plays by holding preferred shares, which trade at a discount to the ordinary shares, said Guzman. Another investment is Debenhams Plc, the second-biggest U.K. department store chain, whose shares have more than trebled this year.

Bestinver's downbeat view of Spain is based on the assessment that Spanish debt could rise quickly even though the levels of indebtedness still look low compared with countries like Greece, said Guzman.

Standard & Poor's lowered its outlook on Spain's AA+ credit rating on Dec. 9 and the ratings company's credit analyst Trevor Cullinan said the country's debt burden could more than double to as much as 90 percent of gross domestic product.

"In the end, there will be a problem and probably Germany will help us," said Guzman.