

## Paramés: Spain's finest fund manager stands firm

by Angus Foote on Jan 04, 2011

I met two investment bankers in London a few months back. They had devised an interesting investment strategy, picking the very best fund managers they could find, regardless of their asset class, then hedging out the respective market risk so they just kept the alpha.

Could they give some examples of the managers they had picked? They were reluctant to reveal all their selections, but had just invested with a Spanish-based equity manager. Were there many fund managers in Spain who deliver the kind of performance they were looking for? We've only found one, they said.

So you have invested with Paramés, I replied. A moment's startled hesitation, then they acknowledged it was obvious.

[Francisco Garcia Paramés](#) (pictured below) not only stands head and shoulders above most of his compatriots, his record also stands up against sector rivals right across Europe.



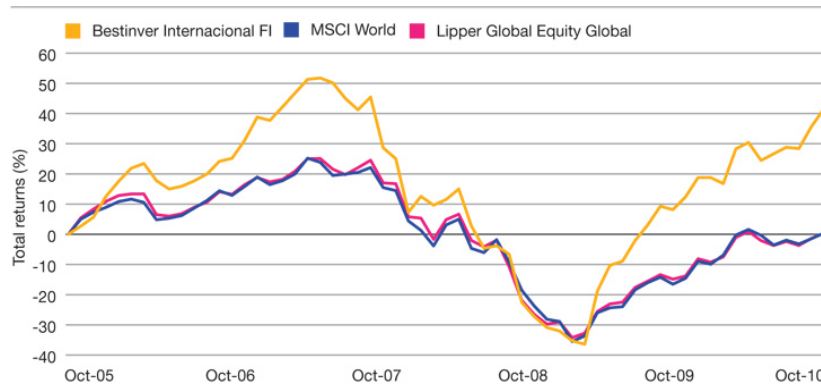
During 2008 Paramés lost money along with so many of his peers, but still beat the average manager. In 2009, his determination to stay true to style paid off once again and he was one of the top performers in his sector for the year.

The long term record of his funds speaks for itself. Over the five years to the end of October, [Bestinver Internacional](#), the global equity fund he co-manages with Alvaro Guzmán de Lázaro and Fernando Bernad Marrase, returned 41.6% in euro terms.

Over the same period, the MSCI World TR index rose 0.4% and the average manager in the equity global sector also returned 0.4%.

Meanwhile, the [Bestinfond](#) European equity fund, which is run by the same trio of managers, has returned 37.7% over the same five-year period while the Euro Stoxx 50 NR index has fallen 0.4% and the average manager in its equity eurozone sector has lost 2.1%.

**STAYING TRUE TO STYLE: PARAMÉS' FIVE-YEAR RECORD WITH BESTINVER INTERNACIONAL** Source: Lipper



Bestinfond was recently the subject of a special study by Lipper Thomson Reuters, authored by the data group's former head of Spain, Juan Manuel Vicente Casadevall, and sub-titled *A Detailed Quantitative Analysis of One of the Most Successful Equity Funds in Europe*.

Not surprisingly, given the figures above, the analysis found that Bestinfond had achieved outstanding absolute returns against all the reference indices used in the study, with lower absolute risk measures such as annualised volatility and maximum drawdown.

Lipper's quant analysts found the manager was very successful at stock selection, while asset allocation in terms of countries or sectors added little value or on occasion had a negative contribution.

If you're a stockpicker, it's probably exactly the kind of analysis you want to hear.

Looking back to 2008, it was [Paramés](#)' stock selection going into the crisis that paid off over the longer term – although the downturn hurt him at the time. 'We didn't have a single bank in our portfolio, we didn't have a single insurance company,' he recalls. 'But we were fully invested when the crash came. So we suffered like everyone else.'

One of the things that impresses me most about Paramés is that while he is very confident – he speaks with complete certainty but stays on the right side of arrogance – in listening to him, I never get the sense that he feels he has nothing to learn.

'We have learnt lessons from the crisis,' he says. 'Now we have a more concentrated portfolio. We have put more emphasis on quality. We also have a little bit more liquidity. We always have about 20 to 30% of very liquid stocks in the portfolio.'

One major consequence of the crisis of 2008 was that many investors became preoccupied with liquidity. But while this is understandable, no fund manager wants an investor base that is likely to suddenly sell en masse when markets take a downward turn.

'You have to have good partners in your fund as well as good partners in the companies where you are invested,' says Paramés. 'But that was the problem – a lot of people with weak hands.'

'We received a huge amount of cash at the end of 2008, so we were able to increase positions – that usually is not easy in such situations.'

'We don't really have any new names, but we have increased our stakes. For us liquidity is being right about your valuation. If we're right about our valuation, we will always have liquidity.'

'Also after a 50% fall, you clean the client base. People who shouldn't be invested in equities are no longer investors in equities. We now have the best portfolio we've ever had.'

Bestinver, which is owned by construction-to-green-energy conglomerate Acciona, has historically been in the fortunate position of not having to worry too much about finding new clients. The firm's investors are generally loyal and long term, and the group's marketing team is understandably keen to try and maintain what it describes as a 'high quality' client base.

The core of the investor base is institutions and foundations – effectively large family offices – who are by nature long term in their thinking. As Bestinver looks to promote its funds more widely in other European countries, maintaining this type of client base will become more of a challenge but the group's marketers are confident they can strike the right balance.

As assets under management grow the demands on the portfolio manager can change, and many boutique firms then start to find it tougher to generate continued outperformance. But the kind of growth that Bestinver has seen also brings power, as Paramés acknowledges.

'With size, we get better access to information and we can also work with consultants on a more structured basis,' he says. And in contrast to some mainstream active managers, he does not feel threatened by the rise of ETFs. 'The development of ETFs is very good for us. It also leaves plenty of room to invest in stocks that are not in the indices,' he says.

Since the financial crisis made the flaws in many large financial companies' strategies glaringly obvious, there have been calls for fund managers to make greater use of their voting power to influence the companies they invest in.

But for Paramés, activism is not on the agenda and he shows little enthusiasm for attending shareholder meetings. He has in the past attended many shareholder meetings that were 'like wedding parties' – so intimate he felt like a gatecrasher.

'Voting is a waste of time,' he says. 'We only invest in situations where we like what's going on.'

While he may not be an activist he does see asset managers losing contact with the final investor, however, and this concerns him. 'I don't see anyone in the investing world speaking about this,' he says.

Like so many of his peers, in the wider market Paramés has witnessed the increasing tendency of investors to take a short term view. Which is why the nature of his investor base is a key component in Bestinver's continued success, as it gives Paramés a degree of insulation from this pressure.

'I've come to think that the main competitive advantage that we have is our horizon,' he acknowledges. 'In most cases it's clear where the value is, it's not always clear what the next step should be. Some people say we are the first private equity guys in Spain, without knowing it.'

At the time of writing, his longest-held investment was BMW and the focus on the long-term view extends to the companies whose stock he buys. 'Eighty per cent of the companies we own are family controlled,' he points out. 'We like to have families involved in the companies, not in the day to day management but a controlling shareholding.'

Of course, some investors successfully generate profits by timing the market, but this is not for him. 'Trying to be short-term in the market – I don't know how to do that. For us, if there's volatility in the market, we're happy with that.'

My interview with Paramés took place well before the latest wave of eurozone debt fears was triggered by fresh revelations about continuing problems in Ireland's banks.

'In Spain we don't think the crisis has been solved,' he says. 'Spain, the UK, Ireland – they all have the same problems in the banking system. The real blame is with the person who put interest rates at 1%.'

Spanish equity has historically made up a big chunk of the Bestifond portfolio, and the Lipper allocation analysis mentioned earlier found the overweighting to Spain subtracted value during the period of its study.

With Spain's economy on the rack, Paramés' investors will probably be reassured to see that increasingly the Spanish/global mix has tilted away from the managers' home market. At the same time, the number of overall holdings has been reduced. 'The global part has become more concentrated,' says Paramés. 'In 2003, we had 150 stocks – now it's closer to 50.'

'We have become more conservative, which is natural as we are getting older. We've only added one or two new stocks in the portfolio in the past two years.'

Paramés has shown he is prepared to stick to his investment principles in difficult times and while he believes his portfolio is in better shape than ever, he doesn't anticipate being so severely tested again in the near future. 'We don't think we're going to have a 50% down market any time soon.' But while his own age may be having an affect on his approach, some things won't change. 'I believe in markets,' he says.