



Focusing on company quality got us back on track, says Paramés

Atholl Simpson, 19 March 2010.

The star of the Spanish asset management world, [Francisco Garcia Paramés](#), believes that his move to focus his firm's investment strategy on company quality in 2009 has laid the foundation for future outperformance.

His strong long-term performance made Paramés the leading fund manager in Spain and he also became widely-followed across Europe. Some of the group's funds suffered in the downturn but the global equity portfolio, [Bestinver Internacional](#), has continued to outperform. Over five years it has returned 28.2% in euro terms, while the MSCI World index has risen 6.4% and the average global equity fund has delivered just 3.2%.

'After navigating through a rather difficult 2008, in 2009 we remained true to our investment philosophy, continuing to work in the same way as we have over the last 20 years,' said Paramés. 'Going against the market trends, we continued to stand behind the companies that we held —and still hold— in our portfolios, making sure that their intrinsic value continued to be greater than that indicated by the market. We believed then —as we believe now— that the problem in 2008 lay not so much in the companies and in the business they engaged in as in the selling panic that certain investors fell prey to.'

'With 20/20 hindsight, we see how these exceptional circumstances have given rise to one of the best investment opportunities we have ever witnessed or indeed are likely to witness over the next few years,' he said.

During the fourth quarter, he said, his team had raised their valuations on 59 companies, lowering them on three. 'After several quarters during which we had lowered the valuation of the fund in order to focus on company quality even more than usual in order to make it more defensive, albeit at the expense of some upside, in the fourth quarter, we resumed our strategy of value creation,' said Paramés. 'Furthermore, we achieved this despite continuing to give priority to quality.'

'An example of our strategy is the Dutch information company Wolters Kluwer, which today is one of our biggest holdings in our international portfolio.' The market leading firm has a subscription-based business and brought high capital returns thanks to substantial entry barriers.

'The market may be inefficient in the short run, but in the long term it tends to be efficient. This is the fundamental premise on which our investment strategy is based,' said Paramés.

Following on from this strategy, he also sold some holdings such as Leoni, a German supplier in the car industry, which no longer offered the quality performances he was after.

The firm's Chinese analyst, Herman Chan, also shared his views on the country's growth saying he believes it will overtake Japan in 2010 and become the second-largest economy in the world.

'In the longer term,' says Chan, 'after a decade of awesome economic growth, we believe that China will continue on a similar trajectory given that the underlying foundations on which its growth is based are sustainable.'

Paramés believes that the changes the firm has made to its investment strategy also gave them the opportunity to improve their management methods and make them stronger.

'After these improvements, we do not think it likely that we shall see declines like those we saw during the recent crash,' believes Paramés, 'even when faced with a repeated market scenario of the greatest pessimism combined with the lowest liquidity.'

The firm also diversified its distribution methods recently by offering its products via internet and telephone for the first time.

'It must also be said that as a company, we have used this crisis to make improvements in other areas, both commercial and administrative, that might have begun to encounter difficulties in dealing with the sharp growth in assets under management prior to the shakeout.'

'We sincerely believe that we are now in an altogether enviable position from which to face any and all future challenges.'