

Leading Spanish fund manager bets against Spanish companies

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Bloomberg News

Tuesday, June 5, 2007

MADRID: Francisco Paramés, the best-performing fund manager in Spain for the past five years, got a hand-written note from Warren Buffett a few months ago seeking advice on investing in the country. Paramés was thrilled to be asked, but he was not enthusiastic about the Spanish economy.

Paramés, of Bestinver Asset Management, based in Madrid, predicts that a real estate crash in his homeland will spread, dragging down companies throughout the country. Lending by banks and other credit institutions has almost tripled in Spain since 2000.

"A lot of people are going to be unemployed," Paramés said. "Our most important bet is the one you can't see: that we don't bet on the Spanish economy, which is going to go through some very rough times because of the credit bubble."

Paramés is telling people to increase their investments in global shares at the expense of Spanish stocks. He is also loosening the restrictions that require him to keep mostly Spanish stocks in his main Iberian fund, buying more Portuguese shares and quasi-local companies like Arcelor Mittal, the biggest steel maker in the world. It is based in Rotterdam but has a share listing in Madrid.

The strategy is paying off for Paramés. Bestinver Bolsa, the Iberian stock fund that he manages, had annual average returns of 27 percent over the past five years, making it the best performer among all Spanish market funds, according to data compiled by Bloomberg.

His returns have been "spectacular," said Fernando Luque, an analyst at Morningstar in Madrid. "He's been faithful to this value-investing-type strategy."

The Bolsa fund gained 17 percent in the five months that ended Friday, almost twice the 10 percent return for the Spanish benchmark index, the IBEX 35. The fund has outperformed the IBEX and the Dow Jones Stoxx 50 index of European stocks every year since 1999.

The biggest fund Paramés runs, the Bestinver mixed fund, had about 18 percent of assets in Spanish stocks at the end of March, down from 19 percent in December and about 50 percent as recently as 2005. The rest was in European equities or fixed-income investments. It has returned an average of 25 percent in the past five years, beating the Dow Jones Stoxx 50.

A month ago, Paramés started advising clients to cut their Spanish holdings to 30 percent of investments, down from 35 percent previously and 50 percent in 2003.

Paramés has not bought shares of Spanish real estate developers for the past five years. Metrovacesa, the biggest Spanish real estate company, climbed 156 percent in 2006. Astroc Mediterraneo, a real estate company based in Valencia, Spain, sold shares in an initial public offering in May 2006 at €6.40, or about \$8.15 at that time, and they finished the year up sixfold.

This year, Astroc Mediterraneo is down almost two-thirds, while Metrovacesa is about a third lower. The Bloomberg Europe real estate index, which has six Spanish companies among its 15 most heavily weighted stocks, is down 0.7 percent this year after gaining 39 percent in 2006.

But Carlo Digrandi, a banking analyst at HSBC Holdings in London, said concerns about a Spanish real estate collapse were exaggerated. Spain will remain "buoyant," with the economy growing 3.1 percent this year and 2.5 percent in 2008, outperforming Europe as a whole, he said in a report last month.

Carlos March, the billionaire co-chairman of Corporación Financiera Alba, said last month at a news conference in Madrid: "I expect the landing will be relatively soft." Alba is the biggest shareholder in Actividades de Construcción y Servicios, the biggest Spanish builder.

Paramés prefers to be cautious.

"Credit has increased by 25 percent a year for six years," Paramés said. "That's never happened anywhere else in the world, even China."

Pablo Fernandez, a corporate finance professor at IESE, the business school based in Barcelona, said Paramés might be taking risks by investing in stocks with low market values.

Smaller stocks are prone to fall more than larger stocks in volatile markets, he said. Of 31 stocks listed as being held in the Bolsa fund at the end of 2006, at least 12 were for companies with market valuations of less than €1 billion, or \$1.34 billion.

Still, smaller stocks have accounted for a lot of gains in the funds Paramés runs. Viscofan, a maker of sausage casings based in Pamplona, Spain, with a market value of €334 million, made up 3.6 percent of the Bolsa fund at the end of last year. The shares are up almost 25 percent in 2007. Campofrio Alimentación, a meat processor based in Madrid with a market value of €780 million, had a 2 percent weighting. Its stock is up 7.3 percent this year.

Paramés sold shares this year in Altadis, a tobacco company based in Madrid that composed 7.2 percent of the Iberian fund's assets last year to move money into Portugal. His Portuguese holdings include Galp Energia SGPS, an oil company, and EDP-Energias de Portugal.

Paramés started buying shares last year in Telefónica, based in Madrid, after avoiding it for eight years. Investors are not pricing in the full potential of the company's broadband services, he said. The shares are up 7.8 percent this year.

His stake in Arcelor Mittal dates from last year. The Spanish-traded shares of the steel company are up 46 percent this year. He also owns Madrid-based Mapfre, the biggest Spanish insurer, whose shares are up 13.4 percent this year.

Paramés honed his investment strategy by studying Buffett and Peter Lynch, the former manager of the Fidelity Magellan Fund.

Paramés read "One Up on Wall Street," written by Lynch and John Rothchild, shortly after starting at Bestinver. He won permission from the Entrecanales family, which owns Bestinver, to follow the investing styles of Buffett and Lynch.

"I got to Warren Buffett's ideas and all the value investing at the very beginning," he said. "I wasn't biased by any other kind of investment."

While Paramés's 34 Spanish holdings trade at an average of 11.5 times their 2007 estimated earnings, his 98 non-Spanish holdings tend to trade for less than 10 times earnings. His largest international holdings include Metall Zug, based in Switzerland, and the German companies Fuchs Petrolub, Escada and Bayerische Motoren Werke.

Paramés wrote Buffett three months ago to offer him a stock tip on a company outside Spain. Paramés declined to disclose his reply, saying that Buffett might still act on it.

"He actually answered me in a hand-written letter," Paramés said. "He thanked me for the idea and also asked me a favor: if I could find very good private companies in Spain big enough for him to buy. So that's what I'm doing now."

Paramés did not say when he would be able to recommend a Spanish company to Buffett, and he would not expect much in return. "We won't need a fee, only a dinner with him," Paramés said.