



Morningstar Qualitative Managers of the Year (22-02-2010)

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This year, we're giving out our first ever [Pan-European Qualitative Fund Manager of the Year Awards](#). The awards are based entirely on the work of our team of more than 25 qualitative analysts across Europe and are meant to recognise managers who had a strong 2009, but who we also believe will do well for investors in the long-term and who have shown themselves to be good stewards of investors' capital.

2009 provided our staff with something of a conundrum. On the one hand, after two horrendous years of markets roiled by the credit crisis, investors finally saw a strong rally that helped them claw back some of their losses. On the other, the rally was led by lower-quality, speculative issues. Hence, the funds that did best were often those that took the most risk. While that happens to have worked well last year, it's rarely a strategy for sustained success and our own research has shown that investors often misuse higher-risk offerings, buying after runs and selling after downturns.

Our analyst staff vigorously debated the pool of nominated managers, and we're confident in saying that we believe them to be among the very best in their respective disciplines and the most deserving of our awards this year.

Morningstar Pan Europe European Equity Fund Manager of the Year Francisco García-Paramés, Alvaro Guzmán de Lázaro & Fernando Bernad of Bestinver Internacional

2009 return: 71.9% EUR/57.9% GBP
2009 percentile rank in category: 6
Qualitative Rating: Elite

This small-cap oriented European equity fund undeniably had the wind at its back last year, but that's not why we've selected it. Indeed, that was something of a strike against it given the risks inherent in the area and the relative ease of putting up big numbers as a small-cap manager in such an environment. That said, it's hard to identify a team who had a better year for investors and also evinces so many of the qualities we look for from a qualitative point of view. Purely from a performance perspective, García-Paramés and his colleagues delivered in spades: Bestinver Internacional returned 71.9%(EUR)/57.9%GBP in 2009, and while small-caps did well, the managers clearly added value well above and beyond the general strength of the asset class. Indeed, the fund beat the average offering in the Morningstar Europe Small-Cap Equity category by the huge margin of 23.7 percentage points in EUR terms (+21.7 in GBP).

The team achieved those results using the same disciplined approach to value investing García-Paramés has employed here for the past decade (the fund's Morningstar style trail clusters tightly in the small-cap value square, reflecting that consistency). Fundamentally, the managers apply the philosophy postulated by Warren Buffett and Benjamin Graham, seeking very high-quality companies with solid management selling at strong discounts to their fair value, and exploiting market inefficiencies by having a very long-term approach. In 2009, for example, the fund benefitted from a number of individual holdings that had been out of favour, including Debenhams plc, Virgin Media, and Océ NV among others. Although the fund had a large industrial materials stake in the periods, we note that consisted mainly of relatively mundane machinery and chemicals firms, not the higher-beta resources issues that many others benefitted from.

Like any small-cap fund, the absolute risks are high. In 2008, for example, the fund posted a large absolute loss of 44.7% EUR/27.2% GBP. But even then García-Paramés and his team showed an ability to conserve shareholders' capital—the fund's loss was smaller than 83% of its Morningstar category peers'. Longer term, the team has guided the fund to one of the best records around, delivering top-decile returns for investors over the past 3, 5 and 10 years.

From a stewardship perspective, we're please to note that all three managers invest all or most of their own money in Bestinver funds, a practice we believe clearly aligns their interests with those of fund investors and shows their own confidence in the firm's ability to deliver. We also think well of Bestinver as a house; it shuns the all-too-common focus on "hot-dot" asset gathering and focuses on delivering good results for investors at funds that make good use of the skills of its managers. Indeed, it runs just seven funds, and has only launched one new offering in the past decade.