

# CONTINENTAL CAPERS

Global Value Investors Fund prefers 'hard working and well-managed' European industrial stocks

**MALAYSIAN-BORN** Roy Chen shares some investment philosophies with US billionaire Warren Buffett.

Both are value investors and both currently have a strong interest in the potential of companies in Europe.

Buffett last week went on a high-profile shopping trip to Europe — a four-city trek that took in Frankfurt, the Swiss city of Lausanne, Madrid and Milan.

Chen's three-year-old Global Value Investors Fund, which now has some \$800 million in funds under management, has a heavy weighting to investments in Germany, France and Austria.

"The country where we have the biggest weighting is Germany, where we have about 17 per cent of our funds," says Chen, who is both managing director and head of investments for GVI.

"We have quite a cross-section of investments in German companies. Thirteen of our total pool of 66 stocks are German. It is very strong industrially," says Chen, who did a chemical engineering degree at the University of NSW.

Chen worked in power generation and then spent some years with ICI working in its petrochemicals and plastics division before becoming a sell-side analyst and eventually moving into funds management.

It's a background that explains three major investment sectors for his fund — utilities, industrial companies and telecommunications.

Chen says the fund takes a bottom-up approach, looking at about 10 global sectors, and does not target specific countries.

But the approach has seen it invest in two major German utilities, three major German chemical companies, including Bayer and BASF, airline Lufthansa, Deutsche Post, Frankfurt Airport, the Port of Hamburg and the Post Bank of Germany.

Chen left Australia in 1989 to work with broker Intersuisse in Taiwan on the suggestion of mining entrepreneur Andrew Forrest, now Australia's richest man.

It was the beginning of a 10 year stint in Asia for Chen, who came back to Sydney to work with Anton Tagliarferro's boutique funds management group, Investors Mutual Limited.

GVI is half-owned by its listed associate, the Treasury Group, a holding company for a number of boutique fund managers.

#### What is your investment approach?

We have an investment team which is given a number of sectors to look at. They don't do it country by country or region by region.

We look at 10 global sectors with the three biggest being utilities, industrials and some telecommunications companies.

The country where we have the biggest weighting is Germany. The US is No 2, France is No 3 and Austria is No 4. We don't use an index



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approach. We select on a bottom-up basis, sector by sector. We are looking for companies with predictable earnings streams.

The fund has a dividend focus.

We like to invest in companies that can grow their earnings and can translate those earnings into higher dividends.

#### Why do you like German

companies?

Germany is very, very strong industrially. Its industrial production is doing very well — better than the US. The economy is very rich and export-orientated. It has a growing trade in exports to Asia. It is not as consumer-orientated as some of the Anglo-Saxon economies.

The first bank we bought was the Post Bank of Germany. It is the only one of them we own that is actually making money. We own Daimler, which is now without Chrysler, but we don't own Deutsche Telekom as we are not impressed with management's track record with the company.

I find German companies are very good managers and have a strong work ethic.

#### Why are you interested in Austria?

Austria is a smaller version of Germany.

We have invested in five Austrian companies — Telecom Austria, Vienna Airport, the Austrian Post office, electricity company Verbund and oil and gas group OMV.

#### All of your companies are offshore. Would you invest in Australia?

We can invest in Australia but we tend not to do Australian stocks.

#### Do you hedge your investments?

We hedge 80 per cent of our portfolio back to the Australian dollar. We are not a currency manager. We don't want to take currency risk for our investors. Currency is not something we know too much about.

So this means the rising Australian dollar has not hit us like some of our competitors who have been hurt by it.

#### What areas do you stay away from?

We have never held any US financials in three years we have been operating. We have been avoiding them as much as we can.

But we are still finding some attractive financials in which to invest. We have five or six holdings which make up 8 per cent of the portfolio. But this is a lot less than the Morgan Stanley Capital International Index, which has a 25 per cent weighting.

Because of the problems we are now seeing in the financial sector in the US market, the next area we have been concerned about is the consumer discretionary sector. We have been flagging our concern about this sector.

At one point we had about 12 per cent in this sector but we are now down to around 6 per cent. This will be the next sector to be affected.

With oil prices at more than \$US120 a barrel,



Preference: Roy Chen's portfolio is weighted towards German companies

Picture: Bob Flinlayson

## Five hot tips

**FOCUS** on the long-term fundamentals. Even if it is a good company, you don't want to overpay for it.

**MAKE** sure you understand the business model of the company. Managers have to be able to clearly articulate their business strategy to investors.

**LOOK** for companies with strong balance sheets with very little debt.

**INVEST** in companies which can lift their earnings in a sustainable way.

**LOOK** for companies which can thrive in difficult circumstances.

#### people are cutting back their discretionary spending — but you own shares in Nestlé?

Nestlé happens to be one of the best managed food companies in the world because they manage their costs. We are highly selective in industries where input costs can be a problem. With oil prices at \$US125 a barrel, airline companies are going to be hurt. But Singapore Airlines is leading the field, thriving in a very, very competitive environment.

#### Do you trade stocks?

We are value investors. We focus on companies with an attractive valuation. We are not momentum traders. We tend to buy and hold for the long term.

We tend not to trade short as well. We have a three to five-year time horizon.

Every now and then some stocks get overbought and become overvalued, so we may have to sell out of the stock.

A third of the companies we bought at the beginning (in 2005) are still in the portfolio today.

#### How much cash to do hold?

We have held about 10 to 12 per cent cash for the last 12 months. I am still quite cautious.

For the first couple of years we were fully invested — up to 95 per cent — but now we are holding more cash.

Every night I am finding more opportunities for us to buy a little bit more of the sort of thing we like, which others are happy to throw out.

Sometimes a stock goes down by 5 to 10 per cent for a good reason. Telecoms have been very out of favour. But we look at the fundamentals and there are some companies where we are happy to add a little more to our portfolio.

#### What is your dividend policy?

Our own fund policy is consistent with the companies we invest in.

We pay a very good dividend. We have a unit price which is the equivalent of nearly 4 per cent dividend yield.

#### But you don't have franked dividends?

No.

#### What are your growth plans?

The global universe is huge. There is no limit as to how big our platform can be. If you look at Platinum it manages around \$20 billion. Capacity is not an issue.

We can be a lot bigger than we are today and still do the same thing.