SPARINVEST

Don't bet on the trend

Sparinvest is one of the handful of asset managers with impressive long-term track records. Its Value fund has returned 9,9% in US dollars since it was launched in 1998. This might not look impressive at first sight, but it was during a period of volatile global markets when the MSCI world index returned just 3,6%. Cumulatively, the returns are more than double the global index.

Fund manager Jens Rasmussen, not surprisingly, is telling everybody to look long term. The short-term performance has been dismal, with the fund down 12,5% in the first 10 months of 2011 while the MSCI has had a more modest 3,1% negative return.

Rasmussen argues that on a 10-year view, value shares have given a better return than fully priced growth shares over 30 years, except for the two years leading to the dot-com bubble and this year. Sparinvest is a ruthless bargain hunter: it buys shares at a 40% discount to intrinsic value and sells them after the discount unwinds. Holdings in the most recent report include Benetton, construction group Hochtief, Peugeot, Shell, J Sainsbury and Sony.

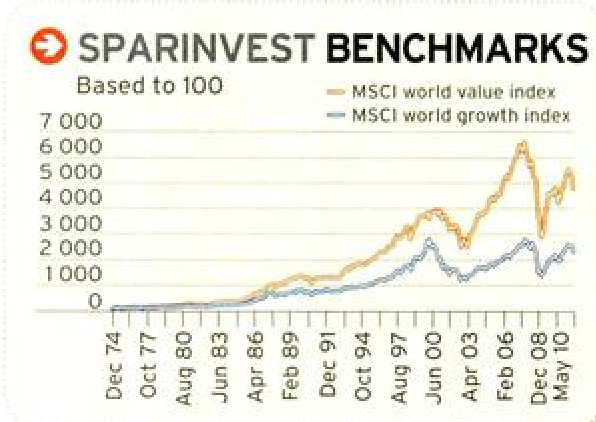
Rasmussen says the fund's overexposure to the eurozone (32% of the fund) and Japan (24%) caused the poor short-term performance. He admits that the European debt crisis is a real concern, as is the Japanese recovery. But he says fear and panic are driving the market.

"It has forgotten to look at the fundamentals: balance sheet, earnings and pricing have not made a difference in recent months," says Rasmussen.

"European shares have been hit indiscriminately. Hochtief is European-based but Europe accounts for just 13% of its revenue."

He argues that in the 2008 financial year everything ran at high speed, so deceleration was brutal. But now corporate balance sheets are much stronger, and because of restructuring and cost-cutting, breakeven levels are lower. Investors with Sparinvest will be counting on a recovery, assuming that, as in the past, share prices will revert to the mean.

Coronation chief investment officer



SOURCE: SPARINVEST

Karl Leinberger says that over the past 11 years the returns from global large caps have been dismal. Many are still at a sharp discount to their 2000 peaks — Vodafone is down 57%, Cisco 56% and Pfizer 60%. Yet they have continued to be highly profitable businesses.

"There has been a huge contraction of their earnings multiples — Vodafone's is down from 200 to 10,5, Walmart's from 40,6 to 12,3. We used to believe that SA companies would never trade on the same multiple as their peers, but they now exceed them, with Shoprite on 24 and Massmart on 36."

Leinberger says Vodafone gives a 5,5% dividend yield and it has huge free-cash flow, with 25% of profit from emerging markets. Anheuser Busch Inbev has a lower rating than SABMiller, even though its margins of 30% are almost twice SAB's 17%.

Investors using a rear-view mirror will invest quite differently from those using the windscreen, Leinberger says. Global equity has been the worst-performing asset class over the past 10 years (after being by far the best in the previous decade.) Leinberger believes it will be the best performer once again, with a 12%-15% annual return over the next 10 years. The worst asset class is expected to be global bonds, with no more than a 9% return.

Locally he expects equities to outperform bonds and property. **Stephen Cranston**

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– KARL LEINBERGER

Hetty Zantman