

The global approach to value investing

Breakfast with Jean-Marie Eveillard

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On October 18th, hundreds of investors and investment management professionals poured into College Hall at the University Club in midtown Manhattan to attend the 15th Annual Graham & Dodd Breakfast. This event organized by the Heilbrunn Center for Graham and Dodd Investing here at Columbia Business School has become a true tradition for the investing intelligentsia in New York City. The topic of this year's event was *Value Investing in International Markets*, and who better than Jean-Marie Eveillard to be the keynote speaker? Mr. Eveillard started his career in 1962 with Société Générale. He moved to the United States in the early 1970s as an investment analyst for the Société Générale International Fund (now known as First Eagle Global Fund) in New York.

It was in New York that Eveillard was introduced by two Columbia Business School alumni to the writings of Graham and Dodd. According to Mr. Eveillard, this style of investing immediately appealed to him, due both to the idea of ownership and the inherent concept of order that intrinsic value implies. When he became portfolio manager in 1979, Mr. Eveillard started applying the teaching of Ben Graham with a great degree of success. Over the past 26 years, the fund averaged annual returns of 15%, and Eveillard and his co-manager, Charles de Vaulx, were named Morningstar's International Managers of the Year in 2002. Mr. Eveillard retired as a portfolio manager at the end of last year.

Mr. Eveillard's speech gave the audience some great insights into both his personal investment style and applications of value investing in the global arena. Mr. Eveillard still sees significant opportunities to find value in Europe, although these opportunities are harder to find than they were a few years ago. Japan, he said, also looks interesting, with several companies trading with net cash in excess of market cap (arguably an even more attractive situation than Ben Graham's net-net valuation). In addressing the issue of why, with the decline of the dollar, we have not seen more takeover activity in the U.S., Mr. Eveillard simply responded that U.S. companies are probably still not cheap enough on a global basis.

Mr. Eveillard also took issue with the concept of a "value trap." When asked if Germany could be considered a value trap, he observed that, to him, the concept of a value trap does not really exist, and characterized it as "an invention of growth investors". Eveillard claims that the important distinction to make in this regard is between temporary capital losses and permanent impairment of capital. And, Eveillard believes, this is really the only important risk that value investors need to worry about. Volatility, he says, is not the enemy for value investors, impairment of capital is. In the international arena, Mr. Eveillard does not see significant risk-differentials between investing in developed countries and in the US; the main distinction that has to be drawn is investing in developed vs. emerging countries. Although his fund had several positions in companies in South Korea, Mr. Eveillard showed some reluctance in applying value investing concepts to countries such as China and India. His main concern? Accounting issues, especially in identifying when capital is truly impaired.

Where does Jean-Marie Eveillard's investing philosophy fall along the value investing spectrum? Eveillard described the range as Ben Graham (net-nets) on one end and Bill Miller (growth) on the other- with Buffett in the middle (buying franchises). According to Mr. Eveillard, he stands in between Ben Graham and Warren Buffett. He sees Graham's teachings as more static, with a true focus on margin of safety, and Buffett's approach as more willing to accept lower discounts in exchange for a concept of value that comes more from a company's future prospects. The greatest operational difference between the two styles is, in his opinion, labor intensity. With a large staff of analysts, Eveillard considers the Buffett approach more compelling, but with the smaller staff initially employed at First Eagle, the Graham approach seemed more efficient (and he could find these investments - especially abroad). As the number of analysts at the firm grew, Mr. Eveillard started to focus more and more on the qualitative aspects that Buffett's doctrine highlights.

As a true value investor, Mr. Eveillard made it very clear that he steers away from popular sectors and trends, performing bottom-up research, and working on an industry basis rather than a country one. The global focus that he employed as a fund manager allowed him to look for opportunities where most other investors could not. He emphasized that there is great value in taking contrarian views to the market and in taking the long term view. Value investing, he conceded, often seems to go against human nature: "You have to be very patient. You're not running with the herd -- and it's much warmer inside the herd."