

FUNDS

A strategy modeled on Buffett's

By Adria Cimino

PARIS: While many French teenagers in 1983 were spending their spare time listening to music or playing soccer, Philippe Joly at 16 was investing in companies like Bolloré Investissement.

"I had my own little portfolio, and it was my passion," said Joly, who oversees a value fund based in France that has shown the best performance this year and last year. "I always had this curiosity to find stocks that no one else looked at."

Joly has stuck with that strategy. His \$255 million Sélection Action Rendement Fund at Société Privée de Gestion in Paris has gained 9 percent this year, surpassing the 30 others in its category. By contrast, the Dow Jones Stoxx 600, a European benchmark index, is little changed.

PagesJaunes, a French yellow-pages publisher, and Mercialis, which manages shopping centers, have been among the fund's best performers in 2006, gaining 9.2 percent and 20 percent, respectively.

The fund, which puts at least 60 percent of its money in French stocks and the rest elsewhere in Europe, had a return of 29 percent last year.

Joly seeks so-called value stocks, shares of companies whose assets, cash flow, earnings outlook or dividends make them worth more than their current market value. He said that he modeled his investment style of buying out-of-favor companies on that of the investor Warren Buffett.

"It's difficult to listen to any other strategy," he said. "This one works."

Joly attributes his own success to his practice of studying a company closely for about three months before buying

shares and visiting with management about once a quarter.

"I see myself as someone taking a stake in the company," he said. "I have a real role. I'm not there for just a few weeks. That's the key."

Joly looks for companies with low valuations that "the market has forgotten." He used as an example Etablissements Poujoulat, a French chimney manufacturer, whose shares have risen 48 percent this year. The company, which trades at about 14 times earnings, said this month that its 2005 net income had jumped 37 percent.

Not everyone agrees with Joly's bargain-hunting approach, particularly after three years of stock market gains.

"Value stocks have disappeared," said Christophe Donay, a strategist at Kepler Equities in Paris. "Value investors have difficulty finding ideas. That's a problem, and it won't improve rapidly unless the market declines quite a bit."

Concern that record oil prices will prompt central banks worldwide to keep raising interest rates to fight inflation triggered a drop in stock markets last month. Joly's fund fell 5.5 percent in May, though he said he was not worried.

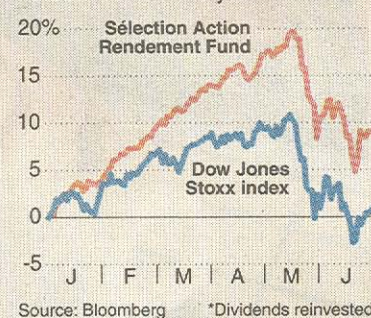
"Ninety percent of the drop is behind us," he said. "Now, we're looking to upcoming earnings reports. We're optimistic."

Earnings for companies in the Stoxx 600 are expected to rise 12 percent in 2006, according to analysts' estimates compiled by FactSet Research Systems in London. That is half the increase of 2005, though up from the 9.2 percent that analysts were predicting a month ago.

After the recent market slump, Joly said, he was buying shares of Toupargel-Agrigel, a French groceries

Seeking value

Percent return this year.*



delivery service, and Sanofi-Aventis, one of the largest drug makers.

"The stock market hasn't liked it for the past year and a half," he said. "At a certain point the market comes back. Sanofi has an attractive pipeline and has been announcing good news."

Sanofi last week said that it received approval to sell its Acomplia weight-loss drug in Europe after scientists gave their support in April. Toupargel stock has gained 23 percent this year, while Sanofi shares are little changed.

Three months ago, Joly also added to his shares of Vinci, the world's biggest builder, on speculation that the company would be bought. Veolia Environnement, the largest water utility, said this month that it was considering a bid for Vinci, before abandoning the plan a few days later. Vinci said last month that it could exchange real estate assets for a stake in the French home builder Nexity. Vinci has advanced 9.1 percent this year.

About 90 percent of Sélection Action Rendement is made up of shares that Joly chose when he created the fund in June 2004, and he typically aims to invest for a minimum of three years.

"I always say, 'Be patient and don't turn back,'" he said. "The strategy works the best for the long term."

Joly's biggest positions are Société Marseillaise du Tunnel Prado Carénage, which operates a tunnel in Marseilles, and Total, Europe's biggest oil refiner.

Both shares were among the first stocks in the fund. Tunnel Prado has increased 76 percent since that time, and Total is up 30 percent since it joined the fund in June 2004. While Joly has not sold any shares in Tunnel Prado, he has been reducing his position in Total, selling shares most recently about a month and a half ago.

Unlike most fund managers, he does not measure his fund's performance against a benchmark. "Benchmarks are the negation of fund management," he said. "A benchmark with stocks chosen by a scientific committee doesn't make a good portfolio."

Leading mutual funds: Europe

Best performers, in the week ended June 19.

	Returns			Assets, in millions
	One week	This year	Past 12 months	
LuxTopic - Aktien Europa	1.3%	7.2%	17.1%	\$21.3
Activest EuropeGrowth	0.8	5.7	12.9	227.2
Lux-Extra	0.7	5.1	10.8	2.6
RCM High Div Europe IX EUR	0.4	11.8	n.a.	114.7
GLG European Equity (Distr) A	0.4	9.4	14.7	2.1
Aviva Funds Pan European Eq P1	0.2	11.2	16.7	50.6
Bayern LB Europa Fonds AL	0.1	7.7	14.7	30.3
DKB Europa Fonds TNL	0.0	7.3	13.6	24.6
Scor Picking	0.0	16.2	26.7	87.4
CIBC PCF European Equity	-0.1	9.1	13.6	4.1

Source: Standard & Poor's

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