

AAA-rated duo at SPGP tap into eastern and southern Europe growth story

Star European equity managers Marie-Jeanne Missoffe and Dominique Delaporte see great opportunities in emerging Europe.

Missoffe and Delaporte have been running the Cap Grande Europe fund at French boutique SPGP for just over six months. The duo left Ixis Asset Management (now Natixis Asset Management) to join SPGP, which also counts French star Roger Polani within its ranks. The pair have kept their track record in Citywire's analysis for which they are AAA-rated in France for excellent three year risk adjusted performance.

The fund's focus is the theme of convergence in Europe and the portfolio is based primarily around Eastern and Southern Europe. A minimum of 75% must be invested in EU listed companies, a rule that makes the fund eligible for a French tax-efficient savings plan. The remaining 25% is always fully invested with Russia making up 17% and there is also exposure to Turkey and Kazakhstan.

As co-managers the roles are split across the geographic zones. Delaporte says: 'Within my area, which comes outside the eurozone, I use top down analysis. You need this to look at interest rates, economic conditions and the country's merits. But as stockpickers we can still buy a special situation if it's in a country we don't like.'

The pair are excited by the areas they concentrate on and think it makes sense to invest in countries where GDP is increasing and which are geared for growth. Delaporte says, 'Eastern Europe is like Western Europe was in the 80s. We're seeing privatization, IPOs and thematic in economic development. Banks, healthcare and pharmaceuticals are themes that succeeded and we can replicate this. The more you go east the less developed countries are, which means you can pick up growth cheaply when it is at the very beginning.'

Aside from Russia the strongest country allocations are in Poland and Greece. Missoffe says: 'We reduced Spain over the last quarter of 2007 and moved more into Greece as there were more opportunities and the situation in Spain is less easy.'

At that time the fund started to be moved into defensives, as Missoffe explains. 'We felt we were too much in industrials so we bought into defensive stocks by being opportunistic in healthcare and increasing utilities. Small cap exposure was also reduced but that doesn't stop us making some aggressive choices in that area.'

Within New Europe, Delaporte moved into oil and energy service companies during December and reduced direct holdings in oil companies. 'Russian oil production has plateaued so research firms in the area are becoming important,' she says.

She also likes domestic consumer themes that are related to agriculture and has taken part in recent IPOs. This includes Razgulai, a Russian company involved in supplying wheat, corn and sugar and Kernel, a Ukrainian corn company that floated in Poland.

Amid the market turmoil they are still seeing plenty of opportunities and feel that the hit from financials in their areas is momentum driven. 'Banks are not exposed to a fallout,' Delaporte says. 'The banks are traditional retail and conservative banks. A lot of selling has been down to momentum but there are no financial problems. Unicredito recently bought a bank in Kazakhstan, Société Générale is looking around, as are many others.'

Sberbank of Russia is one of the holdings and Delaporte thinks it is safe. 'It is state owned,' she says, 'it holds 50 percent of the country's deposits, there are no credit problems, and the loan to deposit ratio is low. Mortgages are 11 percent of all loans but it has been hurt for no reason. Western banks are complicated but in emerging markets they are transparent, just how things were before in the West.'

Within Missoffe's area she has exposure to banks in Southern Europe but is steering clear of bigger names such as BBVA and Unicredito. 'I like BBVA and owned it when we launched the fund but sold out because of problems in the wider market. I also like Unicredito for their exposure outside the eurozone but we don't hold it.' Missoffe is invested in Bank of Cyprus and National Bank of Greece which are leaders in their national markets. 'We've stuck to Greece and Cyprus as fundamentals are strong, they benefit from Eastern exposure and mounting Russian deposits are held in Cyprus,' she says.

On the day-to-day management of the fund there are no analysts. The pair use the good information they get from brokers and enjoy the entrepreneurial environment of exchanging of ideas with other managers in the company.

Over three years, to end of December the pair have returned 106.22% against 47.53% for the average manager in the Equity Europe sector. This places them 2nd out of 413 managers in Citywire's Europe-wide analysis of the sector.



17, avenue Matignon – 75008 Paris
Tél : 01.56.59.63.63 Fax : 01.56.59.63.64