

Our guest:

Compagnie Financière Edmond de Rothschild

La Compagnie Financière Edmond de Rothschild Banque, the French arm of the LCF Rothschild group was founded in 1953. Today it is one of the few remaining independent players in the French market with assets under management around \$44 billion spread across private banking and fund management. The firm invests across all asset classes including equities, fixed-income, structured products, multi-manager funds, alternative management and private equity. Roughly 60% of funds are for private clients while institutional and mutual funds account for around 40%. Edmond de Rothschild Asset Management, the major asset management subsidiary of La Compagnie Financière Edmond de Rothschild has a specialized active fundamental investment approach.

Christophe Foliot is head of a three person US equity team. Other team members are Christophe Nagy and Valérie Guefli. Christophe Foliot joined LCF Edmond de Rothschild in September 2003. Before that he worked at BNP Paribas. He joined BNP Paribas in 1998 as a financial analyst and became a fund manager there in 2000. He is responsible for \$881 million in US equities. Funds managed by the US team include: a value fund, an opportunistic fund, an environment fund, a healthcare fund and a technology/media fund.



What changes have you seen in the French fund management industry since 1998 ?

“There is more stock and sector rotation. The market moves more quickly because of quantitative funds and hedge funds. Also, the investment horizon is shorter and things can be painful short term if you are not in fashionable stocks and sectors but this creates good opportunities medium to long term and lower valuations are interesting.”

What are the advantages and disadvantages to managing US equities from Paris ?

“For large and mid cap stocks there's no difference to being based in the US as these stocks are well covered and we get plenty of information. It is more difficult to follow small caps because there is less contact, less information available. On the positive side, being based in Paris means you can take a step back from the market as you have less noise.”

How have you performed ?

“Our benchmark is the S&P 500. The idea is to beat the market mid to long term (two year time horizon).”

1 year : -8,79 % 3 years : 13,33 % 5 years : 23,55 %

Performance to : 31/12/2007

The performance of the fund is in euros so it has been strongly impacted by the declining US dollar over the last five years. The value fund has beaten its benchmark for six of the last seven years.

Do you have investment constraints ?

“For the main fund, the value fund, we can't have more than 50% of stocks which are cyclical or financial. That is the only constraint we have, there are no sector constraints. The

general idea is to be diversified. Of the \$881 million under management in US equities, approximately half is invested in the value fund - \$440 million.”

What's your investment philosophy ?

“It's really a value approach. Two thirds of the portfolio is what we call relative value and one third is deep value. We really look at assets. We want companies with real hard assets so that you can find a bottom to the stock price so that if things go wrong a company can sell assets. We want to avoid financial risk so we are careful not to invest in companies with a debt to equity ratio more than 100%.”

How do you screen stocks for investment ?

“In the value fund at least 70% of it is constructed with companies that are at a discount to the market or sector. What we call a discount is at least 20% discount to the market or relative sector. The other part is deep value but deep value is a maximum 30% as they are much more risky stocks. For this part, we look for companies with a price of one times price-to-book meaning that the value of the stock in the market is roughly the value of the assets. So the leverage is great but there is risk.”

What about market cap constraints ?

“\$1 billion is our minimum market cap level due to the fact it is harder to get information on smaller companies and we want liquidity.”

Any sectors you don't invest in ?

“We are very careful with **technology** – especially in the value fund. **Biotech** is also a sector where we are very often underweight or not invested at all.”

Average length of a holding ?

"About two years."

Any investment managers you greatly admire and why ?

"There is one guy who's based in the US but he is French and he's called Jean-Marie Eveillard. He's contrarian and very long term. He retired but came back to the market and now works for Amhold & Bleichroeder in New York. I admire people like Warren Buffett who take a contrarian approach and stick to their convictions even if they are wrong in the short term to medium term. When they are right there is considerable leverage. Another good long term fund manager is Bill Miller, a value fund manager."

How do you regard US equities within the global equity markets ?

"I don't make geographic allocations but the currency is at an historic low compared to the euro and the market is very worried about a recession. But I think there could be a good entry point in the first or second quarter of this year especially from a value point of view when you think of all the stocks that have crashed.... so many stocks have attractive valuations. We still have deterioration in the economy but once we can see some stabilization, the market could rally. The index hides the fact that many stocks went down last year. The index has been swayed by the great performances of large caps such as Google, Apple etc while much of the rest of market performed really badly."

Which sectors of the US market do you currently favour ?

"**Healthcare**. It's been an underperforming sector for a long time and there is a low chance of downward revisions. We like medical devices and some of the hospital companies and some pharma. We also like **utilities**, particularly electrical utilities. New facilities are being constructed and the deregulated market should allow price increases. Good visibility, nice dividends and the low interest rate environment favour this sector. The third sector we favour is **consumer discretionary** as it has crashed so this is a contrarian view. In particular I like **Brunswick** and **Foot Locker** – both stocks are trading at trough valuations as the market is expecting poor earnings. I also like a company called **Corinthian Colleges** which is an education company. It is strong in training nurses and the US needs more trained nurses."

Chances of a recession in the US ?

"Maybe more than 50% but I believe part of the market has

already priced in a recession and you have to remember that a recession is just two quarters of low GDP growth. I think the first part of the year will be tough but the real estate market should stabilise by the end of the year."

Any particular favourite US companies and why ?

"We like very much the **environment sector** and **alternative energy** such as wind power and solar power in particular but the Americans really have to catch up in this regard (compared to Europeans). **GE** has a very strong presence in infrastructure which we like. Infrastructure is more than 40% of its gross revenues. We like the waste management companies as they have great free cash flow, good visibility and attractive valuations. We particularly favour **FuelCell Energy** and **Energy Conversion Devices**."

How many US companies do you meet a year ?

"300 companies a year – mostly in the States at conferences or one-on-one. We meet roughly 100 companies a year in Paris. We would like to see more small and mid cap companies visiting Paris. We also come to London to meet US companies."

Which US companies are best at presenting their case ?

"**GE** is doing a good job. Their IR comes once a year and their presentation is interesting and well done. We appreciate it a lot."

How does meeting management affect your investment making decision ?

"Meeting management is very important. Meeting IR at large companies is fine but for companies smaller than say \$50 billion I like to meet the CFO or CEO as meetings with IR can be disappointing for companies this size or smaller."

Any tips for companies when presenting to investors ?

"We prefer one-on-one meetings to be a Q&A session as long as we've had time to do our homework. We can read the presentation ourselves! Most of the time therefore we'd like to move straight to questions."

Is language an issue in Paris ?

"Most Paris-based US fund managers have sufficient command of English so most of them speak English well enough to follow US equities and conduct meetings in English."