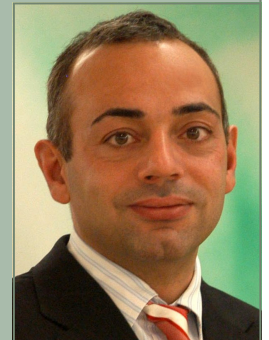


**Our guest:**  
**Deka**

Frankfurt is a key target city for companies visiting Europe. The market is concentrated and dominated by names such as: Allianz/DIT, Deka, DWS and Union. Other notable names include: ComInvest, Frankfurt Trust and Metzler. The institutions in Frankfurt represent 60 to 70 % of the German financial industry. Compared to 10 years ago, the focus of the investment management industry is now more on equities than bonds.

The DekaBank Group is one of the largest asset managers in Germany. It has funds under management of \$260 billion (€190 billion) of which approximately \$7 billion is invested in U.S. equities and approximately \$27 billion is invested in European equities (ex Germany). DekaBank is the central asset manager to the Sparkassen-Finanzgruppe. There are 457 Sparkassen (savings banks) with 16,000 branches in Germany. Deka's roots date back to 1918, when Deutsche Girozentrale (DGZ) was founded. Deka as an investment company was founded in 1956. DGZ and Deka joined forces to create DekaBank in 1999 .



*Victor Mofstakhar is Head of Equities at Deka. He joined in 1997 and before that worked at private bank Schroder Munchmeyer Hengst which was bought by UBS .*

**Is Germany becoming more equity focused ?**

"The German investor has been, and probably still is, more conservative than the American investor. The equity culture in Germany started with the privatisation (IPO) of Deutsche Telekom which took place in 1996 and equity investment became very popular then. Before that the German investor concentrated on fixed income and real estate. The German pension system is funded on an allocated contribution basis. Pension money is extracted from gross income and current employees finance current retirees. So changes are happening - the government introduced tax exempt savings funds - the so-called Riester pensions five or six years ago. Therefore equity culture is growing and has to."

**Deka employs both portfolio managers and buy-side analysts, how does the investment process work ?**

"There are 37 buy-side analysts at Deka. Some are sector specialists and some have a regional focus.

For example, Eastern Europe, Middle East or Japan/Asia. There are another 20 portfolio managers. Sector specialists are responsible for buy-side research and sometimes also run a sector fund. For example, the TMT fund has two analysts running it. Regional fund managers cover geographies such as: Europe, Germany, Global and US. We also have analysts covering the small cap arena. One of our cultural cornerstones is a strong and open communication culture.

The ultimate responsibility for an investment decision lies with the fund manager. However, we have high quality research so there is not much incentive to go against the advice of the buy-side analyst. Analysts are incentivized to pick stocks from all regions and market caps. The ability to create alpha is continuously measured."

**Do you screen stocks ?**

"The sector specialists use value and momentum screens and a combination of the two. The second screen is that we contrast other cheap stocks to

those building momentum. We also look at earnings revisions and cash flow. Our quantitative screens are back-tested constantly and one sector analyst might use different fundamental ratios to another in terms of valuations. That is, technology valuations aren't similar to basic materials for example."

#### **Do you favour large cap over small cap ?**

"We tend to fall into the large to mid cap category. However, in Europe we are more active in small cap. In the US we tend to focus on mid to large cap. We don't have market cap restrictions per se but we don't want illiquid situations within our funds. The size of company in which we invest depends on the size of the fund."

#### **What is the largest international equity position you can have ?**

We can't have more than 10% in one stock and we can't have more than 40% in positions of 5% or more. So we have quite significant buying potential."

#### **How do you measure your performance ?**

"We benchmark against the S&P 500 and the MSCI US for the US and for Europe we use the Dow Jones 200 to 600."

#### **Investment style ?**

"Bottom up fundamental investor. We like intensive and direct company contact. We won't invest if we haven't met management. We like to meet management between two and four times a year. In 2006, 1600 companies visited us. That splits into roughly 250 – 300 US companies, 800 European, 200 from places such as Poland and Russia and 300 from Asia, China, Turkey and Australia and perhaps 50 from Latin America."

#### **Average length of a holding ?**

"Six months to several years. Average turnover is 70%".

#### **Outlook for world markets ?**

"We are positive on the markets but there is risk in the credit markets and that is the greatest risk for equity markets. We are still positive as we are still positive on GDP growth so see no risk of a recession. There is a sustainable and viable situation for healthy GDP growth of 4% with slightly softer growth in the US. Lower interest rates in the US should support equities there. There are compelling valuations and healthy EPS growth but there is a risk of mis-pricing from credit risk."

We are currently underweight the US and overweight Europe. Within Europe, we particularly like Germany for the restructuring activity and global activity. We also like Turkey but don't like Russia due to the political risk."

#### **What has changed in your 12 years of fund management in Frankfurt ?**

"When I started it was rare to see overseas companies here. There was a top-down culture. Now it's more bottom-up. All the big German institutions are very keen on company contact. There is a higher quality of investing."

#### **How might companies increase their international share ownership ?**

"The most important thing a company must do when it wants to internationalize its stock ownership is come on a regular basis. We have to see companies on a continual basis to start to develop trust. Consumer companies like Procter & Gamble are good at visiting consistently but even they could come more often."