

Our guest: Per Solvin – Swedbank Robur

Swedbank Robur is Scandinavia's largest mutual fund group and the number one owner of Swedish equity (apart from the Swedish State) with \$60 billion of assets under management. As of December 31 2006, Robur was rated by Morningstar as 6th out of 50 of Europe's largest equity investors. Of the \$60 billion under management, approximately \$20 billion is invested in bonds, \$20 billion in Swedish equities and \$20 billion in international equities. The international equity part of the portfolio is fast growing and roughly a third is invested in Europe, a third in the U.S. and the remainder in the rest of the world, including emerging markets. Swedbank Robur also runs specialist funds such as its technology fund (\$1.5 billion), its pharmaceutical fund (\$1 billion) and its basic materials fund (\$500 million). The pharmaceutical and technology funds are global but heavily weighted to U.S. equities.

Per Solvin has been at Swedbank Robur since 2000. He started managing international equities in 1989 and previously worked for Handelsbanken and Ratos, a Swedish investment firm. He is one of a three man US team, responsible for \$4.5 billion of US equity investments. Other team members are Jacob Gemmel and Christer Engel.



The Scandinavian cities are behind the U.K., Switzerland, Germany, France, the Netherlands and Italy in terms of assets under management. It is nevertheless an important market for U.S. companies. Sweden is the largest of the four Scandinavian countries with a population of nine million. Sweden is also #1 in terms of assets under management. The largest fund managers alone manage almost \$400 billion. As well as names such as Swedbank Robur, SEB Asset Management, Handelsbanken, AMF, Folksam and AFA, Sweden is also home to five state pension "buffer" funds; AP1, AP2, AP3, AP4 and AP7. The first four alone manage in excess of \$100 billion between them. Stockholm also has a thriving hedge fund community with more than 50 hedge funds.

International equity investment is a relatively recent phenomenon as the market was only liberalized in 1989. It should also be noted that, like its neighbor, Denmark, Sweden opted to keep the Swedish krona so has not adopted the Euro.

What's your current view of U.S. equities in a global market context ?

U.S. equities last year were a bit out of fashion because of the fall of the dollar. We didn't do anything measured in Swedish krona last year because the market went up 16% and the U.S. dollar went down 16%. New funds, such as our China fund which we started less than a year ago has money pouring in. U.S. assets including equities are at an attractive valuation. The U.S. is a big exporting nation, money has been tighter lately but there's still plenty of liquidity being invested. There has been underinvestment for so many years in the U.S. and there is a need for an investment cycle which has just begun. Companies' cash positions are very strong too.

In spite of being sector neutral, we favor industrial companies and consumer oriented companies. U.S. consumer companies are always interesting as they continue to expand globally. I'm talking about companies like Bestbuy and Starbucks for example.

Predictions for the U.S. market in 2007 ?

Soft landing for the economy, not a crash. No interest rate hikes hopefully. And a good stock market.

What is your investment style ?

We screen companies in two ways – for good operations and for good valuations. From a market point of view we use changes in analysts' earnings revisions and we get signals from price momentum. But I would like to emphasize our disciplinary screening. We don't do day trading and we don't do risk arbitrage. Because we are far away from the U.S., we take a long term view. We try to avoid blow ups and we know when and where to take risks.

What is your average length of a holding ?

In our broad U.S. funds, ex tech, we have about 80 holdings and the average holding period would be two to three years. In the technology sector we have a larger number of holdings.

Do you have any investment constraints ?

For practical reasons we tend not to invest in companies with a market cap of less than \$2 billion. Also, we have a sector neutral approach. How much risk we decide to take in each sector depends on two things: the volatility of the stocks in the sector and our conviction level. While being

sector neutral the amount to invest will result in positive stock bets. That number is called Active Share, and it measures the deviation from the benchmark. Active share in each sector varies but tends to be lowest in utility and in technology. This gives us the tools to control the portfolio's total risk.

How do you measure your performance ?

We use the MSCI. Our tracking error is between 1 and 4.

As there are three of you on the U.S. team, do you split the sectors ?

We discuss this at times and feel it is better to be able to compare notes as this leads to more fruitful discussion. Someone is responsible for each holding because the obvious downside with a committee approach is that no-one feels responsible. We can therefore always pinpoint the holdings to one or more individual.

Investment managers you admire ?

I met Warren Buffett a couple of years ago and he has the right attitude with his focus on compounded interest. Bill Miller too. He missed last year but he's inspiring. So I guess I get inspiration from the U.S. long-only, compounded interest guys. I also admire disciplined quant approaches.

How important is it for you to meet management ?

It is very important to meet management. We seldom invest in companies we haven't met. The size of our holding is definitely larger if we meet management regularly.

Who do you want to meet from a company ?

The CEO, then the CFO. IR people vary. GE has very good IR people but most are quite good. HP has good IR too. But if I meet IR, I don't just want to hear the press release regurgitated; this is no use. I want to hear about the culture side. I want to understand how they retain and incentivize people for example. Churn is very important for a company as it's very costly.

How many companies do you see a year ?

Approximately 20 U.S. companies a year visit Stockholm. Each of us does two to three U.S. trips a year to meet companies and to attend conferences. Our tech specialists also go regularly to Silicon Valley.

Which U.S. companies are the best at presenting to investors ?

Any U.S. company is better than any European company! They know how to sell their story and they don't speak broken English like we do in Europe.

Tips for U.S. companies when presenting in Stockholm ?

I'm not interested in good news! I'm interested in consistent communications. I'm not looking for their rosy version of the future. I would like to hear where they see problems, like bottlenecks and what they will do to solve them. I'm not looking for quarterly guidance. I'm with Warren Buffett on 'don't do the quarterly guidance thing'. Quarterly guidance just serves the sell-side and doesn't do me any good. I don't focus on quarterly figures. I want to know if management is aware of the issues facing the company. I'm interested in learning about a company's culture. Wells Fargo, for example, they talk about the people who work for them not just their net interest margin. The culture side is vital as is learning if management are hands on and recognize the challenges that face them.

Why should a U.S. company visit Stockholm ?

Apart from the fact it's a nice city, U.S. companies should recall that in the '90's Robur was the largest holder of Cisco outside the US. There is a genuine interest here for investing in overseas equities. The U.S. leads and Swedes know that what happens in the U.S. will happen in Sweden so people are interested in America. The fantastic interest in China and Russia over the last few years has deflected interest away from the U.S. market. That can't last forever so its time will come again. We have long-term money and an equity culture. We are still a young community so equity investment will increase. International equities are a growing asset class in Sweden but U.S. equities have been hammered by the falling dollar.

How do you see the market for international equities evolving in Sweden ?

International equities in Sweden will increase especially because the government has introduced this PPM system, which is what President Bush tried to do with the social security system, a more individual system. In Sweden, 2.5% of your salary is given back to you to invest as you wish. If you don't do anything it ends up in the AP 7 fund (one of the government pension funds) but you can choose to buy funds. Robur is the PPM fund provider with the highest market share and we expect this trend to continue. More generally, there is a strong equity culture here - quite a lot of households own equities.