FRANCISCO GARCIA PARAMES

The Spanish Warren Buffett

“We try to find undervalued values… the next stage is to find companies; we buy good companies with good teams behind them, good shareholders and a good price” - Francisco Garcia Parames

HOW HE WAS HOOKED ON INVESTMENTING

In his own words

After getting an MBA in 1990, I went to work for the large industrial conglomerate Acciona, which was and is controlled by the Entrecanales family. I was hired to work in mergers and acquisitions, but that operation was reorganized after three months so I then found a position as an analyst in Acciona’s very small investment management business, Bestinver. At the time, we invested only in Spain and 90% of the money was Entrecanales family money. I ended up taking over that business a year later after the fund manager above me announced he was leaving. Around the same time, I read Peter Lynch’s One Up On Wall Street, which described a way of thinking about investing that was exciting and made a lot of sense to me: Invest when no one else is. Keep things simple. Invest only in things you understand. Invest based on normalized earnings. Be afraid when too much capital is going into a sector, and interested when capital is going out and returns can improve. From that, I read everything I could about investing – especially from Warren Buffett and Benjamin Graham – and was hooked.
Francisco García Paramés, is Bestinver’s star fund manager and a legend in the Spanish and Portuguese market. He is unanimously honored as having introduced value investing – the philosophy followed by Warren Buffett- to Spain 19 years ago. This philosophy, invented by Benjamin Graham in his classic book Security Analysis, involves investing in companies with strong fundamentals and which are trading below their real value-hence value investing.

- A self taught manager
- A management style based on strict application of value management
- Spain’s star investor
- Assesses the competitive advantage of companies he invests in
- Considers his management style a philosophy
- Follows a strict code of honor for investing

FRANCISCO GARCIA PARAMES

- AGE: 47 years
- SOURCE: Self taught, analyst
- RESIDENCE: A Coruna
- COUNTRY OF CITIZENSHIP: Spain
- EDUCATION: Degree in economics from the Universidad Complutense de Madrid, MBA from the IESE Business School
- MARITAL STATUS: Married
- CHILDREN: 3

HIS LIFE

Francisco García Paramés was born in 1963 and graduated from the Universidad Complutense de Madrid with a degree in economics and holds an MBA from the IESE Business School. He joined Bestinver in 1989 where he was an analyst of Spanish stocks for two years and then started to manage portfolios and funds. In 1997, he began to manage the Bestinver Internacional Fund, and his management style is based on the application of the principles of value management.

Paramés began his life in a small town of Coruna in Spain. At the age of 27, fresh from a recent MBA, he was tapped in 1989 to manage the funds of a small money management company called Bestinver, run by a minor conglomerate Aconia. His career as an investment manager can be summarized given the yield obtained by his Spanish equity funds; 7.9 percent per annum from January 1993 - June 2009.

In 1997, he took over the management of the Bestinver International Fund, and he made management proud by taking this tiny, hereto unknown fund to leading global positions. He performed well in the market of foreign funds sold in Spain, with an accumulated yield from January 1998 to June 2009 of 196 percent (9.5 percent Annual Average Return) versus -3.1 percent obtained by the reference index, the MSCI World Index.
He is now the chief management officer at Bestinver. He has also established the Bestinfond equity fund in Europe.

ACHIEVEMENTS

Over the past 19 years, Paramés and his partner Álvaro Guzmán de Lázaro have obtained a constant return that has beaten the market in the long-term. In the past 10 years, Bestinfond, the oldest mutual fund and the one with the most assets, has had an annualized return of 21.2 percent (26.7 percent in 2006). This has made Bestinver the 12th highest ranked fund manager in Spain, ahead of Morgan Stanley, with €3.86 billion assets under management.

According to one fund manager “in Spain everyone has jumped onto the value investing bandwagon but at the beginning it was difficult to introduce a long-term strategy”. However, as another company remarked, “it is one thing managing small, regional funds and quite another dealing with a monster like Buffett”.

Paramés’ accumulated yield from 1998 to 2007 was 212 percent, compared to 29 percent obtained by the world reference index. Bestinver has been awarded an equity mandate by the Norwegian Government Pension Fund. It is the first equities fund ever to be awarded this honor.

Paramés not only stands head and shoulders above most of his compatriots, his record, in addition, stands up against sector rivals right across Europe. During 2008, Paramés lost money along with so many of his peers, but still beat the average manager.

In 2009, his determination to stay true to style paid off once again and he was one of the top performers in his sector for the year. The long-term record of his funds speaks for itself. Over five years Bestinver International, the global equity fund he co-manages with Alvaro Guzmán de Lázaro and Fernando Bernad Marrase, returned 41.6 percent in euros. Over the same period, the MSCI World TR index rose 0.4 percent and the average manager in the equity global sector returned 0.4 percent. Meanwhile, the Bestinfond European equity fund, which is run by the same trio of managers, has returned 37.7 percent over the same five-year period while the Euro Stoxx index has fallen 0.4 percent and an average manager in its equity euro zone sector has lost 2.1%.
Bestinfond was the subject of a special study conducted by Lipper Thomson Reuters.

Not surprisingly, given the figures above, the analysis found that Bestinfond had achieved outstanding absolute returns against all the reference indices used in the study, with lower absolute risk measures.

HIS PHILOSOPHY

Parames is Spain's largest money manager at $6 billion under management. He is a follower of the Austrian School of Economics. From an investment standpoint, he typically looks for good businesses with strong management trading at a solid price. Currently, he feels that Europe is still a less efficient market than the U.S. Obviously as a value investor; this could be seen as a welcome development as it can present opportunities. Nevertheless, what is interesting here is that while Parames is based in Spain, he does not have a single cent invested in his country.

In his talk, Parames said that, "patience is our biggest competitive advantage." He likes to buy family owned companies, something that is much more common in Europe (80% of his investments fit this criteria). In general, Bestinver focuses on strong businesses with high free cash flow yield.

Analysts found that Parames is very successful at stock selection. Since 2008, his stock selection going into the crisis that paid off over the longer term. The downturn had frustrated him at that time. He says that he did not have a single bank or a single investment company, but being fully invested he suffered along like anyone else. Although he is self-taught and has a complete command on his field, he still believes he has a lot to learn and is still humble about all his achievements.
The crash of the stock market in 2008 led him to revise many of his policies, but he has never let go of his basic manifesto and principles. Learning lessons from the crisis, he has made a more concentrated portfolio, putting more emphasis on quality. Before that, Parames says he did not believe much in possessing liquidity, but now he has 20 percent to 30 percent liquid stocks to help balance against a sudden meltdown.

Parames believes that there should be good partners in your fund as well as the companies you have invested in, as that does help when the crash eventually comes.

“We don’t really have any new names, but we have increased our stakes. For us liquidity is being right about your valuation. If we are right about our valuation, we will always have liquidity. In addition, after a 50 percent fall, you clean the client base. People who should not be invested in equities are no longer investors in equities. We now have the best portfolio we’ve ever had,” he said describing his investment style.

The firm’s investors are generally loyal and long term, and the group’s marketing team is understandably eager to try to maintain what it calls as a ‘high quality’ client base. The core of the investor base is institutions, foundations and principles, essentially family businesses, which are by nature long term in their thinking. As Bestinver headed by Parames, looks to promote its funds more widely in other European countries, maintaining this type of client base will be a challenge, but he is confident he can find the perfect balance.

As assets under management grow, the demands on the portfolio manager can change radically, and many firms find it tougher to keep continued outperformance. Nevertheless, Parames also says that this kind of growth brings a lot of power. As a firm grows, it can get better access to information and can work with consultants on a more structured and strong basis. Unlike most mainstream active managers, Parames does not bother about ETFs (Exchange Traded Funds). He says it leaves him plenty of room to invest in stocks that are not in the indices.

Since the financial crisis, that has been a mounting call up for fund investors to use their voting power to influence their investing companies. However Parames thinks it is a waste of time, since he only invests where he likes what is going on, what are the salient policies etc. this makes it evident that he is not on favor of politicizing any investment and the investors policy.

While he may not be an activist, he does see asset managers losing contact with the final investor and this is a main point of worry for him. In the market, Parames has witnessed the increasing tendency of investors to take a short-term view. This is why the nature of his investor base is a key component in Bestinver’s continued success, as it gives Parames a degree of insulation from this pressure, and allows him to trust his investors and establish a long-term relationship.

His longest-held investment was BMW and the focus on the long-term view extends to the companies whose stock he buys. Eighty percent of the companies he owns are family controlled. He likes to have families involved in the companies, not in a day-to-day management but a controlled shareholding. Some investors successfully generate profits by timing the
market, but this is not for him.

He was simply unable to time the market and was short termed in his investments. He is perfectly happy with market volatility. He says it keeps him on his feet at all times. Spanish equity has historically made up a big chunk of the Bestinfond European portfolio. With Spain’s economy on the rack, Parames’ investors will be reassured to see that the Spanish/global mixture has moved away from the managers’ home market. At the same time, the number of overall holdings has been reduced.

The global part has become more concentrated, since in 2003 he possessed over 150 stocks, now he only holds about 50 well-reputed and tested ones. He once said, “We have become more conservative, which is natural as we are getting older. We’ve only added one or two new stocks in the portfolio in the past two years.”

Parames is adamant to stick to his investment principles in difficult times and while he believes his portfolio is in better shape than ever, he does not anticipate being severely tested again in the near future. He does not think that he will have a 50 percent down market any time soon. Although his age will affect his investment policies, he believes some things will not change. He says simply: “I believe in markets”

ARTICLES ON PARAME

1. “Warren Buffet Asked Me For Advice”
   

2. Parames on Value Traps
   
   http://www.valueinvestingworld.com/2011/05/parames-on-value-traps.html

1. Bestinver’s Bold Move To Ferrovial Pays Off
   
   http://citywire.co.uk/global/bestinver-s-bold-move-on-ferrovial-pays-off/a42725

2. Parames To Speak To Nyc Value Investing Congress
   
   http://www.rationalwalk.com/?p=9507

3. Leading Boutique Launches New Fund To Guard Against Soft Closure:
   
   http://citywire.co.uk/global/leading-boutique-launches-new-fund-to-guard-against-soft-closure/a554153

4. Interview With Farnisco Garcia Parames
   
   http://www.scribd.com/ValueWalk/d/55361649-Interview-Francisco-Garcia-Parames
5. Nominees For The European Equity Manager Of The Year


6. Star Manager Parames Awarded Mandate From Giant Norwegian Pension Fund

http://citywire.co.uk/global/star-manager-param%C3%A9s-awarded-mandate-from-giant-norwegian-pension-fund/a48230

7. Francesco Gracia Parames- Bestinver Asset Management


8. Bestinver Ramps Up Bmw Exposure Anticipating The Best Year In History

http://citywire.co.uk/global/bestinver-ramps-up-bmw-exposure-anticipating-best-year-in-history/a530080

9. Pain In Spain Might Be Felt Across The Border


10. Francisco Garcia Parames At The Value Investing Congress


11. Francesco Parames Pitching Tips To Warren Buffet


12. Morningstar Qualitative Managers Of The Yea


PARAMES IN NEWS

1. Leading boutique launches new fund to guard against soft closure


2. Bestinver ramps up BMW exposure anticipating 'best year in history'
http://citywire.co.uk/global/bestinver-ramps-up-bmw-exposure-anticipating-best-year-in-
3. The Spanish team from Bestinver, led by star manager Francisco Paramés, maintain their presence within the top three best performing managers with an 8.17% loss.

4. Star Spanish manager Francisco Paramés, are the only managers to have posted positive results in the two main leagues in July’s rankings.

PARAMES INTERVIEW

The Hedgeweek Interview: Francisco García Paramés and Álvaro Guzmán de Lázaro Mateos, Bestinver Asset Management, Madrid: Adhering to military-style discipline with regards to required IRR/

VIDEOS ON PARAMES:

1. Francisco Garcia Parames
   http://www.youtube.com/watch?v=VvGZ6qVsuZs

2. Value Investing Forum 2008 Mexico City
   http://www.youtube.com/watch?v=6xwzQ6dVEQw

3. Value Investing Forum México, 2009
   http://www.youtube.com/watch?v=QhBeKAd157k

4. Francisco Garcia Parames, Bestinver
   http://www.youtube.com/watch?v=yAR6OLsGKPA&feature=related

5. Bestinver Economic Scenario In 2011
   http://www.youtube.com/watch?v=1s2Qwc4Dxqk
6. Current Situation Of Financial Market

http://www.youtube.com/watch?v=vr-bnK4fABo

7. Evaluation of Long Term Investments

http://www.youtube.com/watch?v=E5RrB8kLKWk

QUOTES BY PARAMES:

1. “Our target investor is one who shares our investment philosophy, is patient, and is looking for medium- to long-term investment.”

2. “We follow the companies for a long time, sometimes many years, before investing.”

3. “It is not a question of lacking ideas but of how to distribute the time to analyze them.”

4. “For us, risk is not measured by volatility but by the real possibility of losing money.

5. Volatility is not necessarily a problem: the more a market falls, the more opportunities there are to find undervalued stocks.”

6. “We do not set targets for returns. Our only objective is that our clients continue to achieve a return on their money and grow to reasonable levels, allowing us to continue operating in accordance with our investment policy.”

7. “We have a strict management style and this will not change. It is not just a style but a philosophy”

8. “We are much disciplined when it comes to making investments and we employ the same strict analysis process to each and every one of the companies that we analyze”.

9. “Our work is part of our lives. We enjoy our work. Management is not just a job but a constant challenge that requires many hours of reading and constant attention to all the factors that can affect the valuation of companies.”

10. “We are an excellent management team. We not only share the same investment philosophy, we also dovetail perfectly when working as a team.”

11. “We have found a way to dedicate all our time to what we really enjoy and to do so freely and independently.”

12. “You have a good competitive advantage if you can charge higher prices and as a result of which you will end up with higher returns than the competition.”
13. “Absolute confidence in our work. We trust our investments to Bestinver, since we trust our work and our ability to generate excellent returns in the long term”

14. The most important thing is to wait, and we are qualified to wait.

15. “Any undervalued company that is a good business, a competitive edge over its rivals, with a strong management team and transparent information can represent an opportunity for us.”

16. “The only factor we 'measure' is the possibility of a permanent impairment of value in any of the stocks.”