Citywire Global

'GIPS' equity is still not cheap enough says Fidecum's Schupp

by **Amy Williams** on Aug 01, 2011 at 15:45

For your average value manager the recent eurozone debt crisis will have offered rich pickings, but not so for Fidecum founder **Hans Peter Schupp**, as for him, so-called 'GIPS' stocks are still not cheap enough.

'We're not invested at all in the GIPS countries, not because they're too risky but because we don't find interesting valuations in them.'

It's a stance that chimes well with the name of his fund, **the Fidecum SICAV – Contrarian Value Euroland fund**.

However the Citywire A rated and Euro Stars manager reasons: 'It's not that we purposely want to be contrarian, it's more a result of the way we calculate the estimates of our stocks, we're looking at mid cycle earnings and this leads to a completely different perspective.'

He explains that from outset of the single currency until 2008, the economies of Greece, Ireland, Portugal and Spain (GIPS) outperformed the rest of the countries in the euro. They then corrected before going on to outperform for another year. It is because of this fairly solid track record that he says he is unable to find good companies at reasonable prices in these countries.

The German manager who also recently featured in **Citywire's Rising Stars analysis** says he is tilting his portfolio to large cap cyclical stocks, 'but not in the industries you would expect.'

'Usually when you talk about cyclicals you think of capital goods and materials but we don't have a single one of either as they're too expensive. We are cyclical because we are highly invested in airlines, logisitics, car manufacturers and suppliers.'

Stocks invested in to tap these sectors include Air France-KLM, Finnair, Euronav and Renault, currently the fund's biggest holding and a company Schupp describes as 'so incredibly cheap'.

9.5% of the fund is invested in the French carmaker and it a position that has been held since 2008. During the crisis he also increased his exposure.

This it seems is a tried and tested approach: 'We increase our weightings in underperforming stocks on market weakness, so long as there is not a lasting reason for it.'

Currently the fund is holding a concentrated portfolio of 32 stocks and this is just how Schupp likes it. He says while at his previous firm MainFirst, he used to run a special mandate with no more than 15 stocks, which he 'loved'.

At Fidecum he says he can afford to take the same concentrated approach as he regards his fund as 'a tool for a professional investor'.

'We don't have to be diversified because professional investors do that themselves when they are constructing their portfolios.'

Schupp says **the Fidecum SICAV – Contrarian Value Euroland fund** would usually have a bias towards the mid-cap space but recently this has been hard to implement, he said:

'The mid cap guys they've had such a good time that they've destroyed a bit of value for us.'

As a result, the fund is now 60% in large caps, 25% in small caps and 15% in mid.

Making up part of that large cap exposure are insurance companies.

'We are highly invested in insurance companies. Our highest weighting is in AEGON at 6%, we also own AXA and Allianz. We like German mortgage bank Aareal and France's Credit Agricole too.

'The valuations are exciting to us, they can't grow in the developed counties but they can in the emerging countries.'

Additionally, he says insurance companies are regulated by a value at risk measurement, which usually underestimates risk, but in today's volatile market, it's working in his favour: 'Currently the risk is completely different which is why it is now being overestimated.'

In the eurozone equity sector covered by Citywire's fund manager analysis Schupp has returned 15.7% over three year to the end of June 2011. This compares to the average manager who has lost 3%.