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Hans-Peter Schupp on French exposure: "Economic burden already considerable today".

Not least due to the political uncertainties, the French economy is currently heavily burdened. Value investor Hans Peter Schupp from Fidecum explains why the French leading index has nevertheless gained almost 15 percent, which companies he himself is betting on in his fund and why France is his top position. - Svenja Stollenwerk - 04/25/2023

In his **Fidecum Contrarian Value Euroland fund** (ISIN: LU0370217092), Hans-Peter Schupp has slightly **over weighted France** and even increased the share in March by 0.8 percentage points to **now 34.4 percent**. This makes France the largest weighting in the fund. However, this has less to do with the country itself. When asked by **Fundview**, Schupp explains: "We have had a high weighting of France in our portfolio for two to three years now. Countries with weaker economies are not very popular with top-down investors, of course, but for us the focus is on company valuations."

And cheaply valued companies tend to be found in the economically weaker countries. At the moment, France is one of them. "Because geopolitical and economic uncertainties draw also the attention of our neighbors. While growth of around two percent was still expected for 2022, it could be zero growth in 2023. President Macron and his problems send their regards," said Schupp.

The burden on the French economy is already considerable today, he said. "Final figures are not yet available, but the damage is estimated at many billions of euros. Many companies are directly affected, while others are suffering from the protests and strikes. And what is the stock market doing? It's doing great! Since the beginning of the year, the French benchmark index, the CAC 40, has risen by almost 15 percent," explains Schupp.

The parlor trick for companies

But what are the reasons? According to Schupp, with the exception of utilities and real estate companies, French corporations generate most of their sales abroad. "They have historically been headquartered in France, but the bulk of business is generated throughout Europe and globally," Schupp points out. As an example, he cites Savencia, the fund's sixth-largest position with 4.3 percent. This is Europe's largest cheese producer, with varieties such as Bresso, Caprice des Dieux, Fol Epi and G ramont. The group makes 46 percent of its sales throughout Europe, with the rest all over the world.

"So France is anything but dominant," Schupp concludes. Another example, he says, is the BIC Group - the maker of lighters, ballpoint pens and razors. The company makes less than a third of its sales in Europe, the Middle East and Africa. The same is true of Trigano. Europe's largest mobile home manufacturer generates less than a quarter of its sales in France.

"On the other hand, you have to remember: Paris is powerful. In France, the state is strong and often interferes heavily with companies through taxes, regulations and restrictions," says Schupp, who adds, "And what can companies do? Well, they could use a kind of a parlor trick. They leave profits with subsidiaries abroad. These in turn use their profits to buy back shares in the parent company. That's perfectly legal and then benefits the shareholders: fewer shares on the market lead to higher earnings per share."