

When asked how he became so successful, Buffett answered: "we read hundreds and hundreds of annual reports every year."



Edited by the
**Manual of Ideas
Research Team**

"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Top Five Ideas In This Report

AstraZeneca

(NYSE: AZN, London: AZN) ... p. 24

Diageo

(NYSE: DEO, London: DGE) ...p. 27

InterContinental Hotels

(NYSE: IHG, London: IHG) ... p. 30

OMV

(OTC: OMVKY, Vienna: OMV) p. 33

Royal Wessanen

(OTC: KJWNY, Amster.: WES) p. 36

Also Inside

Editor's Commentary p. 5

100 European Candidates p. 6

Company Profiles p. 24

Interview with Don Fitzgerald p. 95

Interview with Professor Otte p. 98

Interview with Adam Steinerp. 103

Interview with Robert Vinall p. 106

About Portfolio Manager's Review

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our managing editor John Mihaljevic is a member of Value Investors Club, an exclusive community of money managers, and has won the Club's prize for best investment idea. John is a trained capital allocator, having studied under Yale chief investment officer David Swensen and served as research assistant to Nobel laureate James Tobin. John holds a BA in Economics, *summa cum laude*, from Yale and is a CFA charterholder.

THE EUROPEAN VALUE ISSUE

- ▶ Snapshot of 100 European companies
- ▶ 24 companies profiled by *MOI* research team
- ▶ Proprietary selection of Top 5 candidates for investment
- ▶ Plus: Exclusive Interview with Don Fitzgerald
- ▶ Plus: Exclusive Interview with Professor Max Otte
- ▶ Plus: Exclusive Interview with Adam Steiner
- ▶ Plus: Exclusive Interview with Robert Vinall

European companies mentioned in this issue include
ABB, Acergy, AEGON, Alcatel-Lucent, Allianz, Allied Irish Banks, Altana, Anglo American, ArcelorMittal, ARM Holdings, AstraZeneca, AXA, Babcock & Brown, Banco Bilbao Vizcaya, Banco Santander, Bank of Ireland, Barclays, BG Group, BP, British American Tobacco, British Sky Broadcasting, Cadbury, Carnival, CGG Veritas, CNH Global, Commerzbank, Continental, Credit Suisse, CRH, Delhaize, Deutsche Telekom, Diageo, DSM, E.ON Energy, Emerson, Flamel Technologies, France Telecom, GlaxoSmithKline, Heineken, Hochtief, International Power, KPN, LVMH Moet Hennessy, Novartis, Novartis, Portugal Telecom, Roche, Rolls-Royce, Royal Wessanen, Siemens, Smith & Nephew, STMicroelectronics, Tate & Lyle, Telecel, TOTAL, Turkcell, Unilever, and Veritas.

Inside:

***Exclusive Interview with
Don Fitzgerald of
Tocqueville Finance***

***With compliments of
The Manual of Ideas***

(profiled)

Exclusive Interview with Don Fitzgerald

Don Fitzgerald joined Tocqueville Finance in 2007 and has been co-managing Tocqueville Value Europe since 2008. He is a value investor with prior experience in distressed investing. Don presented French cement company Vicat (Paris: VCT) as an investment idea at the 2009 Value Investing Seminar in Molfetta, Italy.¹



Don Fitzgerald
Tocqueville Finance

MOI: Describe your investment process at Tocqueville Finance?

Don Fitzgerald: We focus on stock picking without consideration of benchmark, sector or country allocation and look for companies that are undervalued by the market relative to their fundamentals. Given our long term investment horizon naturally we keep our portfolio turnover relatively low and avoid overconcentration—for example, more than 5% in a single position. We avoid derivatives with the exception of very limited use of covered calls. In times of limited investment opportunities we can hold up to 25% in cash or equivalents.

MOI: What companies draw your attention? How do you generate stock ideas?

Fitzgerald: Investment ideas come from a number of sources, such as regular quantitative screenings, tracking of Tocqueville investments which have been portfolio holdings in the past, monitoring of the financial press, management meetings and conferences.

Opportunities caused by disappointments of short-term market expectations are good targets. Also spin-offs and de-mergers where existing investors often sell without doing their homework on the new company's real value or situations where you have a forced seller pushing down the stock price are good hunting grounds for fundamental investors.

MOI: Do you have any favorite valuation methods? Are there any analytical approaches you avoid?

Fitzgerald: In the financial analysis we place strong emphasis on margins and returns stability, through-the-cycle profitability, free cash flow generation and balance sheet strength in order to generate our best estimate of intrinsic value. Valuation is judged in absolute terms, relative to the peer group, industry transaction multiples and relative to the company's own valuation history. We often use sum-of-the-parts valuations for multi-business groups.

Regarding ratios I am wary of valuation ratios like P/Es and price to sales, which often understate the importance of creditor claims on company assets and cash flow. Likewise EV to EBITDA ratios forget that companies need to replace equipment one day and that profitable companies actually pay taxes. I think EV / NOPAT is a nice ratio that in theory corrects for a lot of these faults. However, don't forget that ratios are just tools or marker points.

“Opportunities caused by disappointments of short-term market expectations are good targets. Also spin-offs and de-mergers where existing investors often sell without doing their homework...”

¹ Access our notes from Don Fitzgerald's presentation at http://www.manualofideas.com/blog/2009/07/don_fitzgerald_live_blogging_t.html

MOI: What European markets have you invested in the most and why? Do you invest in Eastern European markets? If so, are there any differences in the valuation approach you apply there compared to investments in more developed Western European stock markets?

Fitzgerald: We invest all across Western Europe and, given our bottom-up approach, there are no countries we avoid or focus on. We have limited experience investing in Eastern European markets and due to lower transparency, corporate governance concerns and issues with the protection of minority shareholders, we are not likely to change our stance in the short to medium term.

MOI: Have you favored or avoided any particular industry as a result of recent financial market dislocation and macro-economic turmoil?

Fitzgerald: For the last three years or so we have had limited exposure to financials, not necessarily because we foresaw all of the problems in the sector but merely because the profitability achieved in the sector from 2003 to 2006 did not appear sustainable and we had concerns about transparency.

MOI: What is the single biggest mistake that keeps investors from reaching their goals?

Fitzgerald: The biggest mistake investors probably make is following the herd and ignoring common sense. The herding instinct is part of the way our brains are wired and we must try to discipline our minds to avoid this default. The worst buying points in any asset occur due to bubbles caused by mass crowds pushing assets prices too far – like the Internet bubble at turn of millennium or house prices in many countries in recent years. Thankfully, value investing helps one to avoid bubbles by focusing on the difference between price and value. Other mistakes investors make is not having a proper strategy, philosophy or discipline to guide their investment decisions.

MOI: When you review your past investment successes, what key common traits do you observe?

Fitzgerald: Probably the best investments were made in companies where I had a very good understanding developed over time on the fundamentals of the company in terms of strategy, management and competitive positioning. This rigorous homework allows you to generate a fair view on the company's intrinsic value so that you can pounce when Mr. Market offers an attractive entry price.

MOI: If there is one macro-economic concern that you have, whose realization could wreak havoc on your portfolio, what is that? How have you tried to best protect your existing investments from that risk?

Fitzgerald: Given that we are bottom-up focused, we are not too distracted by macroeconomic issues but there is one medium-term issue that bothers me and that is the risk of much higher long-term interest rates in the future. Let's assume that the economic recovery the market is anticipating takes hold, then it would be fine for 10-year bond yields head back from artificially low levels of 3-3.5% currently to say 4-4.5%. However, it could be pretty unpleasant for the western economies given the high debt levels and virtually all assets if the bond

“The herding instinct is part of the way our brains are wired and we must try to discipline our minds to avoid this default.”

markets force long-term rates towards say 5.5-6% due to concerns about sovereign credit quality. We don't position the portfolio to express large macro trades, but I have a natural preference for companies that are not overly dependent upon external financing or need continual access to capital markets in order to fund their day-to-day operations.

MOI: Can you name an investing book that you find useful in your day-to-day work when analyzing companies? Are there any free online-based resources such as stock screens or insider transaction databases that you can recommend for European stocks?

Fitzgerald: I believe every investor starting off could do a lot worse than reading Ben Graham's timeless [*Intelligent Investor*](#). Also, despite having a really bad title, a good book for value investing in special situations is [*You Can Be a Stock Market Genius: Uncover the Secret Hiding Places of Stock Market Profits*](#) by Joel Greenblatt.

We use Bloomberg for screening and insider trading. For low-cost alternatives Yahoo! Finance UK has free data on director dealing by UK companies. If you go to ft.com, which is not free but well worth the subscription price in my view, the markets data section has some good pre-defined stock screens.

MOI: Don, thanks very much for your insights.

About Don Fitzgerald

Don joined Tocqueville Finance in February 2007 as a Senior Financial Analyst and has been co-managing Tocqueville Value Europe since February 2008. He graduated from Trinity College Dublin in 1996 with a degree in Business Studies and German. From 1996 to 2003 he worked for Citigroup in Dublin, London, Frankfurt and Paris in structured finance, as a chemicals banker and as a telecoms banker. From 2003 to 2006 he was as an investor in distressed debt for WestLB in Paris. Distressed investing is essentially activist value investing. He completed the CFA program from 2004 to 2006. Don is trilingual speaking fluent French and German as well as native English.

“We don't position the portfolio to express large macro trades, but I have a natural preference for companies that are not overly dependent upon external financing...”

The *Manual of Ideas* research team is gratified to have won high praise for our investment idea generation process and analytical work.

“I highly recommend MOI — the thoroughness of the product coupled with the quality of the content makes it an invaluable tool for the serious investor.”

—TIM DAVIS, MANAGING DIRECTOR, BLUESTEM ASSET MANAGEMENT

“We do similar work ourselves.”

—GLENN GREENBERG, MANAGING DIRECTOR, CHIEFTAIN CAPITAL MANAGEMENT

“The Manual of Ideas is a tremendous effort and very well put together.”

—MOHNISH PABRAI, MANAGING PARTNER, PABRAI INVESTMENT FUNDS

“Outstanding.”

—JONATHAN HELLER, CFA, EDITOR, *CHEAP STOCKS*

“Your reports provide serious investors with a plethora of bargain stocks and sound advice. I highly recommend them.”

—MIGUEL BARBOSA, EDITOR, *SIMOLEON SENSE*

“Very impressive.”

—SHAI DARDASHTI, MANAGING PARTNER, DARDASHTI CAPITAL MANAGEMENT

“It’s little surprise MOI is a winner. When you start with superior stock screening and combine it with good judgment, you put yourself in a great position to outperform.”

—MARKO VUCEMILOVIC, FOUNDER AND MANAGING DIRECTOR, ALKAR GLOBAL

“This is the best institutional-quality equity research to come along in a long time. It not only unearths companies with compelling risk-reward profiles but also analyzes them with a clear understanding of business economics and competitive dynamics.”

—PAVEL SAVOR, ASSISTANT PROFESSOR OF FINANCE, THE WHARTON SCHOOL

“I am (as always) impressed with your work.”

—MARK SPROULE, SCOPIA CAPITAL

“Keep up the great work, you are quickly becoming one of my must-read sources.”

—CORY JANSSEN, FOUNDER, INVESTOPEDIA.COM

FIND OUT WHAT THE BUZZ IS ABOUT.

WWW.MANUALOFIDEAS.COM