Interview
with François Gobron, Portfolio Manager, Generali Investments, France

Institutional Investors can benefit from the recovery of Southern European countries

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Southern European economies were in a difficult situation 5 years ago and are now recovering, though at different paces. The financial crisis and national debt problems were hitting Europe as a whole and particularly Spain, Italy, Portugal and Greece. Markets are now recovering and structural reforms implemented or still being implemented started delivering positive outcomes. Companies are stronger while some are delivering promising results in a context of recovering economies. However, careful stock picking based on a disciplined investment approach and fundamental analysis are required to generate alpha in these markets. François Gobron, portfolio manager at Generali Investments, explains in this interview with altii his views on the Southern European countries and how to benefit from stock selection.

altii: François, your strategy focuses on relatively smaller and weaker economies. What is your motivation?

François Gobron: It is in these relatively smaller and weaker economies – at a certain stage in their history – that you can find attractive companies of different sizes and in different sectors, which can potentially rebound and grow faster by benefitting from the recovery of their domestic markets. It is also true that these stock markets, especially in Greece, have a small / mid-cap bias due to the collapse of stock market over last years. In this context, in depth fundamental analysis – sometimes not supported by any external research but only based on in house research – is crucial. Our strategy consists in investing mainly in equity securities issued by Euro zone companies that will benefit most from the economic recovery in Southern Europe (companies with a strong focus on their home markets) and from structural reforms driven by supranational organisations (primarily the IMF and the ECB). The investment universe is mostly based on Southern European stocks (minimum of 60%, more than 97% currently) with a focus on Spain, Italy, Portugal and Greece. Our benchmark is the Euro Stoxx index, investors can therefore compare the fund’s strategy to a more “plain vanilla” Euro zone universe.

altii: Within this investment universe what are your key themes?

Gobron: We focus on three themes: Recovery, Restructuring and Re-Rating. Recovery means that we are only selecting listed companies with a strong management, a clear strategy and with a focus on their local markets. In terms of Restructuring, we favour state controlled companies with relatively high fixed entry costs, companies benefitting from positive changes to their regulatory and economic framework (assets disposal, recapitalization) and potentially with financial leverage if backed by a large assets base. Finally, Re-Rating of southern European economies will, over the long term, drive the convergence of peripherals risk-free rates towards core rates, reducing cost of debt at companies level and rerating of the market valuation by reducing the discounting factor of DCF valuations, hence increasing stocks’ multiples.

altii: How is your stock selection approach characterised?

Gobron: We are risk conscious and very careful in the way we select our stocks. All our investment processes
are driven by strategic analysis on companies focused on their home markets. We also avoid regulated businesses when the regulatory framework looks unfavourable for companies (and most of the time favourable for end-clients), e.g. the energy sector in Spain, or subsidised industries in a weak economic environment. Finally, we carefully analyse the business models of each company and stay away from the weak ones or from poorly defined strategies. We had been very successful avoiding “difficult” stocks like Gowex, Abengoa or even Banca Monte Paschi, by doing an in-depth analysis of business strategies. Once a name has been identified, with a strong strategy and a good growth potential, we run a valuation analysis based on our DCF model and we buy when the upside is above 50%. We have a rigorous sell discipline based on our own calculated target price (we sell when the target price is reached) or on a strategy shift of a company (we then review the investment case and set a new target price).

**altii: How would you describe your investment process?**

**Gobron:** Our investment process is based on three key steps. Firstly, we select approximately 150 companies from a universe of more than 400 stocks that are listed or active in Southern European markets, based on a quantitative screening approach (Southern Europe exposure in term of sales and margins, debt ratios, stock liquidity). Secondly, after meeting the companies and reviewing their strategies, we narrow down the universe to around 80 stocks. We hold 200 meetings per year with companies’ management teams. Finally, these stocks are then subject to an in-depth valuation process based on a proprietary model, resulting in a portfolio of 40 to 50 stocks.

**altii: What is your philosophy on risk management and how do you operate it?**

**Gobron:** The monitoring of risks is an ongoing basis, within the investment team and/or through our independent risk management team. For instance, we follow a disciplined approach to stock selection, analyse each company in-depth and monitor any developments relating to the investment cases. A stock’s liquidity is taken into consideration when investment decisions are made and, in the event of potential liquidity issues, we look for a similar stock opportunity. In-house macro views are also integrated into the portfolio construction level in order to adjust country or sector allocation. Furthermore, we also run “What-if” analysis on the portfolio before we trade a stock. Risk Management is also involved in the process, running VaR contribution analysis, by holding and at fund level. On a daily basis, internal limits are also being checked and we operate a UCITS IV compliant simulation tool (VaR limits, liquidity and counterparty risk).

**altii: Why should an Institutional Investor invest in your fund?**

**Gobron:** If an institutional investor believes in the underlying investment rationale – the economic recovery of some Southern European countries benefitting their domestic markets and local companies – then an investor should find the strategy appealing. Our stock picking skills allowed us to generate excess return compared to the local indices. In Greece, we were able to generate a +9.6% performance in a market down by 12% (Figure 1). We have the financial expertise, in depth knowledge of companies we invested in, rigorous approach in how we construct and manage the portfolio, as well as when we need to sell!

**altii: Why in particular a German investor?**

**Gobron:** We believe that investing into Southern European countries for a German investor provides a good “diversifier” within an equity portfolio with a Euro and/or German bias, by investing in the recovery theme in “peripheral” Eurozone countries and the potential growth of carefully selected companies.

**Figure 1**

![Source: Bloomberg](source: Bloomberg)

**About François Gobron**

François Gobron has 14 years of experience in the finance industry as a Small & Mid Caps Fund Manager since 2008 and as M&A/ sell-side equity Analyst on Small Caps before that.

**About Generali Investments Europe**

Generali Investments, the main Generali Group asset manager, offers a broad choice of personalised investment solutions for institutional and private clients. With approximately €375 billion of assets under management as of end of June 2015, Generali Investments is one of the largest asset managers in Europe.

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