

## Jens Moestrup Rasmussen: 'Dinosaurs' can live to prosper

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Not everyone would take kindly to being called a dinosaur, but for Jens Moestrup Rasmussen, it was a positive experience.

When Rasmussen started running funds in the late 1990s, value investing was not a fashionable course to follow. Value managers were mocked for not understanding the new economy that was transforming the market.

But that time spent 'standing alone in a corner', as Rasmussen describes it, was well spent - and meeting famous value investors at that time was a key experience that stiffened his resolve and helped shape his thinking.

'This experience obviously sharpens your focus,' he says. Those veteran value managers he met in the US, he recalls, asked him: What would a sane young man want with dinosaurs like us?'

With the benefit of hindsight, the strategy followed by value investors during those years now looks a whole lot saner. And Rasmussen is stronger as a fund manager for having survived the boom and bust of the bubble.

The deep value strategy followed by Rasmussen and his colleagues at Sparinvest in Denmark is based on a concept of intrinsic value, and is strictly observed. He will only buy stocks if they are trading at a discount of at least 40% to his own assessment of the company's intrinsic value.

It is a strategy that has seen him deliver a return of 68% over the past three years, with the €615 million Luxembourg-domiciled Sparinvest Global Value fund, in euro terms after charges. Over the same period, the benchmark MSCI World index has risen 44.1% and the average fund in the sector has returned 35.5%.

Calculating the intrinsic value of a stock is the key part of the process. When he is considering whether to invest in a stock, Rasmussen likes to examine it as if he was planning to buy the whole company. In that sense, he says, he thinks in a similar way to a private equity investor.

'We aim to calculate the price that reflects the true value of the company,' he says. 'In some of the cases, we will look very closely at the asset backing of the company where that is not reflected in the price.'

This approach leads him naturally towards companies that are likely bid targets. A stock like BAA, the UK airport operator, is a good example. 'We bought that three or four years ago when the stock price was around £4 and we calculated an intrinsic value of the company as £10,' he says.

'There was a bid for the company of around £9.50, which basically reflects the value we put on the stock. BAA also shows another characteristic we are looking for - long-term earnings power.'

Rasmussen says that in most cases, he is basically setting out to buy companies that look disappointing. 'As a value investor, you can do some of the best investments when confidence is at its lowest level,' he says.

In recent months the UK, it seems, has proved a particularly fertile market for Rasmussen. 'We've had four takeovers so far in the UK this year.' As well as BAA he has invested in De Vere, which owned the famous Belfry golfing hotel. 'This is a case where we bought a company because of the asset backing. In the wake of 9/11 there was no big belief in the value of hotels in Europe.'

But while the UK has been a happy hunting ground, Rasmussen's investment universe is global. In Germany, for example, he believes it is still possible to find good value - although the ideal entry point for deep value investors may have passed.

'Three years ago, when you had the market really plummeting downwards, there were obviously better opportunities,' he says. 'Back then you could really find dirt-cheap stocks; big global players trading at very attractive valuations.'

'In the US, in the small mid cap part we could still find some opportunities, but blue chips, in my world, are trading at peak earnings.'

'Japan has been a big drag on our performance this year. The yen has pulled us down. But we're still positive. If there are going to be changes in Japan, it seems like the market wanted to price all of that in during the last quarter of 2005.'

Rasmussen's investment horizon is between three and five years. 'Obviously this is very long term for a mutual fund in the market today,' he says. It's another similarity between his approach and that of a private equity investor. 'With a lot of the companies that we invest in, it's really the nature of the companies that it takes a while for them to come good,' he says.

When Rasmussen took over the Global Value fund there were 190 holdings, and he has tried to make the portfolio more focused. 'But we like the long tail of smaller companies in our fund. It's the absolute discount that counts. A big position in the fund would be between 3 and 4%.'

Although the fund has grown since Rasmussen took over, he believes there is plenty of room for further growth before he starts to worry about its size. Five times the fund's current size would be a realistic limit, he says. 'We would like to stay minority shareholders.'

As the lead manager on the Global Value fund, Rasmussen relies heavily on the work of his colleagues and he is keen to highlight their contribution. 'It's very important to realise that it's also a team effort,' he says. 'There are four of us, soon to be five, situated in Taastrup, just outside Copenhagen. We'll discuss our ideas over a cup of coffee and out of every 10 there will maybe be two or three that will actually qualify to go further in the process.'

'We'll start out with traditional security analyses as we are taught in business school or university, and that means looking into company reports, looking at websites, talking to management and talking to investor relations. We screen what we call the developed markets in the world. We don't like political risk in the countries where we invest, so we'd rather step back. In our universe today, we have around 22,000 shares that could potentially be value shares.'

'You can use this value and growth argument in the old terms - an old value investor will say there is nothing like value and growth stocks, and he will say there are only expensive value stocks. We could end up with a list of 60 shares, and after the analysis and the evaluation phases we will boil it down to maybe 10 shares.'

'We develop what we call a fact-sheet, covering all the ratios that we like to focus on as value investors, a 10-year record and history of the company, with some background on the company and input on shareholder structure.' These fact-sheets are then used in the final discussion on investment decisions.

As Rasmussen has made clear, the IT bubble of the late 90s may not have been the ideal investment environment for value managers. But the rapid development of IT in general has also had a more general effect on fund managers and how they operate.

‘When I started out in ’97 there was under-information,’ says Rasmussen. ‘I would argue today it is over-information. Basically you have to sort out all the data and say what’s really making a difference for a value investor like us. And we perform all our research ourselves.’

Databases, however, provide new opportunities for investors such as Rasmussen. As he points out, the great value investors of years gone by - such as Benjamin Graham, and even Warren Buffett during the early part of his career - were obliged to scan newspapers and periodicals for company information, which they then had to analyse. Modern value managers have all this data at their fingertips.

‘Obviously we like to meet company management to have a full dialogue from time to time. But it’s not like we will travel just to participate in roadshows,’ says Rasmussen. While meeting company management is useful, he believes there are limits to what he can learn from on-site visits. ‘I’m good with numbers, I’m good with trends. I’m not an expert on production, so it’s no good taking me out to look at machinery,’ he says.

Rasmussen is sceptical as to whether you need a certain type of personality to be a successful value investor, but he believes his own career path has played a key part in shaping his philosophy. He started out working on credit ratings and this experience helps him to better understand the companies he now analyses.

Being branded a dinosaur has also clearly left a mark on his thinking, as he highlights experience of down markets as a key influence on his philosophy.

‘Obviously it’s not nice to underperform but sometimes it’s also healthy for managers to know that you can have periods of underperformance.’

‘What you also have to recall is that this is basically my hobby, also. It’s basically a 24-hour job being a fund manager.’

‘You need to focus on the things where you can make a difference. At the end of the day, it’s basically crunching the numbers - that’s being a value investor.’

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