

INTERNATIONAL
Herald Tribune

Funds: At 3V, finding big value in small Swiss packages
By Malcolm Shearmur Bloomberg News
TUESDAY, MARCH 14, 2006

ZURICH Bernhard Signorell's 3V Asset Management, which has all of three employees in its office in Zurich, is beating the world's biggest money managers.

The Swiss Small & Mid Cap Fund was the best performing mutual fund investing in local stocks in the 12 months ended Feb. 28. It returned 53 percent, compared with 36 percent for the 225-stock Swiss Performance index. The 391 million Swiss franc, or \$297 million, fund also outpaced its 169 competitors over the past three years.

Signorell's fund focuses on companies with a market value of no more than 1 billion francs. The country's largest fund, UBS's \$3.1 billion Switzerland Equity Fund, concentrates on Swiss blue-chip stocks like the drug maker Novartis and the world's largest food company, Nestlé, whose market value is 158 billion francs. It returned 34 percent in the past 12 months.

"The real pearls are never among the largest companies," Signorell said in an interview. Signorell's largest holding, the chemical company Gurit-Heberlein, does not rank among the 60 largest stocks in the benchmark, the Swiss Small & Middle Companies index.

Shares in Gurit-Heberlein surged 46 percent in the past 12 months, while those of Novartis, the largest holding in the UBS fund, rose 21 percent. The benchmark returned 31 percent.

Swiss Small & Mid Cap Fund can take advantage of its size because it is able to buy and sell stocks without competitors noticing, according to Stefan Ruenzi, an assistant professor of finance at the **Center for Financial Research in Cologne**.

"Smaller funds are nimbler because it's easier for them to cash in on investment ideas," Ruenzi said "If they have to trade because of inflows or outflows, they can do so with less market impact."

There are disadvantages, though. Smaller funds generally charge higher fees because the costs of managing money are fixed. That means expenses are spread over a smaller number of clients, according to Andreas Zingg, of the Swiss Institute for Banking and Finance at the University of St. Gallen.

The total expense ratio for the 3V fund, which includes administrative charges and management fees, is equivalent to 185 francs for every 10,000 francs invested, compared with 150 francs for the Switzerland Equity Fund at UBS.

"From an economic perspective it's better to be a larger fund because there are certain fixed costs, such as for marketing and distribution," Zingg said.

The 3V fund can invest up to 20 percent of its money in larger companies and can hold up to 49 percent in cash.

Signorell, who works with Markus Iseli and Jeanette Rechsteiner, seeks companies whose shares are cheap compared with their earnings or the book value of their assets.

He bought shares last year in Bank Sarasin because he saw it as the cheapest Swiss bank for the wealthy, with a market value equal to 3.2 percent of its managed assets.

The value of Swiss banks would rise, Signorell said, as the industry consolidated. Julius Baer last year bought three private banks and the GAM asset management business from UBS.

Selling is as important as buying in explaining the success of the fund, he said. He bought shares in Serono, the largest European biotechnology company, after they had slipped 15 percent in 2004 amid concern the company was too dependent on a single treatment. He eventually sold out of his holding in January, after the stock price rose 30 percent over 12 weeks on speculation the company would be acquired.

"When it touched 1,100 francs, I sold the whole position," Signorell said. The shares trade at about 915 francs now.

He said he also focused on buying shares that have plunged in value. His most recent purchase was of stock in Synthes, the world's largest maker of devices to mend broken bones. Shares of the company fell 6.4 percent last month as it reported lower-than-expected earnings.

He also bought shares this year of the mobile phone software developer Esmertec, whose stock fell 26 percent on Jan. 25. It is not evident yet that those bets will work. Shares in both companies continued to fall this month.

"I don't care what others say," Signorell said. "When people say 'sell,' we buy into a company."