

INVESTMENT STAR MANAGER



ERNST GLANZMANN

Patience, trust and discipline are investment mantras for GAM's Ernst Glanzmann. The Citywire AA-rated manager tells Yixiang Zeng how to find returns in the deflationary Japanese climate and how to get the best bang for your buck

You could say that like Frank Sinatra, GAM's Ernst Glanzmann has very much done it 'his way' when it comes to picking stocks for his **GAM Star Japan Equity EUR** fund.

'My way means being patient, having trust and being disciplined,' the Citywire AA-rated manager says.

No manager can be an expert on every industry in which they invest, so Glanzmann says common sense, the ability to take time over things, and confidence in companies and in yourself are essential qualities to have.

'Don't expect a long-lasting result within a very short period of time,' he says, 'you really need to be involved for quite a long period. You have to trust yourself to find your own way.'

Glanzmann took charge of the GAM Star Japan mandate on 1 June 2015. The fund has returned 29.54% in the US dollar terms as of 30 September 2016, compared with the Citywire benchmark Topix TR's 13.36%. Glanzmann runs the fund with his co-manager Reiko Mito.

As well as the Star Japan Equity fund, Glanzmann also co-manages GAM's other fund, the **Julius Baer EF Japan-JPY B**, with three other managers: Carlo Capaul, Reiko Mito and Stefan Fröhlich.

TRUE BELIEVER

He is a true believer in the Japanese equity market.

'I find Japanese equity market trends fascinating,' he says. 'The internet, social media and smartphones have changed business models and enabled new business models to crop up.'

'Another trend is hybrid motor technology, which is very specific to Japan. It is now used in many cars and was introduced by Toyota Motor with the Prius.'

'On the more negative side, one trend that doesn't appear to be letting up is low interest rates. We have had deflation for almost 20 years.'

'The low interest rate, in a way, dragged the stock indexes, especially over the past few years.'

Against the backdrop of years of deflation, many investors are not keen on



Japanese equity. However, Glanzmann has been pursuing this market for more than 26 years.

'Profits are bottoming out. First, because of the oil price, which has stabilised and is now increasing slightly. Second, by looking at the historical deviation of how the yen moves against the US dollar, it appears the yen will soon stabilise.

'This shows that profits are positively impacted by these base effects. Some of the core segments are quite heavily weighted in the indexes. For instance, the car industry enjoys healthy growth in countries like China, India and the US. So you have some elements that are working in favour of the market.'

Glanzmann believes profits will grow 6-8% on a compound annual growth rate in the foreseeable future.

'If you look at the valuations, the price-earnings ratio is obviously in a very stable environment. It is currently trading at 14 to 15 times expected earnings, which has been the case for quite some time.

'That means the market tracks ups and downs of earnings closely while the price-earnings stays steady. The market has not shown a price-earnings expansion, therefore, I think this is a very sound environment.

'It obviously gives room for price-earnings expansion, so that could be an additional bullish factor for the equity market.'

On the other hand, Glanzmann says that taking into accounts external factors, such as the US Fed rate hike, the yen is expected to weaken during the gradual rate hike process, because the Bank of Japan has made it clear it will be many years before the central bank changes its policy stance.

LEVEL UP

Following a pure bottom-up investment approach, Glanzmann focuses on the company level rather than the country level.

'A company's quality is the focus for us. Our primary concern is not about the country, the monetary policy, the Japanese government or the yen.

'According to our philosophy, owning high-quality companies that are inexpensively valued when we purchase the shares is the most compelling way to invest because it generates sustainable and long-term performance.

'Therefore, we go for high-quality firms, but we pay a lot of attention to what we are paying for. Once we commit, we stay as long as the fundamentals permit. This can be many years.'

What does this mean for performance? 'This approach, which is what we call the leaders strategy, has been fully implemented in the GAM Star Japan Equity fund since its launch.

'Our leaders strategy has a track record dated back to July 18 2008. Since then up to September 2016, it came out as 133% before fees in yen

terms. The Topix went up 26% over the same period.'

In his leaders strategy, adopted by the GAM Star Japan Equity in June 2015, Glanzmann executed 17 buys and sells from 2008 until today, which means there was not much actual turnover in his portfolio. Furthermore, the portfolio, which consists of 24 holdings, focuses on predominantly on large- and mid-cap rather than small-cap stocks.

LITTLE IKEA

Glanzmann says that when picking stocks he examines key fundamental variables of the business model of each potential investment candidate which already has been successful for many years.

'This kind of initial starting phase can take up to three years. Once we understand the model and we feel comfortable with it, we will then come up with a fair price, which means we have to estimate how the business will evolve.

'In the end, we will get a fair price in this process; we then compare this fair price to the actual share price in the market. If there is a discount of 30%, we will buy the full position. If not, we will wait until we have another opportunity later on, as long as fundamentals permit. And this is a key element for our success.

'One important element of our portfolio is that we have all the positions equally weighted.'

Glanzmann says. 'We do not have a high-conviction structure. If you pursue an equally weighted strategy, you have to think about when you rebalance the weightings, which we do on an annual basis.'

'The strongest overweight in my portfolio is the industrial sector, which has been important in recent months,' he says.

'Year-to-date, the market has focused more on defensive stocks lifting up our holdings. Consumer staples contributed most to the fund's good performance. We also have one decent real

past six months. 'We exited Canon,' he says.

'We realised that our long-term average return-on-equity (10%) requirement would not be met by the company in the foreseeable future. Smartphones have become a big competitor for digital camera businesses.'

'That is a key reason we disposed of the Canon shares. It was a tough decision, because the company is still very solid – it is the business model that is under structural pressure.'

'The company will have to develop a new business field, which will take some time. So, it is

'Once we commit, we stay as long as the fundamentals permit. This can be many years'

estate stock and some healthcare holdings.'

Nitori Holdings, which has been dubbed the little IKEA of Japan, has made a positive contribution to the fund. 'It is a furniture chain retailer in Japan, which has done an incredible job. Actually, Nitori Holdings is also one of the best performing stocks within the "leader's strategy";' Glanzmann says.

Nitori Holdings' share price has gone up 340% in yen terms since the summer of 2008. On the other hand, Glanzmann says two stocks within financials have been the largest drag in his portfolio. Some consumer discretionary and information technology holdings have also negatively affected the fund's performance.

Glanzmann has also added Keyence Corporation.

'The company produces sensors and measuring instruments, which are used for factory automation, especially in various industry segments, including electronics, semiconductor, automobile, food, pharmaceutical and machinery segment.'

'It has a high free cash flow generating business model, with a very competent sales force,' he says.

'It should maintain the long-term growth pattern of at least 5% per year. The firm maintains a prominent position in this kind of specialised market.'

'Despite being expensive most of the time, there was a discount of 30% available for us in late January, so we immediately bought the shares as a full position into the portfolio. We have followed the company for years; though we have never been able to buy it.'

PORTFOLIO TRIMMING

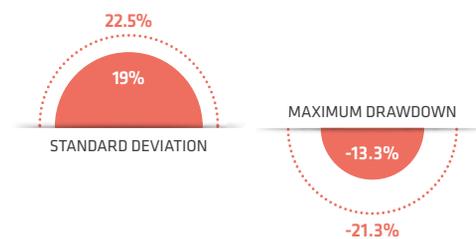
Despite a low turnover rate of Glanzmann's GAM Star Japan Equity portfolio construction, Glanzmann has made some changes in his portfolio over the

going to be a pressure on the profitability as well.'

It was a hard decision, one of many that Glanzmann has had to make and then move on from, looking ahead with optimism to new opportunities. As Frank Sinatra sang in his famous homage to life's ups, downs and unexpected curveballs: 'That's life'.

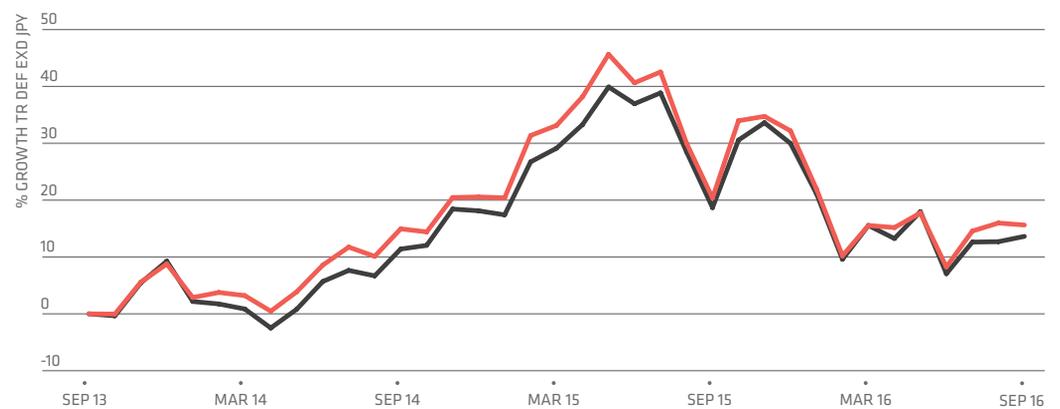
STANDARD DEVIATION & MAXIMUM DRAWDOWN (ONE YEAR) IN JPY

- GAM Star Japan Equity EUR Acc
- Average Manager



GLANZMANN'S JULIUS BAER EF JAPAN FUND BEATS THE AVERAGE MANAGER'S RETURN

- Julius Baer EF Japan-JPY B
- Average Manager



SOURCE: Lipper/Discovery

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INTELLIGENT INVESTOR

Glanzmann says *Intelligent Investor* by Benjamin Graham has made an impact on his investing career.

'I read the book a few times. With a short formula, it helped me to roughly estimate the fair value of the share, not a complex discounted cash flow model. So, it enables me to solve long-standing problems.'



PICTURING THE FUTURE

Glanzmann is aiming to maintain the performance of the fund. 'I'd like to deliver a good result – this would be my first goal.'

'In the long term, at some point I will be retired. After my retirement, I'd like to try oil painting. I want to take it seriously.'

'Right now, I do not have the time that I'd want to spend painting and I want to become a true expert in whatever I do.'



CURRICULUM VITAE

Prior to joining GAM in November 2000, he worked in private banking as a Japanese equity analyst at Julius Baer.

Before that, he worked as a Japanese equity analyst at Clariden Leu, which now belongs to Credit Suisse. He also worked in the back office of Zürcher Kantonalbank.

Glanzmann completed a three-year banking apprenticeship at Bernerland Bank AG and holds a Swiss Federal Certificate of Capacity in Banking from the Business School in Huttwil, Switzerland.