



Meet the Manager: Philippe Brugere-Trelat

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Much like a flower, a value opportunity sometimes takes longer than expected to blossom. So, as both an avid gardener and a stock picker, Philippe Brugere-Trelat knows a lot about patience. He learned the importance of being a methodical investor from value pioneers Max Heine and Michael Price during the early days of his career at Mutual Shares. Now an executive vice president and portfolio manager for Franklin Mutual Series®, Brugere-Trelat has had his patience tried through a variety of market conditions. In an interview with Beyond Bulls & Bears, Brugere-Trelat reflects on those economic ups and downs, and admits that whether in his yard planting trees or in the field visiting companies, he likes getting his hands dirty.

Beyond Bulls & Bears: When did you first become interested in the mutual fund industry?

Philippe Brugere-Trelat: In 1984, I met Max Heine, the founder of Mutual Series, then called Mutual Shares, and Michael Price (who later became president and chairman of Mutual Series). I came from a French private-banking professional background, and was living in London at the time although I was eager to live and work in the United States. I met Michael through a mutual friend. Michael and Max, at that time, were not managing a great deal of money, maybe about \$500 million, but they already had a terrific track record and a very good reputation. Both were very curious people. Max was always searching for new angles to discover value. At that time, they were looking at whether they could find investment opportunities in Europe that were similar to those they were finding in the United States. I showed up one day on their doorstep. Being French, having lived in London, with pretty good connections in the city of London— the rest is history.

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The chances that Greece will exit the eurozone: To me, there is a small, but real risk that Greece may box itself into a corner and be forced to exit the eurozone. Bear in mind, however, that the current Greek government does not have a mandate to take Greece out of the euro, because a vast majority of the population of that country, according to a recent poll, say they want to stay in the euro. So my sense is that, in the end, after a lot of brinkmanship and posturing, we will see some form of compromise, which will please nobody, but will keep Greece within the euro. And Greece will go back to its rightful place in the order of European priorities, which is pretty far down the ladder, in my view.

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Beyond Bulls & Bears: What did you learn from Max and Michael ?

That's easy. I learned absolutely everything from Max and Michael. I learned how to be contrarian, to be thorough, how to be patient, how to keep my emotions in check. I really learned everything about value investing from them. Max, sadly, passed away a few years after I joined the company, but when Michael took the mantle, it was the same thing. I had two wonderful professors.

Beyond Bulls & Bears: What defines your approach as a portfolio manager?

Philippe Brugere-Trelat: Value and stock-picking. Whether value is in vogue, whether it's popular or fashionable or not, at Mutual Series we've done only one thing—value—since 1949, when the company was still known as Mutual Shares. That's what we know, that's what I think we're good at, and that's what I practice every morning.

By value, I mean we look for stocks which we believe look cheap from, for example, a price-to-earnings¹ standpoint. At the same time, we look for catalysts at the time of the investment decision which may reduce or eliminate that discount. It's easy in theory, but it's sometimes more difficult to achieve in practice.

Beyond Bulls & Bears: You have been quoted as saying that you aren't an activist investor, but that "it pays to be a little forthright with a portfolio." What did you mean by that?

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The potential impact of quantitative easing (QE) in the eurozone: In my view, QE is not a magic wand; it's not the solution in and of itself. I think it will not have a great deal of influence on interest rates, because rates are already at historic lows. I think its impact will be on two levels: One is the euro. The euro will likely continue to be weak. A weak euro makes European goods and services more competitive on world markets, so a weak euro is likely to be good for Europe. The second positive impact is on confidence. To me, confidence is most important, because the European Central Bank now is viewed as a backstop. And since the announcement, we can already see an improvement in business confidence data around Europe and particularly in Germany.

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Philippe Brugere-Trelat: Most of the time, we have very good relationships with the management of companies that we're invested in. We never invest in a company where we haven't met management. And once we're invested, one of the key parts of our investment process is to keep in close contact with the management of that company. As stock-pickers, we build a portfolio company story by company story. Contact with management is absolutely key in our process. Most of the time, we have an excellent relationship with management, because they know we are long-term investors. They know that we've done our homework, and that we're supposed to ask the hard questions.

When we think management is not doing what they should do in the interest of the shareholders, we're not shy. We let them know what we believe they should be doing. That can take a variety of forms, including public letters and proxy battles in order to change the management. That has happened not only in North America but also, more occasionally, in Europe, where we have been instrumental in pushing for better-quality management and more shareholder-friendly management.

Beyond Bulls & Bears: What is the toughest or most frustrating part of your job?

Philippe Brugere-Trelat: The toughest part, I would say, is to sell a holding. To me, it's much easier to buy a stock which is attractively valued than to sell one which has done well. Investors tend to fall in love with their positions, particularly those that do very well. But

we try to be disciplined. We try to sell when our fair-value target has been reached and there's no particular reason to change it, but sometimes it's difficult. Selling is always much more difficult than buying.

The frustrating part of my job? Every day's a frustration! But every day also is a big excitement. The wonderful thing about the mutual fund business, the investing business, is that it's never the same. You learn something new every day. When the time comes that I'm no longer learning, I will realize that it's time for me to go. But I think it's the greatest job in the world. You meet smart people. You're on top of the world one day, you're at the bottom of the world another day, but it's always something new and exciting.

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The continued growth in the US stock market: One has to ask what will drive earnings of US companies, because, in the end, earnings drive stock prices. Earnings are not likely to be driven by multiple expansion, meaning investors likely won't pay more for higher future cash flows at a time when the US Federal Reserve's QE has ended and rates are poised to rise. Earnings are also not likely to be driven by margin expansion, because margins, which are ratios of gross profits to revenues, at US companies are at or near all-time highs, and a significant expansion seems unlikely. So we think that leaves good old topline—or gross revenue—growth, and topline growth is real in the United States. The economy is growing at a fast clip. It's much stronger than people expected even a year ago. Therefore, we think there is still a good lag to the growth of US companies. But there's no doubt that for value investors like us, opportunities to find attractive investments in the United States have become harder to come by.

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Beyond Bulls & Bears: What's the most challenging or memorable market period you have faced during your career in investment management?

Philippe Brugere-Trelat: I've been through a few. In 1987, when the stock market dropped some 20% in one day, and the world suddenly looked like it was coming to an end. What's interesting is that if you look at that period on a long-term chart, it was not a big deal. There have been many more crisis situations like that since. The Internet bubble in the late

'90s was another. I also went through the Russian default in 1998 and, more recently, the US subprime mortgage crisis. Crises have taught me the virtue of patience. You have to take a step back, try not to get excited either way by selling or buying. If you wait for things to settle a little bit and for some clarity to come back, then you can start doing your job with a calmer, less emotionally driven mindset.

Beyond Bulls & Bears: Is there one piece of advice you've received during your career that you still rely on today?

Philippe Brugere-Trelat: Be patient. It's okay to be contrarian, as long as you have patience, and as long as your investors have patience too. I'm always reminded of John Maynard Keynes's saying that "Markets can remain irrational longer than you can remain solvent." But with our kind of strategy at Mutual Series and the kind of shareholders we have, I think we have good staying power. And I think that's the thing that's allowed us to go where it's complicated or unpopular and where we think real value opportunities abound.

Beyond Bulls & Bears: What are you interested in or involved with outside of work?

Philippe Brugere-Trelat: I like playing tennis. I also like to travel when I can, for pleasure, to discover new countries, new people and new ways of life. But if I had another job in another life, I think I'd like to be a landscape architect. I like designing gardens. I have a place out on Long Island, and I like putting my hands in the ground and planting. To me, that's great therapy. And, like investing, it requires patience to see things really bloom and grow.

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1. A price-to-earnings ratio is a valuation ratio of a company's current share price compared to its per-share earnings.

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