

We are pleased to share the following resource for investors looking to learn from Jean-Marie Eveillard, one of the most successful value investors of our time. This piece is authored by MOI Global research associate Alex Gilchrist as well as read and approved by Jean-Marie Eveillard.

Jean-Marie Eveillard is a graduate of HEC Paris and joined Société Générale in 1962. In 1978, he took on the reins of the \$15million SoGen International Fund (as of 2000, First Eagle Global). For the 26-year period from January 1979 until December 2004, Jean-Marie Eveillard achieved a compounded annual rate of return of 15.76%. (VIMS, p.147)

In 2001, Eveillard was honored as Morningstar's International's "Stock Manager of the Year." In 2003, Morningstar bestowed on Eveillard a "Fund Manager Lifetime Achievement Award", created to recognize "mutual fund managers who throughout their careers have delivered outstanding long-term performance, aligned their interests with shareholders, demonstrated the courage to differ from the consensus, and has shown the ability to adapt to changes in the industry." In 2008, Matthew McLennan took over as the head of the Global Value Team, whilst Jean-Marie remained as a senior adviser. In 2009, Jean-Marie was a finalist for the Morningstar "fund manager of the decade award for non-U.S. stocks." Since its beginnings as a \$15million SoGen International Fund, as of 31 March 2020, First Eagle has \$94bn under management.

Education and Early Qualities of a Value Investor

Jean-Marie Eveillard was born in the French city of Poitiers in 1940. He was an avid reader from an early age. When leaving his home region to complete his school education in Paris, his teacher told him, "Never forget, everything is in the books." Jean Marie understood this as signifying that when one "undergoes the trials of life, one can always find refuge in reading." He demonstrated persistence early on, sitting through two attempts at the entrance exam to gain entry to France's most prestigious and world renowned business school, École des hautes études commerciales de Paris (HEC Paris). Outside studies, he became an avid bridge player, watched numerous films and read many books. (VIMS, p.16) At HEC a course on stock analysis stood out, from which he "really learnt" how to read a balance sheet. At the end of his studies at HEC, Jean-Marie pursued a traineeship at *La Vie Française*, which he describes as a cross between *Barron's* and *Business Week*. (VIMS, p.17) Upon graduation in 1962, Jean-Marie joined Société Générale as an analyst.

In 1968, Jean-Marie transferred to Société Générale's New York subsidiary, moving to the West Village. Through French friends studying marketing at Columbia, Jean-Marie was introduced to the work of the already retired Benjamin Graham, *The Intelligent Investor* and *Security Analysis*. He was "completely inspired" having "at last found what he had been looking for a long time professionally." (VIMS, p.20) Graham's concept of the market as voting machine in the short run and a weighing machine in the long run, resonated with Jean-Marie. In 1969, at a dinner organized by a mutual friend, Jean-Marie met his wife to be Elizabeth (Betty) née Mugar. Betty had spent a year at the Institute of Hautes Études Internationales in Geneva. Following her graduation from Harvard Business School in 1972,

they married. In 1970, Société Générale set up the Sogen International Fund (SGIF). Whilst Jean-Marie performed some stock analysis for it, the firm, Smith Barney, was sub-adviser to the fund.

SoGen International Fund (SGIF)

In 1974, Jean-Marie returned to Paris to manage a \$200 million fund for Société Générale. Investment decisions, however, were taken by a committee that were more interested in “names they could recognize” than in value investing. At the end of 1978, Jean-Marie came back to New York to take on the reins of the Sogen International Fund (SGIF), that then had AUM of \$15million. During this same year, a memo of Leon Cooperman, introduced Jean-Marie to Warren Buffett. Reading Buffett’s *Letters to Shareholders*, Jean-Marie was drawn to the clear distinction Warren made between wonderful and other businesses. From 1979-1986, Jean-Marie ran a one man show at SGIF. At the time Jean-Marie was “lucky” to find an abundance of Ben Graham type stocks, names including Atico Financial, Burlington Northern, Enterra, Longview Fiber, Pope and Talbot, GATX, Tennant and Mills Music. (VIMS, p.23) Between 1979-83, SGIF gained 188%, by 1987 had \$100m, by 1993 \$1bn under management and by 1997 had reached \$6.5bn under management.

Approaches to Value Investing

Jean-Marie has described value investing as a broad tent. On the one side is the Benjamin Graham approach and on the other the Buffett approach. The Graham approach perceives value as being “somewhat static” as “Ben Graham makes very little attempt to peer into the future.” (MOI, 2015) and as primarily “balance sheet derived with some adjustments, if necessary, to the asset side and/or the liability side.” (MOI, 2015)

“If you identify on a static basis a value of say \$50/share, you buy the stock at \$30 or \$35, you sit on it as long as the intrinsic value doesn’t seem to be reduced by losses or for other reasons, you sit on it patiently until the stock moves towards \$50, at \$45 you start selling and at \$50 you’re done.” (MOI, 2015)

On the other hand, Buffett “starts with the numbers, but then he has the qualitative” (MOI 2015) as his approach is focused on identifying companies that “have the ability to be as successful ten years down the road as they are today” (MOI, 2015) with the intrinsic value being a reflection of the strength of the sustainable competitive advantages. (VIMS, p.43) In assessing these “Buffett [gives] more importance to the quality of a business than that of its management.” (Idem) These companies are “a very limited number” and a “reason Buffett has been so successful is he has made very few mistakes.” (MOI, 2015)

Patience as the Defining Characteristic of a Value Investor

“I think the reason why there are so few genuine value investors is mostly psychological. It is that if you’re a value investor, you’re by definition a long-term investor as Ben Graham said, short-term stock market is a voting machine, long-term it’s a weighing machine.” (MOI, 2014)

"It may go up after a long period of time, but it will go up if it deserves to go up." (MOI, 2014)

"If I buy a stock at \$50 and after four years it's still at \$50, and then in the fifth year it doubles to \$100 I don't say I wasted my time for four years. I say I doubled my money in five years which is compounding at 15% a year that's good enough for me." (MOI, 2015)

"I can be patient (for years, if necessary...) as long as I do not use leverage and that I do not suffer too large streams of redemptions. I cannot be patient if I am confronted with margin calls and do not have sufficient cash to cover them" (MOI, 2017)

Being able to apply this patient value investor mentality enabled Jean-Marie to take advantage of opportunities in Europe early on in his career:

"The 1970s had been a difficult decade for equities because inflation ruled the world, and there were many small-caps in continental Europe selling for a "song." Management did not worry about it because usually the business was family controlled. The family had no intention of selling their equity in the business, so they did not care whether the stock was up or down, high or low. Yes, the opportunities were extraordinary, but the value investor would have to be even more patient than usual because at least for the time being, there was practically nobody but you and maybe a few others who were interested in that kind of security." (MOI, 2017)

Jean-Marie's patient approach has resulted in a low turnover rate, which has been tax efficient for his investors. (VIMS, p.76) This patient and disciplined mindset has allowed Jean-Marie to stay away from speculative booms:

"I was more helped by what I did not own than what I did own. I owned nothing in Japan in the late '80s, owned nothing in the technology media and telecom stocks in the late '90s, I owned nothing in the financial stocks at the beginning of this century." (MOI, 2014)

Giving the .com boom a miss led to Jean-Marie stoically enduring the departure of the majority of his investors:

"I preferred to lose half my clients than half my clients' money." (VIMS, p.27)

"After one year, my shareholders were disappointed. After two years, they were really upset. After three years, they were mad at me. After three years, they were gone basically and we went from \$6 billion to a little more than \$2 billion. Again, not because we were losing money, but because in my last fund seven out of ten shareholders disappeared and that's painful." (MOI, 2015)

Société Générale didn't seem to share that value investing mindset at the time:

"At the time, Société Générale, the French bank, was my boss and they decided not to fire me. They decided to sell the operation I was running." (MOI, 2015)

Method

Jean-Marie emphasizes scouring through stocks to find good ideas:

“There have always been opportunities when searching from the bottom up on the main international stock markets – sometimes there have been too many for instance in 1982, 1990, 2002 or at the end of 2008 and start of 2009. At other times it has frankly been like searching for a needle in a haystack.” (VIMS, p.131)

When asked by super investor Guy Spier during an MOI’s 2014 Investing in Asia Conference about the approach he would take to investing in Korea, Jean-Marie answered that he would follow Warren Buffett’s approach for his personal portfolio:

“Take the Korean handbook and go one company after another, it’s one page per company and look at the numbers and look at whether the business looks half decent. It doesn’t have to be a great business and if the stock price is low enough, just buy it and sit on it.” (MOI, 2014)

Value investors should diligently go through a company’s reports:

“Pay attention to the footnotes to financial statements. Incidentally, nobody would have bought Enron if the people who did buy Enron had bothered to look at the footnotes, because there were one or two footnotes that were completely incomprehensible. If you called the chief financial officer’s office, which we did, they were very evasive about those footnotes.” (MOI, 2017)

“We therefore have to be satisfied with the numbers. If that is not the case, the annual report goes into the trash, and we turn to other things.” (VIMS, p.43)

When analyzing companies:

“It is easy to get lost in the details or to be attracted by complexity, but the most important thing for me is to know which are the three, four or five key drivers of the business.” (VIMS, p.137)

Jean-Marie pays attention to the EV/EBIT as it “brings in the balance sheet.” (MOI, 2012)

“Historically, I have been willing to pay 6-8x EV/EBIT for moderately good businesses, 8-10x for truly attractive businesses and 10-12x EV/EBIT for exceptional ones.” (VIMS, p.55)

Diversification and Portfolio Management

Jean-Marie disagrees for the need for a value investment manager to learn portfolio management. Instead he believes an analyst who has gained exposure to a number of industries will be ready to take on portfolio management and is less likely to devote themselves to “superfluous subjects such as market timing.” (VIMS, p.30)

“The weight of a stock in the portfolio is a reflection of the level of confidence I have in the

quality of the business as well as the share price.” (VIMS, p.30)

“To the value investor, cash is genuinely a residual.” (MOI, 2014)

“In other words, if stock markets go down, if you have cash, you can buy. You can buy without having to sell something else. The amount in cash and in gold is a function of how pessimistic or optimistic one is with what will happen over the next few years in stock markets throughout the world.” (MOI, 2015)

“Unless you are as smart as Warren Buffett, you will expose yourself (as well as your clients) to a major risk if your portfolio only contains 20 or 25 different investments.” “ Sometimes, I hear the question: “Why don’t you only hold your twenty best ideas?” I respond that I do not know in advance which will be my twenty best ideas.” (VIMS, p.31)

Learning from Jean-Marie

As a manager, Jean-Marie was keen to inspire analysts and create a cohesive work culture:

“We have a super team of analysts who take charge of the investigation. “I saw my job as asking the right questions in order to focus the analysis in order to arrive at a decision.” (VIMS, p.137)

“So the in-house analysts keep track of a number of the stocks that we own. Number two, they investigate the investment ideas that I had. I had been reading voraciously. And number three, I tried to make sure that there was enough time left for them to initiate their own investment ideas and develop their own investment ideas. I’d merely ask them to come to me before they would start doing some work on one of their own ideas but I was very careful, almost never to say no...

And then it would be a back and forth, in other words they would do the work and would come back to me, I would have questions and they would go back and try to find the answers to the questions I had, and so it was back and forth...

Indeed, if I ended up buying the stock, because I was not about to redo their work, I may have had questions and there was a back and forth but I was not about to redo their work, if I ended up buying the stock, their responsibility was at least as engaged as mine anyway, in that respect” (MOI, 2012)

Charles de Vault on Learning from Jean-Marie

Super investor Charles de Vault worked with Jean-Marie early on in his career. He shared some of the lessons he learned from Jean-Marie with the MOI Community:

- 1) Focus on “the key three, four or five factors affecting the company.”
- 2) “[T]he idea that one could be eclectic. One did not have to be confined to only large cap stocks. It’s okay to consider bonds - high-yield corporates and Treasuries (when they yield 15% and when they are labeled Certificates of Confiscation - that was the term in 1982). It’s

okay also to consider bonds to try and get equity-type returns. It's okay also to have cash - cash as a residual, not as a way to time the market.

3) "Jean Marie was very much a disciple of the notion that leverage had to be avoided at the portfolio level. He also believed that one had to avoid as much as possible investing in companies that have too much leverage or banks or insurance companies that are undercapitalized."

4) "[H]e was willing to pay some attention to the macroeconomic environment... I think being mindful of those credit cycles made him understand that sometimes stocks look cheap - as they did in Mexico in 1994 - but then again it was an optical illusion because those stocks were cheap based on earnings that were artificially inflated because of a big lending boom that had been happening in Latin America from '92 to '94 or in Asia from '95 to '98 and, more recently, a big credit boom in Europe and the U.S. from '03-'07."

5) "Then finally, I've appreciated that Jean-Marie understood that it was wrong to forecast. You're deluding yourself if you think you can forecast. On the contrary, you have to be aware of how many unknowns there are as well as fat tails and black swans."

6) "Also, from a marketing standpoint, Jean-Marie taught me to never promise anything to clients and certainly never to overpromise."

7) "I am happy to have convinced Jean-Marie Eveillard in late 2001 that gold-mining shares were so obscenely expensive, overpriced, that if we wanted exposure to gold we had to modify our prospectus to give ourselves the right to hold gold bullion." (MOI, 2012)

Summaries of Case Studies in Jean-Marie's Book

Bank for International Settlements (VIMS, p.95-98)

"We've never been activists except in two or three situations where we thought we were really taken advantage of as minority investors and in those cases we sued and we prevailed, well not completely." (MOI, 2014)

The Bank for International Settlements was created in 1930 to finance the German war reparations, with a shareholder base of mostly central banks. When these finished two years later, the BIS adopted a new high-volume low margin business model as a banker to central banks: acting as a counterparty in their transactions, as well as an intermediary between central and commercial banks. However, it conserved a significant amount of gold on its balance sheet that was part of its original share capital. SGIF acquired shares that were traded on the Basel Stock Exchange in 1982 at a circa 60% discount to book value. While there seems to have been no catalyst in sight, the shares offered an attractive dividend, supported by the very low risk activities of the bank.

These shares were held until 2001. At the turn of the century, the BIS decided to buyout shares in private ownership. The BIS made an offer to acquire these shares at 2x the market price. This offer was based on a discounted cash flow model put together by Arthur

Anderson, but which did not take into account the gold held on the balance sheet. First Eagle was confident of its appraisal of intrinsic value at 4x the market price, taking the BIS to the International Court of Justice in the Hague. As a result of the court's ruling a year later, First Eagle achieved three times the market price of the shares. At this time, the BIS was one of the largest positions of First Eagle Global and accounted for 7% of First Eagles Gold's NAV.

Lindt & Sprüngli (VIMS, p.101-106)

Lindt was listed on the Swiss stock exchange in 1986. By 1991, following a high turnover in management, adjusted for a stock split its shares had fallen by almost 35%. Jean-Marie has been a customer of Lindt since his childhood and recognized the qualities of a wonderful business: market growth equal to GDP growth in advanced economies and disposable household income growth in emerging economies; a lack of global competition for accessible luxury chocolates that allows regular real price increases; a moat in terms of brand value as well as an enviable international distribution network that prevents new entrants from competing. As a consequence, Lindt enjoyed regular revenue growth, high operating margins and strong free cash flow generation. From 1992 to 2014, net profits increased from SFR38 million to SFR 343 million, the net profit margin went from 4.8% to 10.1% and the share price from SFR2,500 to SFR74,000 in December 2015.

Shaw Brothers (VIMS, p.111-118)

Jean-Marie came across Hong Kong listed holding company, Shaw Brothers in 1986. Shaw Holdings was founded in 1924 by brothers Run Run and Run Me in Shanghai, with its first activity in the textile business. In 1927, the family emigrated to Singapore and in 1957 to Shanghai. The family diversified into the production of theatre and movies, the ownership of more than 200 cinemas by the 1970s and the creation of TVB that had 80% of the Hong Kong TV market. By 1986, Shaw owned 33% of the equally listed cable television company, TVB; the intellectual rights to more than 1000 Chinese films; and valuable real estate primarily in the form of cinemas that had been converted to more lucrative uses. Despite TVB being protected from competition by hard to obtain state television broadcasting licenses, the valuable copyrights and real estate, Shaw's shares were trading at a 40% discount to net asset value. Whilst Jean-Marie had been advised by locals against investing in a stock market dominated by gambling, Jean-Marie concluded that management moderately defended shareholder interests.

Due to the minimal protection of minority shareholders offered by Hong Kong law, Shaw had been limited to a 1% position for First Eagle. The maximum risk, which entailed, was that minority shareholders would be bought out at a large discount to net asset value. Notwithstanding this, over the 20 years holding period, SGIF achieved a 15% compound annual return.

Swissair (VIMS, p.119-124)

In the early nineties, SGIF invested in the Swissair. Due to a strong balance sheet including aircrafts with an average age of five years; a series of Swissotel hotels in western capitals

including one on Park Avenue in New York; as well as hidden balance sheet reserves. Due to losses in between 1990 and 1992, Swissair's shares had fallen to present an attractive discount to net asset value. Jean-Marie considered these losses to be due to temporary events at the time including the 1990 recession, a fall in global tourism following the First Gulf War in December 1990 as well as a rise in oil prices.

A series of events ensued that would lead to the failure of the airline: In 1992 Switzerland refused to accept ratifications in an agreement with the European Union, which for Swissair limited its ability to serve a number of EU markets. Swissair's CEO who had a background at McKinsey devised a hunting strategy, which led Swissair management on an empire building streak acquiring 49.5% of the Belgian carrier Sabena in 1994; 38% of Polish carrier LOT, 10% of Austrian Airlines and 6% of Ukrainian Airlines between 1998-99; 50% of Alitalia in 2001; in addition to non-related businesses active in sectors including airplane repairs, ground services, IT, airplane leasing, catering, duty free shops, aerial photography and even agriculture. Between 1996 and 2000 staff numbers more than doubled from 36,000 to 79,000 employees, revenues rose from SFR8.2bn to SFR16.2bn, total liabilities from SFR9.7billion to SFR19.1bn, shareholder equity fell from SFR2.1bn to SFR1.2bn and net profit swung from SFR700million to a loss of SFR2.9billion. Swissair management had hidden both these losses by not consolidating the group's minority interests and instead only presenting Swissair's ongoing historical activities that had remained profitable; as well as other liabilities that they had not declared.

Jean-Marie took away several lessons when exiting the 0.1% Swissair position of SGIF in 2001, at an 80% loss. The conservative accounting culture in Germanic companies can make investors less weary of dubious accounting; Leverage is especially dangerous in cyclical industries; Airlines often have poor economic characteristics being both capital and labor intensive, owning assets with limited economic lives, whilst facing over-capacity in the industry resulting from substantial completion that hampers any pricing power; The older airlines often have powerful unions, hefty pension liabilities and due to a culture of receiving government subsidies have been known to fly routes in the interests of national prestige and not economic rationality.

The Modern Investing Environment

Value investors today, should be aware of the macro-economic environment:

"The problems which value investors had in 2008 is they didn't see the financial crisis coming because they paid no attention to the top-down and attention has to be paid to the top-down, and in particular to the mortgage excesses by many financial companies, because that's why the financial crisis was the worst crisis since the great depression, number one; and number two, because as I said before the authorities have taken absolutely unprecedented steps and we don't know what the negative unintended consequences of that may be." "Sometimes what matters is not how low the odds are that something happens but what the consequences will be." (MOI, 2014)

Jean-Marie believes that since 2008 it is likely that we are in a new undefined economic landscape:

"[T]he remaining question is are we still in the post WWII economical and financial landscape or are we in a new so far undefined landscape, which I don't have the answer to frankly.

But I think the odds are good that we may be in a different landscape with negative unintended consequences to the unprecedented steps that have been taken over the past five years."(MOI, 2014)

"[T]here was a 25-year credit boom from the early 1980s-2007, after a credit boom comes a credit bust and the reason so many people missed the financial crisis is that they didn't take into account that there had been a credit boom." (MOI, 2014)

It is fear to test the system that has led central banks to put off a credit bust:

"Those steps were taken because nobody wanted to test the system for fear that if it were tested, the system would collapse. The temptation at some point has got to be inflation." (MOI, 2017)

"So far, because velocity has declined considerably, the policies put in place in the US and in Europe around 2009 have not been inflationary in effect." (MOI, 2015)

Gold

Value investors should however be wearier of inflation than the CPI figures suggest. Jean-Marie considers the CPI index "suspicious," since modifications in 1980 to the way it is calculated that allows goods to be substituted, for example beef to be substituted with chicken, if the price of beef goes up considerably. Jean-Marie also pays attention to the Austrian School of Economics, who use a broader definition of inflation:

"Inflation is not an increase of the CPI or of market prices, these two are symptoms of inflation, that is of the excessive creation of currency and credit. (VIMS, p.89)

Gold is able to offer some protection:

"Inflation and deflation are two faces of the same coin. Gold is the only major asset to offer some protection against both." (VIMS, p.89)

Value investors often stay away from gold because it does not produce any cash flow:

"The problem for the value investor is that there is no measurable value to gold but then there is no measurable value of a dollar bill." (MOI, 2014)

"Gold is cash but not cash in the fiat currency, cash in real money." (MOI, 2014)

Jean-Marie believes when choosing between cash and gold, an investor should take into account short-term interest rates and the optionality of cash. (MOI, 2015)

"Gold is a currency, so it is short-term interest rates that should be taken into account when

considering to hold it.” (VIMS, p.90)

History has shown that gold should not be dismissed even if it suffers a decline in its price:

“It is not the first time we have seen declines in the price of gold. From the end of 1974 to the middle of 1976, gold prices came down by 50%.” (VIMS, p.91)

Asia

Whilst opportunities can still be found in the West, Asia offers the most promise of long-term growth:

“The equity markets are highly valued but we do not have a situation akin to Tokyo in late 1989, so there are opportunities here and there—relatively few, but let me put it another way: From a long-term standpoint, there is little doubt the East is rising and the West is declining. That does not mean there will be no investment opportunities in European or American equities, because quite a few American or European businesses are already doing quite a bit of business in Asia, but it means that opportunities should be particularly sought after in Asia...The two major countries, of course, are India and China.” (MOI, 2017)

Jean-Marie also mentioned that Indonesia, Thailand, Singapore, Malaysia and Vietnam could provide fertile ground. (MOI, 2014) Investors should be weary a boom in credit in China:

“In China, I’m struck by the fact that we have come to see recently that the major reason the Chinese economy continued to do well through the financial crisis—if one believes their statistical numbers—had a lot to do with the fact that there was a gigantic credit boom, and we got to the point where it took three or four renminbi of additional credit in order to have one renminbi of economic growth, which cannot go on forever. I am troubled by the fact that so much debt, a gigantic amount of debt, has been created in China over the past seven or eight years.” (MOI, 2017)

Beyond Investing

Through the Eveillard Family Charitable Trust, Jean-Marie and his wife Elizabeth act as patrons to a number of institutions including: The Frick Collection, The Metropolitan Opera, The Glimmerglass Festival, Carnegie Hall, The Salvation Army, Smith College, Tufts University, HEC (Paris) and Columbia University School of Business.

Jean-Marie taught the “Value Investing with Legends” course for several years at Columbia Business School together with Bruce Greenwald and Tano Santos. Bruce Greenwald suggested to the management of First Eagle that they endow a chair in Jean-Marie’s name at Columbia. Though endowed, the chair remains to be filled. In 2019, Jean-Marie endowed the creation of a value investing chair at HEC Paris. The first chair holder will be Augustin Landier, who “is known for his research on behavioral and corporate finance, asset management and banking” and in 2014 was named as “Best Young Economist” by the French “Le Cercle des Économistes.” (HEC) We are grateful to Jean-Marie for his contribution to MOI and to the value investing community at large.

References and Further Reading

Jean-Marie Eveillard, [*Value Investing Makes Sense*](#) (note: page numbers are references to the 2016 French edition, [*En Bourse, investissez dans la valeur!*](#))

[Jean-Marie Eveillard on the Art of Global Value Investing](#) (MOI, 2012)

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[Charles de Vaulx Shares His Investment Philosophy](#) (MOI, 2012)

[Eveillard ignores the Bulls](#) (CNN Money, 1998)

[Veteran Value Manager Took a Big Risk...](#) (WSJ, 2004)

[The World According to Eveillard](#) (Financial Advisor, August 2007)

[Graham and Doddsville](#) (Winter 2007/2008)

[Two New Members Elected to Board of Trustees at the Frick](#) (Artdaily)

[HEC Paris Creates the Eveillard Endowed Chair in Value Investing](#) (HEC, 2019)