

BY MEGHAN LEERSKOV



A World of Value

Ignoring Short-Term Hype, NorthRoad Searches the Globe for Solid Fundamentals

The perception that the global markets are littered with shaky equity investments is a faulty one. In fact, over half of the high-quality companies in the world are located outside the U.S. — and investors who aren't looking beyond their borders for good investment ideas are missing the boat.

Ray Vars and his fellow transplants from Lazard Asset Management founded NorthRoad Capital Management in July 2002 to concentrate on global investing — and to do it well. “The money management industry is very competitive and to do the best for our clients, we believe that we should focus what we do in a place that we have proven that we have a capability to add value,” says Vars.

NorthRoad Capital is a majority-owned by 11 of its 12 employees. “We invested our own capital to start the firm,” says Vars, who calls the office “an environment where we really believe in our investment philosophy and each other. We aren't just some brand name and bodies at desks. We are owner-operators.”

Since its inception, the firm has

continued to focus on international equities with three portfolios for institutions and high-net-worth clients: International Equity, Global Equity and European Equity. Each portfolio is concentrated in 25 to 40 stocks and avoids both small caps and emerging markets. While the Global product includes U.S. companies, the process and philosophy is identical. “We have a team approach and the same process for all three funds,” says Vars, who acts as portfolio manager and analyst along with Ron Saba and Jim Shore. “All our research and analysis is consistent and we all have to agree on changes for the funds.”

While the Street may have its short attention span fixed on next quarter's earnings or outguessing the firm next door, Vars looks farther down the road. “Investing in equities is really taking ownership in that company,” he says. “Return on equity (ROE) is what drives the long-term value of a business in private markets and it should be the same way in public markets. The other aspect is what you pay. Value is a two-part equation. We believe exercising sound judgment and adhering to this proven philosophy regardless of the market environment will lead to long-term success.”

Harnessing these good investing habits lets NorthRoad pick up high-quality companies in overlooked sectors at bargain prices, Vars says: “Great companies with high ROE, like Diageo or

GlaxoSmithKline, are generating high ROE but trading at low P/Es. When investors let their attention wander to a near-term issue like a currency swing or potential interest rate moves, the fundamentals go unnoticed.”

And the NorthRoad team is equally unwilling to get caught up in bullish headlines. “Look at steel companies, which did great this year and people get excited because EPS is going from negative 10 cents to positive 10 cents and they bid these companies up,” Vars says. “But the long-term ROE on steel has been negative, so theoretically they

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should be out of business!”

In the long term, Vars expects international markets to continue to do well. “Something people have talked about for a long time is the growing equity culture outside the U.S.,” he says. “In the wake of companies competing globally, be it Coke or HP, it has driven investors to look outside the U.S. for investments. There is a lot of potential outside the U.S. for investing in world-class companies.”

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