PORTFOLIO MANAGER'S REVIEW

THE MANUAL OF **Ideas** SERIOUS IDEAS FOR SERIOUS INVESTORS™

A Monthly Publication of BeyondProxy LLC ✶ September 30, 2010 ✶ Subscribe at www.manualofideas.com

When asked how he became so successful, Buffett answered: "we read hundreds and hundreds of annual reports every year."

Edited by the *Manual of Ideas* Research Team

"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Top Five Ideas In This Report

Lavendon
(London: LVD) .... p. 16
Nokia
(Helsinki: NOK1V, NYSE: NOK) .. 20
OMV
(Vienna: OMV, OTC: OMVKY) p. 24
OPAP
(Greece: OPAP, OTC: GOFPY) p. 28
Premier Foods
(London: PFD, OTC: PRRFY) ..p. 32

Also Inside

Editor's Commentary .... p. 4
Superinvestor Holdings Update .... p. 9
45 European MF Companies ...... p. 10
Interview: Ciccio Azzollini .... p. 12
Top 5 European Ideas ....p. 16
Other European candidates ....p. 36
Euro Book Value Bargains ....p. 100
100 Cheap European ADRs ....p. 114

About Portfolio Manager's Review

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.

THE EUROPEAN VALUE ISSUE

- ► Snapshot of 100 European value opportunities
- ► 45 European "magic formula" companies
- ► 45 book value bargains by country
- ► 20+ companies profiled by *MOI* research team
- ► Top 5 ideas, based on proprietary *MOI* methodology
- ► Plus: Superinvestor holdings update
- ► Plus: Favorite stock screens for value investors
- ► Plus: Exclusive interview with Ciccio Azzolini

European companies mentioned in this issue include
ABB, Acergy, AEGON, Ahold, Air France - KLM, Akzo Nobel, Allianz, Allied Irish Banks, Anglo American, ArcelorMittal, ARM Holdings, ASM International, AstraZeneca, AXA, Babcock & Brown, Banco Santander, Bank of Ireland, Barclays, BE Semiconductor, BG Group, BP, British American Tobacco, British Sky Broadcasting, BT Group, Commerzbank, Credit Suisse, Daimler, Danone, Delhaize, Diageo, Drax Group, DSM, E.ON, Elbit Sys... ux, Eni, Ericsson, Formula Systems, France Tele... dical, GlaxoSmithKline, Hellenic Tel... oep, International Power, Lave... LVMH Moët Hennessy, ... Nokia, Norsk Hydro, No... Pearson, Philips Elec... Roche, Royal Bank ... Sanofi-Aventis, SAP ... Spirent Communica... Swedbank, Swiss ... Telekom Austria, ... TOTAL, Turkcell, U... Wessan...

(analyzed...

Inside:

Exclusive Interview with Ciccio Azzollini, CEO of Cattolica Partecipazioni S.p.A.

With compliments of The Manual of Ideas

Exclusive Interview with Ciccio Azzollini

We are pleased to host Ciccio Azzollini, CEO of Italy-based investment firm Cattolica Partecipazioni and co-founder of the annual Value Investing Seminar in Molfetta (Bari), Italy. Ciccio is a graduate of the University of Bari and has completed the Value Investing Program at Columbia Business School.

The Manual of Ideas: When you were thirty years old, you founded the Value Investing Seminar in Italy, which recently held its seventh annual event. How did you become interested in value investing?

Ciccio Azzollini: I'm self-taught so it was very tough because no one in my family had an investing background, and a value investing course didn't exist in Italy. When I bought my first shares at the age of 16, attracted by the freedom of this business—if you're successful, of course—I was foolishly doing technical analysis, momentum investing, etc., and within four years had lost all the money my father gave me to invest. Fortunately, near the end of this period, I happened to read an article on Warren Buffett that was published in an Italian financial newspaper. In 1996 on my first trip to the U.S. and Canada with my parents, I visited a bookstore in Toronto and bought my first book about Warren Buffett, *The Good Guy of Wall Street*. This was how I first learned about value investing.

Thanks to the Internet, when I returned home I was able to learn much more about Buffett, including the fact that he attended Columbia Business School. Unfortunately, my English wasn't (and still isn't) very good, but I did email Joel Greenblatt. I had read his first book, *You Can Be a Stock Market Genius*, and he was teaching a value investing course at Columbia, and he kindly said it would be okay with him if I sat in the back of his classroom. So, speaking barely any English, I moved to New York in the spring of 1999 at the peak of the Internet bubble, when value investing was deeply out of favor to learn the art of value investing from one of my heroes. At the end of the course, Greenblatt suggested I sit in on Richard Pzena's class, which I did, and then I attended Prof. Bruce Greenwald's Executive Value Investing Program. I owe a debt of gratitude to these three great men.

"Through Cattolica Partecipazioni I try to acquire assets or cash flow at a discount — the proverbial fifty-cent dollar…"

In addition to the three men who taught me at Columbia, I owe a debt of gratitude to Ben Graham, Warren Buffett, Charlie Munger, and Seth Klarman, from whose books and shareholders' letters I learned a great deal. Special mention also goes to Whitney Tilson and Glenn Tongue, who are mentors and like brothers to me.

MOI: Tell us more about your investment vehicle Cattolica Partecipazioni. How did the firm get started and what are its objectives?

Azzollini: After attending the value investing classes at Columbia, I spent three years in Milan as a fund manager with my friend Roberto Russo and then in 2004 returned to my hometown of Molfetta, where I founded Cattolica Partecipazioni. It's a long-only investment vehicle with permanent capital seeded mostly by a little foundation called Cattolica Popolare that is involved in many businesses. My father is the Chairman, and thanks to his trust in me I had the opportunity to start my experience in the value investing world. Through Cattolica Partecipazioni I try to acquire assets or cash flow at a discount — the proverbial fifty-cent dollar — and, in addition, almost 40% of the capital is in private equity investments in the area of my hometown.

Value investing is very much an experience-based business and having lived through the worst decade of financial history and survived it, I've learned a lot, especially from my mistakes and from others' mistakes. I would like to have another two or three years of experience and then open up to outside investors.

MOI: Cattolica Partecipazioni is "built upon the application of principles of value investing" articulated by Graham and followed by Buffett. Are you a Graham-type "net-net" investor or do you place more emphasis on great businesses and good corporate leadership?

Azzollini: I have a disciplined, long term-oriented opportunistic value approach, meaning I look everywhere to find value and the best risk-adjusted returns. In the beginning, I was a quantitative value guy looking for statistically cheap stocks (low P/E, P/B, etc.). Today, my public investments are divided into two categories with different risk-reward profiles and time horizons. The first consists of generally undervalued securities where we try to buy a fractional interest in a business at a low multiple of normalized free cash flow. We usually have fairly large positions (5-10%) in 4-5 companies, with smaller positions in another 5-10 stocks. The second category is "workouts", where we try to buy securities affected by corporate actions such as mergers, liquidations, reorganizations, spin-offs, etc. At any given time, we may have 10-15 positions.

"I look at areas of maximum pessimism because of the resulting distressed prices. We try to take advantage of panicky and short-sighted investors."

MOI: Could you illuminate your investment approach by way of a few examples of companies you have invested in or decided to pass on?

Azzollini: We consider ourselves bottoms-up stock pickers and, as a general rule, we follow Buffett's timeless principle of be "fearful when others are greedy and greedy when others are fearful." I look at areas of maximum pessimism because of the resulting distressed prices. We try to take advantage of panicky and short-sighted investors.

The five pillars that underlie our investment approach are:

1) Focus on risk. We think of risk as the probability and amount of potential permanent loss of capital. We start with an assessment of valuation risk: Are the assumptions conservative? Where are we in the cycle of value? We then look at earnings risk: we think in terms of regression to the mean and figure out where are current free cash flows relative to the average of the previous ten years. Then we look at operating leverage and balance sheet risk: What is the leverage? What is the quality of the assets? Finally, we look at timing: Is there a catalyst?

2) Business owner mentality. When we buy stock we don't thing of just buying a piece of paper, but we think we are buying a fractional interest in a business, so we try to think like a businessman that is going to buy the whole company.

3) We have a long term investment view.

4) Demand a huge margin of safety.

5) Psychology is also very important because in the short term stock prices are often driven by emotional aspects of human behavior. As Buffet wrote, "you should look at market fluctuation as your friend rather than your enemy; profit from folly rather than participate in it." This view was best expressed by Ben Graham who posited the existence of Mr. Market.

Finally, we use a checklist, asking questions such as, What is our investment thesis? Is it a good business? Do we have confidence in the managers? What are the implied expectations in the stock price? Why is it cheap? What might I have missed?

Today, Europe is surrounded by fears regarding the sovereign debt of many nations, so we are examining the relationship among psychology, price, fundamentals, and probability. We are finding some asymmetric risk-reward situations in Greece, Spain, Italy, and Germany in sectors ranging from banks to industrials. For example, you can buy well-known Italian banks like **Unicredito, Monte deiPaschi di Siena, Intesa San Paolo,** and **Banco Popolare** at 4-5 times normalized earnings power and in some cases for less than tangible common equity, with the quality of the asset increasing dramatically. Another favorite is **Fiat**, which is going to spin-off its industrial business and trades at a 40% discount to its various pieces, based on ultra-conservative assumptions. Or you could own the stock of Italy's second-largest publishing group, **Caltagirone**, at less than excess cash and get the operating business for free. Finally, you could buy a fractional interest in the **Greek Organization of Football Prognostics (OPAP)**, the state-run lottery, at an after-tax earnings yield of 14%, collect a 12% dividend, and get the near term expansion into online gambling for free.

"…we use a checklist, asking questions such as, What is our investment thesis? Is it a good business? Do we have confidence in the managers? What are the implied expectations in the stock price? Why is it cheap? What might I have missed?"

MOI: What are some of the lessons you have drawn from investments that may not have worked out as expected?

Azzollini: I try not to let mistakes bother me but rather learn from them and move on. We are in the business of making probabilistic decisions, so some mistakes are inevitable. The most important lesson I have learned is to focus on risk first and be conservative in my assumptions, taking special care not to make optimistic forecasts to justify the expected value.

The second most important lesson is don't trust anyone making forecasts.

MOI: Have you had to adapt your value investing methodology when investing in Italy or other European countries?

Azzollini: Yes. In Europe, especially in Italy, the market is less efficient than in the U.S., which is a great advantage, but I find that in general you have to increase the time horizon of investments and demand more margin of safety.

MOI: How have currency considerations played into your investment strategy? Are you looking to diversify outside the Euro?

Azzollini: No. I don't make macroeconomics bets. I invest where I think I'm getting the best value. For instance, right now half of my investments are in the U.S. market, mostly special situations like **General Growth Properties** and **Liberty Acquisition**, and some small-cap Chinese companies, because I like the risk-reward profile and potential IRR, not because I needed to diversify away from Europe.

> *"…living in a small city – along with the size of my firm and its permanent capital – is a real advantage because I'm very far from the noise so I can tune it out and concentrate on what's most important."*

MOI: How do you generate investment ideas?

Azzollini: I'm always checking the new low list, not just stock prices but also lows based on P/E, P/S, etc. I also find ideas by reading constantly — I regularly read the *Wall Street Journal*, *Financial Times*, *New York Times*, *Barron's*, *Fortune*, *Forbes*, Value Line, SPACAnalytics, Gemfinder, Value Investor Insight, Superinvestor Insight, The Manual of Ideas, Outstanding Investor Digest, Value Investors Club, SumZero, Distressed Debt Investing, Merger Arbitrage Investing, Magic Formula, and Grant's Publishing. I'm always eager to read shareholders' letters, news and interviews with some of my favorite investors, including Whitney Tilson, Bill Ackman, Lloyd Khaner, Seth Klarman, Joel Greenblatt, Mohnish Pabrai, Rich Pzena, David Einhorn, John Paulson, Marty Whitman, Howard Marks, Bill Miller, Bob Olstein, Francisco Parames, Eddie Lampert, Jeremy Grantham, and of course Munger and Buffett. Finally, I always attend the Value Investing Congress in New York and Los Angeles, which is a great place to find new ideas.

MOI: You live and work in a relatively small city in southern Italy. How has this location affected your investing mindset? Do you try to meet with company management before making an investment?

Azzollini: I think living in a small city – along with the size of my firm and its permanent capital – is a real advantage because I'm very far from the noise so I can tune it out and concentrate on what's most important. Regarding meeting with management, I'm not opposed to it on principle, but so far have never done it. I think one can analyze management by looking at how they've managed the business, allocated capital and treated shareholders over time, especially what kind of return they've had and what their compensation looks like.

MOI: What is the one mistake that keeps investors from reaching their goals?

Azzollini: In my opinion the biggest mistake people make is having an ultra-short-term view, seeking results in a matter of weeks. Furthermore, I think that the reallocation process is something that you have to think about constantly if you want to outperform.

MOI: Have you read any non-investment related books that have helped you become a better investor? What books would you recommend?

Azzollini: Recently I've been reading a lot of books about investor psychology, especially Robert Cialdini's *Influence: The Psychology of Persuasion* because it helps me understand how people think or react when they're in a group.

At the moment my greatest "wealth" is my library, and I highly recommend Klarman's *Margin of Safety*, Greenblatt's books, Tilson and Tongue's *More Mortgage Meltdown*, Graham's *The Intelligent Investor* and *Security Analysis*, Munger's *Poor Charlie's Almanack*, Cunningham's *The Essays of Warren Buffett*, Thornton's *Quality of Earnings*, Gawande's *The Checklist Manifesto*, Lynch's *One Up on Wall Street*, and Whitman's *Distress Investing*.

MOI: Ciccio, thank you very much for your time and insight.

The Manual of Ideas research team is gratified to have won high praise for our investment idea generation process and analytical work.

"I highly recommend MOI — the thoroughness of the product coupled with the quality of the content makes it an invaluable tool for the serious investor."

—TIM DAVIS, MANAGING DIRECTOR, BLUESTEM ASSET MANAGEMENT

"We do similar work ourselves."

—GLENN GREENBERG, MANAGING DIRECTOR, BRAVE WARRIOR CAPITAL

"The Manual of Ideas is a tremendous effort and very well put together."

—MOHNISH PABRAI, MANAGING PARTNER, PABRAI INVESTMENT FUNDS

"Outstanding."

—JONATHAN HELLER, CFA, EDITOR, *CHEAP STOCKS*

"Your reports provide serious investors with a plethora of bargain stocks and sound advice. I highly recommend them."

—MIGUEL BARBOSA, EDITOR, *SIMOLEON SENSE*

"Very impressive."

—SHAI DARDASHTI, MANAGING PARTNER, DARDASHTI CAPITAL MANAGEMENT

"It's little surprise MOI is a winner. When you start with superior stock screening and combine it with good judgment, you put yourself in a great position to outperform."

—MARKO VUCEMILOVIC, FOUNDER AND MANAGING DIRECTOR, ALKAR GLOBAL

"This is the best institutional-quality equity research to come along in a long time. It not only unearths companies with compelling risk-reward profiles but also analyzes them with a clear understanding of business economics and competitive dynamics."

—PAVEL SAVOR, ASSISTANT PROFESSOR OF FINANCE, THE WHARTON SCHOOL

"I am (as always) impressed with your work."

—MARK SPROULE, SCOPIA CAPITAL

"Keep up the great work, you are quickly becoming one of my must-read sources."

—CORY JANSSEN, FOUNDER, INVESTOPEDIA.COM

FIND OUT WHAT THE BUZZ IS ABOUT.

WWW.MANUALOFIDEAS.COM