

## Hedge fund Everest likes emerging market stocks best

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SINGAPORE, May 27 (Reuters) - For Marko Dimitrijevic, founder of the \$1.3 billion U.S. hedge fund firm Everest Capital Inc., recent takeover activity in emerging markets is justifying a view he has held for nearly two years.

U.S. Tobacco giant Philip Morris's \$5.2 billion takeover of Indonesian cigarette maker PT HM Sampoerna in May and Dutch-Belgian bank Fortis's \$1.26 billion offer for Turkey's Disbank in April are two of several big deals he says are boosting the allure of emerging markets.

"This is serious money," said the Yugoslav-born Swiss national, referring to the Philip Morris acquisition.

"When they buy a company like that, it's not like us, having a stop-loss, being able to exit in a week," he told a fund management conference on Friday.

Over the past couple of years, Florida-based Everest Capital, which runs the \$400 million Everest Capital Frontier fund dedicated to emerging markets, expanded its Asia presence with an office in Singapore and a China fund.

"For the past year-and-a-half, we are really banging the table on emerging equities as the asset class that will give the best returns in the foreseeable future. We think that most of the other asset classes are fairly priced, or slightly over-priced in some cases," Dimitrijevic said.

Improving macroeconomic fundamentals in emerging markets, cheaper stock valuations than developed markets and a limited enthusiasm for the asset class among financial investors are all reasons to be optimistic on these investments, he said.

"While the perception of emerging markets by financial investors -- people like us -- was that they were basket cases - FDI has continued to pour in, year after year. The reason for that is that's where you can make money," he said.

The world's top emerging markets companies, making up about 80 percent of the asset class's market capitalisation, posted a compound annual growth of 16 percent in revenues and 22 percent in net profit from 1999 to 2004, he said.

As a group, their debt halved over the same period and their consolidated price-to-earnings ratio was 10 against between 15 to 17 for developed markets, he added.

### VOLATILE RETURNS

Among stocks Dimitrijevic has a long position on are Hungary's biggest bank OTP, Brazil's biggest private sector bank Bradesco, and Egyptian mobile phone operator MobiNil.

He is also bullish on sectors expected to benefit from China's growing wealth, such as travel and tourism. Everest has a long position on Chinese wine firm Yantai Changyu but saw short-selling opportunities globally in steel and ship-building stocks as Chinese investment slowed, he said.

The Everest Capital Frontier fund has returned -- after a 1.5 percent management fee and a 20 percent incentive fee -- an annualised 23 percent since 1999 he said, against around 10 percent for the MSCI Emerging Markets Free index.

The fund lost 73 percent of its value in 1998 after Russia, defaulted on its debt. Nearly half of its positions were in Russia at the time. It has since made diversification a key criteria and now has more than 100 positions in 25 countries.

Dimitrijevic, who has spent 23 years in the investment management and research fields, including 15 in Everest, says the rapid growth in the hedge fund industry is making it harder to achieve double-digit returns and investors will have to accept volatile returns.

"That's a fact, given that you have \$1 trillion in hedge funds chasing returns out there, that you are going to have to live with in the foreseeable future," he said.

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