

THE WALL STREET JOURNAL MAGAZINE

SmartMoney

the world's Greatest investors

BY DYAN MACHAN

PHOTOGRAPHS BY EVAN KAFKA

IN A MARKET CLIMATE LIKE THIS, THE TITLE “WORLD’S Greatest Investor” can sound like faint praise—it’s like getting the top grade in your remedial English class or being the best player on the Cincinnati Bengals. Sure, with the Dow and the S&P 500 down at least 12 percent since October, just breaking even is an accomplishment, but performance like that doesn’t typically inspire anyone to throw the word “great” around.

But we’re going to throw it around anyway, in honor of a rather elite cadre of five money managers. Experienced, superbright and at times a little lucky, their track records in choppy markets make them diamonds in the rough. With one exception—good to see you again, Uncle Warren—they aren’t household names or even the best known in their field. But they have a few important qualities in common. They’re the money-management equivalents of free agents, with the independence to buy whatever asset seems right for the times rather than hewing to some rigid investing style. “The fastest way to perdition is to hug benchmarks,” notes Loomis Sayles bond guru Dan Fuss. One of our investors doesn’t even have a conventional benchmark to hug: Jane Mendillo, the new manager of Harvard’s endowment fund, works in a world where “alternative” investments like arbitrage and timberland have been the route to stellar returns.

At a time when U.S. stocks and bonds are struggling, our World’s Greatest have the latitude to take their money overseas, and this year they’re relying on that freedom—David Winters of the Wintergreen Fund, for example, has 70 percent of his invested assets parked abroad. (We’ve also spotlighted a top-performing international-only stock picker, Amit Wadhwaney of Third Avenue Funds.) And lest this crowd sound too esoteric, they share another quality that any avid investor can appreciate: They’ve made a religion out of buying cheap. Ultimately, it’s a group with five very distinct approaches to building wealth—some unfamiliar, all great.

[The following is excerpted]

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Dan Fuss

FUND MANAGER, LOOMIS SAYLES BOND FUND

Asked to identify one great call from his career, Dan Fuss stretches sheepishly in his green leather recliner. “There was the time I called the bottom on the market in 1974,” he offers. “But I was only guessing so I could end a horrible meeting.” ■ Fuss may be modest, but his record is not. Decades ago he became one of the first managers to adopt an eclectic, go-anywhere approach to bond investing, seeking what-

ever securities—high-yield bonds, emerging-market bonds, bank loans or convertibles—were right for the market. Today he oversees \$50 billion, and his record shows just how right he’s been: His \$18 billion Loomis Sayles Bond fund, based in Boston, has a 10-year annualized return of 8.8 percent, clobbering the 2.8 percent return of the benchmark bond index. Fuss outperformed again last year, thanks to bets on long-term Treasury bills and Canadian dollar-denominated bonds.

Chasing deals wherever they lead remains Fuss’s calling card. After serving in the Navy, he managed stocks for a while. That gives him an analytical edge over competitors, says Ken Heebner, manager of the CGM Focus fund: “It allows him to tread where others fear.” Such aggressiveness can expose him to more risk. Indeed, Fuss is lagging the benchmark by 0.5 percent so far in 2008. The avuncular 74-year-old attributes his mini slump to buying out-of-favor bonds: The environment early this year offered a rare chance to buy corporate bonds, munis and loans at discount prices—a market where good deals “came swimming to you.”

Right now Fuss’s largest holdings include

the finance company CIT Group, drugmaker AstraZeneca and retail giant Target, all of which have yields of around 7 percent. His advice to would-be bond buyers: Look for investment-grade corporate bonds at, say, 85 cents on the dollar from dominant companies in beaten-up industries. Owens Corning and USG, which make insulation and construction drywall, respectively, are two examples he cites. Buying bonds with longer maturities—at least 10 years—should allow some time for a company’s credit to improve and the economy to rebound. In seeing myriad places to make money in the bond market, Fuss is in line with another titan, Warren Buffett—though he’s less vocal about letting other investors know it. “I wish Warren would keep his mouth shut,” he jokes.

Also like Buffett, Fuss has his mind on foreign markets right now. He says a U.S. rebound should arrive in winter, when the rest of the world starts buying more of our goods. But he predicts that a few years from now, he may hold 50 percent of his portfolio overseas, up from 20 percent today. “The opportunities will be where the people are,” he says.



BEST CALL

■ **CANADIAN PROVINCIAL DEBT**

Everything has gone right since this 2002 bet. The bonds were upgraded, interest rates fell, and the "loonie" appreciated against the dollar.

WORST CALL

■ **THE EURO**

Fuss has been bearish against the euro for about two years, and it appears he was about two years too early. The currency is up 20 percent against the dollar over that span.

WHAT'S NEXT

A long-term rise in interest rates. Fuss thinks the 10-year Treasury note will reach 6.25 percent in five or six years, up from 3.75 percent now. Investment-grade corporate bonds should fare well under those conditions.

BEST CALL

■ **ZINIFEX**
(ZFX.AX, \$9)

The Australian zinc and lead miner took off in the commodities boom. Wadhwaney's 2004 investment multiplied sevenfold, and he sold before falling zinc prices hurt the stock last year.

WORST CALL

■ **AIFUL**
(AIFLY.PK, \$4)

This consumer finance firm turned out to be, well, awful. The stock has fallen 70 percent in two years, due in part to Japan's credit crunch.

WHAT'S NEXT

Wadhwaney sees surprising promise in the newsprint industry, which keeps growing even as the world goes digital. He likes Catalyst Paper (CTL.TO, \$1), a Canadian firm headed for a turnaround.



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Amit Wadhwaney

PORTFOLIO MANAGER, THIRD AVENUE FUNDS

Money managers generally have the salary to dine anywhere they please. But employees of Third Avenue Funds can often be found eating \$5 curry or three-for-a-dollar empanadas off plastic plates in remote corners of Queens and enjoying it just as much as any blowout at the Four Seasons. For that they can, and do, thank Amit Wadhwaney—a native of India who scours New York City for

cheap international eateries and eagerly recommends them to his peers.

Wadhwaney invests pretty much the same way he eats, and his investors are as happy as his coworkers seem to be. Wadhwaney led the \$2 billion Third Avenue International Value to the top ranks of its fund category in the first half of 2008—through May it was up 2.6 percent year to date, six points ahead of the category average. His five-year record, with an annualized 21.4 percent return, is also impressive, and he's built it on the investing equivalent of underground kebab parlors: non-U.S. companies with low international profiles, like Viterra, a Canadian farmers' cooperative whose stock has doubled since he bought it in 2006, and WBL Corp., a Singapore conglomerate up 90 percent in the past three years.

The son of a Bombay cotton exporter, Wadhwaney came to the United States at age 16 to get a degree in chemical engineering. "That was duty," Wadhwaney explains. He went on to earn another undergraduate degree, in mathematics; a master's degree in economics; and another in business for pure pleasure. His polymath background gives him

the tools to dig into and beyond a company's balance sheet. After that his approach to investing is pure Buffett. He looks for companies in industries with high barriers to entry—those in which it's expensive or difficult for new competitors to launch—and he won't consider a security until it's discounted by at least 40 percent of what he judges its assets to be worth. "He doesn't just look for cheap companies; he almost has to steal them," says longtime value investor Jean-Marie Evillard, of First Eagle.

Indeed, Wadhwaney admits he's so focused on cheap stocks that he ignores bigger economic trends, which he calls "macro noise." Morningstar analyst Michael Breen says for that reason, his returns don't correlate with the international stock indexes: "When they zig, he zags." Between 2002 and 2006, when foreign markets took off, Wadhwaney did well but underperformed a few of his riskier peers. "In a raging hot market, I look stupid," he says. "But I was making a down payment on 2008." Today, with his rivals in the red, that down payment is looking like a good bet.

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