

# Léon Kirch

## Out of the box value investment

Renowned stock picker and value investor Léon Kirch joined European Capital Partners (ECP) in 2014 as Partner, Chief Investment Officer and Lead Portfolio Manager. Other than his strong track record, the unwavering Luxembourger brings with him a unique value-investment style and an experienced, trusted team.

### Could you give us an overview of ECP and your role?

ECP was established in 2010 by the Edison Group, a group of successful Luxembourg entrepreneurs including Patrick Hansen and Knut Reinertz. Since then, it has offered a broad range of high-end, bespoke investment solutions for international customers, with a focus on wealth planning, private equity and real estate. In 2014, ECP also decided to develop an asset-management franchise in listed equities, which is when I joined. The group's total AUMs currently exceed € 300 million.

### How would you define your investment philosophy and perception of risk?

Our investment style is based on understanding the risk involved in an investment. Contrary to what they teach you at business school, risk is not the historical volatility of share prices. For ECP, as value investors, the main risk of an investment is tied to the fundamentals of the underlying business. Risk is also closely linked to the idea of preservation of capital. Fund managers tend to forget that relative performance is no good to investors, in the sense that over-performing in a falling market is of no benefit if they are losing capital. As Warren Buffet once rightly put it: *"Only when the tide goes out do you discover who's been swimming naked"*. We have both swimwear and wetsuit. The first layer – the wetsuit – is that ECP only invests in companies with robust earnings power, i.e. strong fundamentals enabling the company to generate a high cash flow for shareholders. The next layer – the swimwear – is that we only invest in a stock when we are firmly convinced it is trading at least 40% below our own assessment of its value. That 40% is protection against our own mistakes (the safety net) and, at the same time, represents our upside if things go according to plan (the return potential).

### You believe in a selective stock-picking approach, not the efficiency of markets?

Yes. In January 2015, I launched our European Value Strategy under this proven value approach, which I have been applying for 12 years in different market conditions and market cycles. We invest in fewer than 40 listed European companies across a variety of market capitalisations, sectors and territories. These companies all have one thing in common: they demonstrate undervalued earning power. We consider them rough diamonds. My investment decisions are based on a lengthy and very detailed due diligence process, focused on undervalued earning power. We do not believe in the perfect efficiency of markets, especially not for small- or midcap stocks. You could say we are private equity investors in the field of listed equities.

### What are the profiles of your clients?

As far as our asset-management strategies are concerned, we target investors who have the same investment mindset as ECP: long-term thinkers and entrepreneurial investors. On the investment-solution side, we are open to forming partnerships with smaller asset managers from around the globe who want to benefit from the diversity in investment-product structuring which

Léon Kirch,  
Partner,  
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Luxembourg offers, but who may not want to be physically present or cope with all the administrative, compliance and infrastructure requirements here. Being asset managers ourselves, we know their needs and how important it is to focus on the core of the business. ECP helps them launch their strategies in Luxembourg in a hands-off, one-stop-shop approach. On the bespoke wealth-planning side, we also advise ultra-high-net-worth individuals on structuring their wealth efficiently and in compliance with regulatory and tax requirements.

### How do you see your sector and activities developing in coming years?

The asset-management market is undergoing a profound transformation. With exchange-traded funds gaining track, investors have now found – and rightly so – a cheap alternative to portfolio managers, who charge investors just for replicating the benchmark. On the other hand, I believe there will always be a niche for true stock pickers who dare to live by their convictions and are willing to seize opportunities where they arise to generate return for their investors. With the investment philosophy I now apply to ECP's products, I have proven that we are able to offer our clients exactly that niche product.

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