Fund Manager's Diary

Iain Little 11th April to 15th April

Sacré Jaune! Once again, **gold** helps government –usually its sworn enemy- raise cash. But government, unlike gold, usually performs poorly. In 1973, Giscard d'Estaing launched the most costly bond issue in history (the "Giscard", linked to gold) with a 7% metal-linked coupon. Instead of filling up the French Treasury, the issue nearly emptied it. Gold's link to the Franc was severed half way through and gold went on a tear to USD 850/oz, multiplying France's gold-linked debt more than 10 times. Three decades on and Brown dumped Britain's gold on the Chinese and Arabs down at USD 275/oz, spurred on by someone called "Prudence".

Now it's Sarkozy's turn. Sarky is flogging gold and silver coins to his own people since the metal has topped USD 1450/oz. This time I suspect fraud, not incompetence. The crowds who mopped up the issue in 48 hours may have been lured in by the 3:1 leverage (a mere third of face value is to be deposited before delivery) and the "legal tender" feature (to explain, if the metal value dips below face value, investors still receive face value and this gives an investor a free undated "put option" on gold and silver).

But wise men read small print, and not only when governments are on the game. The "oz" used is a simple ounce, not a troy ounce. So investors only get 28.35 g/oz and not 31.104 g/oz for their money. With the metal value well below face value, Sarkozy's offer is at a 50% premium to gold and a 120% premium to silver; an expensive "put" indeed.

Unkind tongues suggest that if gold collapses, the French government won't honour the coins at face value. Shame on them (the "*Etatistes*" point out that the Giscard was fully repaid in 1988, luckily for the French taxpayer). But with 19.6% VAT wrapped slyly into the price of each coin, the government has given itself a precious cushion just in case things don't quite work out. (Don't buy them if you're a non-EU resident, as you can't reclaim Sarky's tax and will just end up financing his peculiar spending habits).

Some bullfrogs are green and **Unilever** –a stalwart of the "*Emerging Middle Class*" theme- is a fan. Unilever Canada will buy 59,000 MWh of electricity sourced from wind power. 90% of its Canadian manufacturing operations are in Ontario and all of it is turning green. Its "partner", Bullfrog Power, will inject renewable electricity –wind and hydro- onto the electricity grid to match Unilever's use. We wrote about FMCG's new love affair with ESG (*"Environmental, Social and Governance"*) last week. We hold **Unilever** with a new sense of pride.

Infosys Technologies –a leader in the "*Global Outsourcing"* theme- crashes 13% in a day after disappointing Mumbai analysts. On the face of it, a company that ups its dividend by +140% and its sales by 21% is doing just fine. But after extracting the 30 year-on special divi, the real divi increase is "only" +20% and costs are rising a tad faster than turnover, squeezing margins. (The 3% margin drop is split roughly 1/3 currency, 1/3 compensation increase and 1/3 increased local hiring / lower utilization).

There is also talk of client caution shortening the length of orders and rupee versus USD strength (this latter point is poor analysis as the rupee has traded in the same +/- 10% band for a decade). But to add insult to injury, US protectionistm may make it more expensive to bring skilled workers into the US; this could damage INFY's Just In Time global consulting model (the USA is still INFY's jewel in the crown).

Yet developed economies are recovering. Competitor Accenture talks of "*broad based demand", and* CAP Gemini saw higher consulting pricing in Q1, the first time in 3 years. Consulting is INFY's new business. As INFY's outsourcing model changes, so will its fortunes. INFY has saved for a long Monsoon season; net cash, up 38% y-o-y, equates to 65% of shareholders funds.

Pity poor **Roche** (a candidate for our *Ageing Population* theme). It spends USD 9bn a year on R&D, roughly 20% of sales, to make people healthier and live longer, and then the market tonks the shares because it's not trying hard enough. Q1 sales missed estimates and management now warns of a 3 year period of lower growth. But the fact is that Big Pharma has an image problem and no matter how many times CEO Schwan talks of *the quantity* of innovation, the market thinks *the pace* of innovation is slowing. Roche's earnings will slow too. The worrying thing is that the regulator probably has as big a part to play as Roche's busy scientists.

The **Denver Gold Conference** keeps the bars open all night in Zurich and I go along, cup in hand, to assay sentiment. 600 now attend (in 2002, barely 200); I presume everybody is "long" and it's time to sell. The Bank Credit Analyst tells me gold and silver are well above long term trend and mean reversion is a cert over the next 10 years. Not so, says Marc Faber of *"Gloom Boom & Doom"*; the market talks a big game but few fund managers hold over 5% gold in portfolios. According to my Denver Gold perma-bulls, everyone is nervous now, including them. So I conclude gold is going up and Sarky was wrong to sell.

HAPPY EASTER....the next Diary will be written in early May, Iain Little