

Business

Mutual Fund Analysis

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CNNfn: The Money Gang

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**PAT KIERNAN, CNNfn ANCHOR, THE MONEY GANG:** Our next guest manages a fund that so far this year he is ahead of 78 percent of the funds in its class.

**ALI VELSHI, CNNfn ANCHOR, THE MONEY GANG:** It's called the Transamerica Premier Equity Fund. Jeff Van Harte is the manager. He's joining us now from San Francisco. Welcome to THE MONEY GANG, Jeff. Good to see you.

**JEFF VAN HARTE, TRANSAMERICAN PREMIER EQUITY FUND:** Thanks for having me.

**VELSHI:** Tell me a bit about the Premier Equity Fund. It falls into that class of funds where the name doesn't exactly tell you what you invest in or what philosophy you follow or what kind of strategy you employ.

**VAN HARTE:** Right. It's basically; we concentrate more a little bit in large to mid cap growth companies. We try to buy the leaders in those industries that can sustain a competitive advantage over long periods of time.

**KIERNAN:** Once you identify the leaders in the industries, how are you then filtering them beyond that?

**VAN HARTE:** We really look for balance sheet and cash flow strength. We always want cash flow to reconcile to earnings and we want an operating business that benefits from incremental unit volumes and they can bring those incremental unit volumes to the bottom line.

**VELSHI:** Jeff, you have a 25 to 30 percent turnover. That's not huge in the industry but it's not low enough to call it a tax efficient fund. Am I right?

**VAN HARTE:** Well it's pretty - I have my own money in the fund, so I watch the tax efficiency all the time. I think there was only really one year where we distributed a lot of capital gains, long-term capital gains. That was in 2000 when we were selling a lot of technology stocks.

**KIERNAN:** Jeff, you've got some specific stocks that you've mentioned to us as some of the favorites in your portfolio. Number one on that list we've got here is EchoStar Communications (URL: <http://www.echostar.com>), Dish Network. What do you like about it?

**VAN HARTE:** Yes. What I really like about it is, the top line's growing nicely, about 8 to 10 percent in subscriber growth. They're taking share from cable TV. Below the line there, you have a huge leveraging going on. They generate a couple hundred million dollars of free cash flow a year and at the end of 2004 they'll have the opportunity to refinance about \$2.5 billion of debt at very attractive rates. So probably save about \$100 million of interest expense. So I like the top-line growth and de-leveraging the company.

**VELSHI:** Let's talk about Microsoft (URL: <http://www.microsoft.com/>). We've been juggling around with Microsoft and GE (URL: <http://www.ge.com/>) holding the title for the biggest company in the world. GE's back on top a little bit. What are your thoughts on Microsoft?

**VAN HARTE:** What I like about Microsoft, again, the balance sheet is just incredibly rock solid. You've got a nice problem there, 42 billion in cash and about \$12 billion of free cash flow a year. I think one of the things about Microsoft, the way to look at it is, Microsoft, the returns that Microsoft will generate for shareholders from here on in will be based a little more on proper capital allocation and also growth in their basic operating systems business, which will not grow as fast as it did in the past but they have the capital to allocate in favor of shareholders and I think that will probably play more in the next few years.

**KIERNAN:** And the third stock pick you gave us was UPS (URL: <http://www.ups.com/>) and you're looking at this as an opportunity get in now at a company that has good exposure to the upside of an economic turnaround, correct?

**VAN HARTE:** That's right. Those brown trucks aren't going away anytime soon. One thing nice about UPS is that they've settled their union contract, which now gives them a six-year run here where they don't have to negotiate with the teamsters again. So that should give them plenty of time to catch the economic recovery. Again, very strong balance sheet. About a billion and a half free cash flow a year and a AAA rated balance sheet.

**KIERNAN:** Fuel prices not a major concern for your UPS outlook?

**VAN HARTE:** They have been amazing in terms of managing their costs. They've generally hedged on their fuel costs. So it really has not been a problem for them.

**VELSHI:** Jeff, good to talk to you. Thank you for being with us.

**VAN HARTE:** Thanks for having me. I appreciate it.

**VELSHI:** Jeff Van Harte is portfolio manager of the Premier Equity Fund. He's with Transamerica Investment Management, joining us from San Francisco.

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