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# IS THIS THE BEST TIME TO BUY EVER?

## The guys at EdgePoint think so. These Trimark defectors are launching a mutual fund in the middle of the worst market in 75 years-and they couldn't be happier.

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It is the "where were you?" moment of the financial crisis. At 9 a.m. on Sept. 15, 2008, denizens of the world's capital markets hovered nervously around their Bloomberg terminals, watching the price of futures slide. The day before, Merrill Lynch had entered a shotgun wedding with Bank of America, while Lehman Brothers filed for bankruptcy. It was going to be one ugly day on the markets-a precursor to one ugly autumn.

For Tye Bousada, it was the moment of truth. Over the past eight months, he and two other star fund managers had put together a plan to launch their own mutual fund company. Toronto-based EdgePoint Wealth Management would aim to recapture the magic of their former employer, mutual fund giant Trimark Financial Corp., by offering simple, value-style funds that invest only in solid, growing-and inexpensive-public companies. Their plan was to raise a permanent pool of capital (called Cymbria Corp.) in an initial public offering and invest the proceeds in the market, giving shareholders a stake in EdgePoint as a bonus. Sept. 15 was day one of their 35-day, 40-city, 255-meeting IPO road show.

With North American markets poised to open sharply down (both the Dow Jones Industrial Average and the TSX/S&P composite index would drop by more than 500 points by day's end), Bousada, former lead manager of the flagship Trimark Fund, walked into a broker presentation at a CIBC World Markets office in London, Ontario. With him was EdgePoint's CEO, former Trimark investments chief Patrick Farmer. Both were worried nobody would show up. To their relief, 15 did. But the audience was obviously distracted and quickly filed out after the presentation. "I had mixed emotions," says Bousada. "I knew it would be difficult to raise money."

Meanwhile, Geoff MacDonald-who will manage EdgePoint's funds along with Bousada and who once managed $12 billion for Trimark-was facing a roomful of worried faces at BMO Capital

Markets in Oshawa. "Picture it: Going into an office, the market is down 500 points, and you're trying to sell an investment to brokers," says MacDonald, laughing at the memory. Roman Dubczak, vice-chairman of CIBC World Markets, which co-led the offering, recalls watching as the brokers they met with looked anxiously at their watches. "They would say, 'I have to get back to my desk because the world is falling apart,'" says Dubczak. "This was as gruelling a road show as I've ever seen."

No kidding. So, what were these guys thinking, launching a fund company at one of the bleakest financial times in generations? They were asking investors who were fleeing the market-and mutual funds in particular-for hundreds of millions of dollars to put *back* into equities. Plus, boutique firms similar to EdgePoint were struggling in a market increasingly dominated by banks and big fund companies. The week before, Winnipeg's Sarbit Asset Management had sold out after raising just $130 million from investors in three years.

The EdgePoint plan was either crazy or brilliant. What was it that Warren Buffett said-be fearful when others are greedy, and greedy when others are fearful? For a company founded on the principle of buying well-managed, growing companies at bargain prices-the value style touted by some of the best investors in history, including Buffett-there arguably couldn't be a better time to start. They just needed the attention of brokers. "Invariably they would say, 'I can't believe you're going public in this market,'" Farmer says during an interview at EdgePoint's office in midtown Toronto.

"Well, when *should* we do it?" MacDonald chimes in. "When the markets are a few thousand points higher? Would that be better for your clients?"

Bousada adds, "You end up with investors and advisers who fundamentally believe in the long-term value proposition."

You also end up with the biggest-indeed, one of the few-Canadian IPOs of 2008, raising $234 million for Cymbria to invest during the best buying opportunity in decades. Value managers are notorious for never timing the market just right. This time, Bousada and his gang nailed it-even if, he admits, "it was luck."

It's early December, one month after the Cymbria IPO closed, and Malcolm King, one of EdgePoint's three fund sales managers, is wolfing down a piece of coffee cake, hungrily eyeing the rest of the breakfast buffet at the back of the room. "Geoff, eat as much as you can-get your money's worth," says the 6-foot-4 ex-soldier through a full mouth.

MacDonald walks about the empty meeting room at the Fairmont Château Laurier in Ottawa, scooping up hotel-issue notepads and pens. "They charge us for those, so we're taking them," he says. Farmer, for his part, still can't believe the hotel dinged them $320 to rent a projector when their own machine wouldn't work. "So much for saving money," he says.

When your business is value investing, it makes sense not to let good money go to waste. The scrounging is also consistent with the message that King, MacDonald and Farmer have just delivered to 18 financial planners and advisers.

It is the start of a weeklong blitz of meetings with 300 investment advisers across Ontario and the Maritimes. Now, EdgePoint is relying on these advisers to sell their clients-individual investors-on its four newly launched mutual funds: one Canadian and one global stock portfolio, plus two balanced funds. The biggest selling point is that the funds will be managed by two of the best investing brains in Canada. During his seven years running the flagship Trimark Fund, Bousada increased its value by 72.1%, while its comparable MSCI World Index dropped by 5.6%. MacDonald, meanwhile, was named one of the 50 best fund managers of 2007 by *Barron's*. Plus, EdgePoint's management fees are 10% to 15% lower than those of most of their peers (less than 1.8% of assets), and the company will keep costs down by forgoing standard industry frills like glossy brochures, sports sponsorships and fancy TV ads (like those slick Dynamic Funds ads featuring Mike Weir and his caddy). Their modest office on Yonge Street has the look of a start-up that doesn't expect to impress based on appearances.

More to the point, EdgePoint looks like Trimark Redux. Fifteen of its 17 employees are ex-Trimarkers, and that doesn't include the biggest name of all: Trimark co-founder and former CEO Bob Krembil.

Krembil is one of EdgePoint's largest shareholders, a key adviser-and one of its biggest draws. During the presentation at the Château Laurier, Farmer puts up a slide titled "The Krembil Approach," which lists each employee's pedigree, measured in Krembil (i.e. Trimark) years. It adds up to 153.

Krembil is a legend in the business. In the 1970s, he co-managed Bolton Tremblay's Taurus Fund, posting double-digit returns and soundly beating the market. In 1981, he, Arthur Labatt and Michael Axford founded Trimark, creating a culture that put investor interests first by focusing on long-term fund returns and providing strong customer service. His portfolio managers didn't consider themselves stock pickers who traded in and out, but rather, long-term owners of great businesses. Krembil only launched funds when they made sense. In 1998, for instance, as rival companies were launching funds loaded with frothy tech firms, he lured MacDonald away from the Ontario Teachers' Pension Plan Board to co-manage two new funds specializing in small companies and resources, both of which were unpopular. It was a wise move: In the four years MacDonald managed the Canadian Resources Fund, for example, it increased by 75%.

MacDonald stresses the fund's success during his presentation. Most fund companies, he says, shill trendy products-last year, it was India and commodities. Their priority is to compile assets that please shareholders, rather than produce returns to satisfy customers. "The relationship between you and the average fund company is, 'I have funds to sell you,'" the 38-year-old MacDonald tells the crowd. Several advisers nod in agreement.

"I don't need to see those ads on TV all the time," Kevin Smiley, one of the advisers in the audience, says later. "We should be the sales and marketing teams for fund companies."

Smiley and the rest of the advisers EdgePoint is courting all have long associations with Trimark. Ted Thomson, a 65-year-old adviser with Assante Capital Management in North Bay, Ontario, is a prime example. He first put clients into the Taurus Fund 30 years ago and was an early Trimark supporter. When he read that Krembil was backing EdgePoint, he says, "I was so ecstatic, I e-mailed him immediately and said I wanted to get involved." Thomson put 330 of his 1,000 clients into the Cymbria IPO and bought some himself, cutting "the biggest cheque I've ever written personally for an investment." He expects to place more than 10% of his $100-million-plus book into EdgePoint funds. "You get in on the ground floor with Bob Krembil," Thomson says, "and you're laughing."

Krembil didn't always enjoy such vaunted praise. Like many value managers, he was lost during the Internet bubble, opting to stay out of tech altogether. For 30 straight months, fund holders pulled money out of Trimark-$6.6 billion in all. Net assets declined to $24.8 billion, and Trimark's stock price tumbled. In 2000, Atlanta-based Amvescap PLC (now Invesco) bought the company for $2.7 billion. As the ink on the deal dried, the tech bubble popped, and Trimark funds rebounded, accounting for 75% of industry net sales in 2002.

By then, Krembil was gone. Gradually, Farmer-Krembil's choice for CIO-along with MacDonald and Bousada, grew disenchanted with Invesco, a global company that suffered from leadership problems and redemptions. Though Invesco Trimark, as the Canadian division is called, remains a value manager, it sells other Invesco products, too. "It wasn't the company I joined in 1998," Bousada says of his decision to leave in January, 2008, a few months after Farmer and MacDonald quit.

Pondering his future, the 37-year-old Bousada-who sold Ecuadorean sweaters at university and co-founded a real estate company in 1999 that owns 8,000 units-felt "there was a better way" to run a fund company.

"The industry was using language that existed at Procter & Gamble-shelf space and market share," says Bousada, who was a P&G salesman early in his career. "We're not selling diapers or soap. We're selling products to feed and shelter and clothe people's families for decades." MacDonald and Farmer agreed to join Bousada, and Krembil and Farmer put up the venture capital. It was the first investment management company Krembil had invested in since leaving Trimark (despite many entreaties).

The partners approached more than 75 advisers across Canada to ask what they wanted in a fund company. The answer: a strong "investment culture" like the one they left behind at Trimark, and close relations with advisers, who felt lost in a universe of thousands of Canadian funds. "We heard so many times that in the old days, when they called a fund company, people recognized them," says 46-year-old Farmer. "That was missing." Also, the simpler and less expensive the funds, the better, reflecting long-standing complaints that Canadian funds have the most expensive management fees in the developed world.

To avoid a common trap at fund firms led by star managers, Farmer will focus on administration, leaving MacDonald and Bousada to do what they do best: manage money. The Cymbria IPO sidesteps another stumbling block-convincing reticent advisers that EdgePoint is here to stay-by establishing a permanent pool of capital that, unlike mutual funds, holders cannot redeem. "It will allow us to keep the lights on at EdgePoint forever," Farmer says. And with a 23% stake in EdgePoint (Krembil, Farmer, MacDonald and Bousada own the rest), Cymbria is an even more compelling investment, says CIBC's Dubczak: "With that added feature, the catchphrase among dealers was, 'If investors will buy anything, they'll buy this.'"

Value managers require patient investors. They typically buy stocks that are falling and sell those that are rising. It's the 10-year averages that matter, not one-year returns. Try telling that to fickle investors.

EdgePoint hopes to keep costs low-not to mention weed out the fickle-by requiring a minimum $15,000 investment, with penalties for early redemptions. And they're only targeting 1% of the 75,000 financial advisers in Canada, to become "the select partners to the few, and service them better than they've been serviced in the past 10 years," says MacDonald. The partners are vague about their goals for growth. "You can't set an asset target," says MacDonald. "That shows everybody what you're about already. We're here to create something we think people will want."

Krembil says that for EdgePoint to reach billions of dollars in assets under management (which would still place it well below the top 10 fund companies in Canada) "will be highly unlikely. Our ambition is to produce a good rate of return. That was our ambition in the early days of Trimark. If we focus on taking care of investors, everything will take care of itself."

This may be a golden opportunity for value investors-but in a down economy, they'll have to be wary of traps, something that Bill Miller, the legendary Legg Mason portfolio manager, was not: He ended a 15-year run of above-average returns when he made a heavy, premature bet on U.S. financials last year, with calamitous results. "There are a lot of things that are cheap out there that will go to zero," MacDonald cautions. His strategy: Concentrate on 20 or 30 names, sticking to quality. "This is a time for those with a skill for identifying great businesses that can grow and steal share." One example is Moody's Corp. The stock has been hit hard-credit rating firms have been disgraced by their role in the U.S. subprime mortgage fiasco. "But people still need corporate debt rated," MacDonald says, so that business will continue to grow and generate cash.

Another favourite is Ryanair. The European discount airline "simply blows away the competition." It keeps costs controlled, buys planes during recessions, and continues to fill its growing number of seats at low prices. "In a recession, people will still fly," he says. "They'll fly less; they'll fly more Ryanair. We'll make money on Ryanair the old-fashioned way, by participating in the growth of value in that business."

And that's the plan for EdgePoint, as well. By Dec. 31, the company had raised $41.7 million through 101 advisers. It's a start, but the EdgePoint principals are in no rush. All of them plan to stick around until they retire-and Bousada and MacDonald aren't even 40 yet. "We'll have young kids kicking us out 30 or 40 years from now," says MacDonald. "This is it."