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'Portfolios' that have a global edge; New load mutual fund firm scours world for winners

Canada's newest load mutual-fund company -- EdgePoint Wealth Management Inc. -- has just conducted a soft launch for its first four portfolios." A road show in November moved to Ontario and the East this week. The four funds launched on Nov. 17 cover the familiar categories of Canadian and global equity, with analogous balanced funds.

From new subleased premises in midtown Toronto, former Trimark fund managers Tye Bousada and Geoff MacDonald head the portfolio-management team. They also employ 13 former Trimark administrative and sales staff. In addition, former AIM Trimark president Patrick Farmer is EdgePoint's chief executive, while in the background is financier Robert Krembil, the co-founder of Trimark and the visionary behind the investment approach at both Trimark and now EdgePoint.

That investment philosophy consists of scouring the globe for growth-oriented quality businesses whose true value should be realized in the market within a five-year time frame. Together, the team estimates there are at least 153 "Krembil years" of experience at the shop.

But the Trimark heritage will also be reflected in sales and service. EdgePoint employs six wholesalers, all of whom are part-owners of the business. The founders plan to run a lean and mean shop during its startup years. Extensive research with the financial advisors that are its main distribution channel found they are looking for top-flight investment management and the service to back it up.

On the cost side, EdgePoint has kept management fees on the two equity funds to 180 basis points, although final expense ratios will be higher. It will pay out an industry-standard 1% in trailer fees to advisors on the A series, which means it's cutting costs by reducing its own investment-management fees.

Rather than call them funds, they are called Portfolios: EdgePoint Canadian Portfolio and EdgePoint Global Portfolio. The balanced funds are called Growth and Income Portfolios.

There are no deferred sales charge funds (DSC), although there is a low-load option that pays a 50-basis-point trailer. This B series charges a redemption fee of 3% in year one, 2.5% in year two and 2% in year three. In year four, all units are automatically switched to the front-load Series A. There is a short-term trading fee of up to 5% of the net asset value for clients who redeem or switch within 30 days of a purchase.

EdgePoint is aiming at both advisors in the MFDA channel (those with mutual fund licences) as well as IDA brokers. The former group needs balanced funds because it otherwise can't easily sell fixed-income securities: Its feedback was that fees on most balanced funds were too high for an investment that's almost half in fixed income.

Advisors in the IDA channel will likely look to EdgePoint primarily for the two pure-equity funds. The Canadian equity fund is 90% Canadian equity: Feedback was advisors wanted asset classes to be as "pure" as possible to properly assemble client portfolios.

There are also F-class versions of the funds, although EdgePoint does not appear to have found a way around a problem that Trimark and Elliott & Page once tried to solve: a way to let do-it-yourself investors buy funds directly through discount brokerages. As things stand, a DIY investor will still have to buy a full-fee EdgePoint fund, with the trailer going to the discount broker despite the absence of any value added by the discounter.

One decision that may hurt it on some fronts is the \$15,000 minimum investment, with minimum increments thereafter of \$1,000. Bousada says EdgePoint can't be all things to all people and that fund companies that permit trades as small as \$500 are forcing larger accounts to subsidize smaller ones.

On Monday, EdgePoint unveiled its first "top 10" picks in some of its funds. Its Canadian equity fund owns only one domestic stock. No surprise, it's Research In Motion Ltd.. There are a couple of banks but Bousada and MacDonald are cautious about Canadian financial stocks.

An early supporter among financial advisors is Markham, Ont.-based advisor Robert Smith. "Geoff MacDonald and Tye Bousada are each smart, disciplined and as ethical as anyone I

have ever met in the investment business," he said.

Of course, some advisors remain to be convinced. Martin Kosterman, of Oakville, Ont.-based IPCC Fiscal Agents, says he "probably will not" carry EdgePoint initially because "I have enough funds to deal with now."

Dave Paterson, president of Toronto-based Paterson & Associates, is taking a cautious wait-and-see approach. "Speaking with many advisors, there's not a lot of appetite to buy anything right now."

"There is lots to like here," says Dan Hallett, president of Toronto-based Dan Hallett & Associates Inc. "I'm sold on MacDonald and Bousada as money managers, given the way they've approached things so far, the backgrounds of the principals, and the people they've put in place."

You have to hand it to the EdgePoint crew: It takes guts to launch a new fund company near the bottom of the most vicious bear market in most investors' lifetimes. Fund watcher Gordon Pape thinks the timing is "terrific. Imagine being able to launch new portfolios when stocks are way down. In three years, I expect their returns will look great."

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