

Reprinted from THE NATIONAL POST

Saturday, October 3, 2009, by Jonathan Chevreau; Column: Wealthy Boomer

Their secret: Survive & thrive; Edgepoint Investment Management launched near the bottom of the bear market and now almost \$1B

As its first anniversary approaches, Canada's most promising mutual fund start-up is within hailing distance of \$1-billion in assets. EdgePoint Investment Management Inc. has \$550-million in its four mutual funds, plus \$300-million from the initial public offering in sister firm Cymbria Corp. With 750 financial advisors onsite, more market growth could put them over the top.

Co-CEOs and portfolio managers Tye Bousada and Geoff MacDonald launched the firm near the bottom of the bear market. "EdgePoint has been successful in getting a toehold in the Canadian retail fund market during very difficult market conditions," says Rudy Luukko, investment funds editor for Morningstar Canada.

However, as Luukko points out, since the funds won't have one-year data until after the Nov. 17 anniversary, "the former Trimark managers will still be citing their achievements at their former employer as a model of what they hope to accomplish."

Fund analyst Dan Hallett recommends EdgePoint's pure equity funds and retains Bousada's old Trimark Fund on his list, albeit a notch down from top-pick status.

EdgePoint's principals enjoy a not-so-secret weapon: seed-capital investor Robert Krembil (co-founder of Trimark). Krembil is available as an occasional sounding board for their stock picks, as well as a source of wisdom in growing their business.

A primary Krembil investing tenet has been to avoid timing the market. "Because half the time, you'll be right and half the time wrong," Bousada says. Instead, MacDonald says he focuses on finding businesses that will survive and emerge stronger.

An example is Research in Motion Ltd. Looking out three years, "not only is it going to survive, but it

could be two or three times the size," MacDonald says. (Disclosure: I have a small position in RIM) "They have a 15% share of the smartphone market, but the smartphone market is only about 15% of cellphones in the world." MacDonald is sure that more than 15% of people with phones will eventually have smartphones.

How about banks? It's clear Canadian banks are survivors, MacDonald says. But he adds: "I don't think you can point to a thesis that they will be two or three times the size within a reasonable investment horizon."

Another survivor is U.S. auto insurer The Progressive Corp., which has 8% market share and is positioned to grab more at the expense of higher-cost insurers like State Farm and All State. "We all have cars, need auto insurance and if we renew, we want to save money and go with the lower price."

In EdgePoint's Global Portfolio, the pair cite Dublin-based Ryanair Holdings PLC as a likely survivor. Now one of the largest European carriers, it has a cost structure that can't be replicated.

"You must own survivors, but not the obvious survivors," MacDonald says. "In a bear market, people flock to safety -- consumer staples, utilities, pipelines. I call those the obvious survivors, but that's not where you want to be."

It's a risk to flock to safety, particularly the big safe names making up the Dow Jones average. They're big and obvious survivors, but the Dow has done very little compared to many other indexes around the world."

As active managers, the pair dig deeper to find stocks priced as if they will not survive. They attend investment conferences, where they uncover finds like Interface Inc., maker of modular carpet tile. It has a third of the office market and has just entered the residential market. EdgePoint bought it at \$2 a share in March, the stock has since tripled.