

# Two Canadian small-caps good bets while bears retreat

Choose either Trimark Canadian Small Cos. or E&P Growth Opportunities

## BY THE NUMBERS BY GORDON POWERS DATA BY MORNINGSTAR CANADA

**H**ISTORY TELLS US THAT, as economies stop sputtering and bear markets retreat, it is generally time to bet on the little guys. On average, North American small-cap stocks outperform large-caps following major economic slowdowns.

Canadian small-caps, roughly defined as companies worth less than \$1 billion, tend to outperform in rebounds, thanks largely to their lower costs, making restructuring easier and allowing growing revenues to flow more quickly to the bottom line. As well, small-caps tend to depend more on debt financing, thus benefiting from today's falling interest rates. All of which suggests that the resurgence small-cap funds have enjoyed recently may continue for a time.

Consider, then, two young funds: the \$103-million **Trimark Canadian Small Cos. Fund** and the \$10-million **Elliott & Page Growth Opportunities Fund**. A top-quartile performer over its three-year life, Trimark Canadian Small Cos. Fund lagged slightly in 1999 but it showed itself to be a solid down-market performer in 2001. The fund's category-leading gain last year placed it well ahead of its peers, leading to it being named Best Canadian Small-Cap Equity Fund at the 2001 Canadian Mutual Funds Awards Gala.

The Elliott & Page Growth Opportunities Fund has performed equally well over the period. As a result, both mutual funds receive five-star rankings from Morningstar Canada, with the caveat that Trimark's risk-adjusted performance has been the stronger of the two.

G. Keith Graham is vice president and a member of **AIM Funds Management Inc.**'s Trimark Canadian equity team. Before joining Trimark in March 1998, Graham was a portfolio manager at the Ontario Teachers Pension Plan Board. Prior to that, he was a vice president and branch manager with Fidelity Investments Ltd. in the U.S.

Ted Whitehead joined **Elliott & Page Ltd.** as a Canadian equity trader in November 1997. Prior to joining Elliott & Page, Whitehead spent seven years at Credit Suisse First Boston Corp., initially as a bond and equity trader and then as a bond portfolio manager.

A value manager who is less interested in trying to catch the next big wave, the portfolio Whitehead has built up over the past three years

Standard performance at Nov. 30, 2001								
Fund	1-yr ret. %	1st yr quartile	2-yr ret. %	2nd yr quartile	3-yr ret. %	3rd yr quartile	5-yr ret. %	5th yr quartile
Trimark Canadian Small Cos.	29.4	1	23.7	1	17.9	1	-	-
Elliott & Page Growth Opportunities	14.3	1	21.6	1	22.6	1	-	-

Basic asset allocation (%)									
Fund	Cash	Cdn eq	U.S. eq	Fgn eq	Cdn bnd	Fgn bonds	Pref eq	Cdn inc tr	Fgn inc tr
Trimark Canadian Small Cos.	11.9	59.5	18.1	20	0	0	0.1	9	0
Elliott & Page Growth Op.	6.6	93	0	0	0	0	0	0	0

Industry sector analysis														
Fund	m&m	g&s	o&g	p&pf	cons	indu	real	tran	pipe	util	comm	mrch	fncl	cong
Trimark Canadian Small Cos.	4.3	10.2	3.9	0	22.1	30.1	5	12	0	0	4.4	7.9	0	0
Elliott & Page Growth Op.	3.4	6.8	8.3	3.9	17	23.6	1.6	3.3	0	5.7	7.1	10.3	9	0

includes solid franchises such as Finning International Ltd., a supplier of Caterpillar equipment through locations in Western Canada, Chile and Britain; Atco Group, an Alberta-based power and energy generator; and financial services group Trilon Financial Corp.; as well as a smattering of lesser-known ventures.

At value-driven Trimark, co-managers Keith Graham and Robert Mikalachki search for well-priced growing businesses, focusing on those with a competitive advantage, strong cash flows, entrepreneurial management and good returns on capital.

### RECOGNIZABLE NAMES

The core of the portfolio invested in fairly recognizable small-cap names such as Sleeman Breweries Ltd., First Service Corp., a mélange of home and business services companies that include College Pro Painting and Green Lawn Care Ltd., and United Stationers Ltd., North America's largest distributor of business products and logistics services to resellers. There are few fledgling technology plays or resource exploration issues, although potential takeover candidates are always on their radar.

Graham's fund holds a fairly concentrated portfolio of about 40 names. Holding about twice that, the Elliott & Page fund plants a relatively small portion of its assets — currently around 26% — in the fund's top 10 holdings. The Trimark fund's top 10 stocks account for about 35% of its assets.

Typically, Graham is more willing to hold cash, which currently is about 11% of assets. He's also willing to stray from home, with a roughly 20% foreign content currently and virtually all of it in the U.S. Whitehead's fund makes its money

Size and efficiencies					
Fund	Assets (\$mil.)	MER	Tax efficiency	Legal status	# stocks
Trimark Canadian Small Cos.	103.3	2.57	93	Unit Trust	44
Elliott & Page Growth Op.	10.2	2.93	91	Unit Trust	74

Morningstar ratings				
Fund	Rating	MVA	Sharpe (3-yr)	3-yr std. dev.
Trimark Canadian Small Cos.	★★★★★	0	1.33	9.7
Elliott & Page Growth Op.	★★★★★	0	0.95	18.4

Style indicators (fundamentals)				
FUND NAME	P/E	P/B	CAP (\$BIL.)	DIV YLD
Trimark Canadian Small Cos.	21.8	1.6	0.4	0.8
Elliott & Page Growth Op.	37.6	1.8	0.9	1.1

in Canada, however, holding no foreign content whatsoever.

Graham's portfolio is more exposed to industrial product names than it was a year ago and has next to nothing in financial services. Currently, the fund is overweighted in mining but light in oils, compared with the Nesbitt Burns small-cap index. Whitehead's broader mix includes a similar amount of commodities with a greater emphasis on oil stocks. He's also overweighted in interest-sensitive stocks compared with Trimark.

By mandate, both managers primarily invest in true small-caps, using a value-driven approach. At Elliott & Page, there is more emphasis on slightly larger companies, however. By contrast, the more conservative Trimark fund carries both lower price-to-earnings and lower price-to-book measures than its counterpart and many other small-cap funds.

Given the bottom-up approach employed by both managers, one might expect these funds to present complementary risk profiles. But the difference is fairly significant,

favouring the Trimark fund. Nonetheless, with a three-year standard deviation of 9.7 (Trimark) and 18.4 (Elliott & Page) over the past three years, both funds register less volatile results than the Nesbitt Burns benchmark and many similar funds.

Similarly, the funds' relative three-year Sharpe ratios of 1.33 (Trimark) and 0.95 (Elliott & Page) indicate that Graham's fund has been the better risk-adjusted performer over the period even though both funds sharply outperformed their benchmark and the majority of their peers.

Clearly, both offerings could add value to a Canadian equity portfolio. But given the typical level of exposure for small-caps, there is little room for both in most asset mixes. **IE**

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