Don Simpson

Invesco Trimark

Manager Monitor
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Manager looks for factors not recognized by the market.

With markets having discounted a severe economic downturn, Don Simpson argues that low stock prices are offering considerable upside.

"Valuations are so attractive today," says Simpson, 37, lead manager of Trimark Income Growth SC and vice-president at Toronto-based Invesco Trimark Ltd. "If you wait until things get better, it will be too late. With these valuations, I don't see any point in waiting for everything to stop getting worse. You can find good things today."

A member of the Invesco Trimark investment team since 2001, Simpson adheres to the long-established philosophy of buying into high-quality companies that are trading at a discount to what they are worth. Moreover, he is focusing on factors that tend not to be recognized by the market.

"That's what I see as the margin of safety," he notes. "I'm looking at a company and saying, 'When people view this business, what are they thinking? Do I see things that no one is talking about?' We try to understand the business first -- and then come up with an independent thesis that is based on what's not being recognized."

As a consequence, each of the 40 or so equity names that he and his five-person team select has an attribute that most other investors ignore or downplay. "If I can't find it, there is no reason to expect an out-sized return," Simpson says.

Johnson & Johnson is a representative holding. While the U.S. health-care and pharmaceuticals firm is commonly regarded as a safe haven in a challenging environment, Simpson focuses instead on the company's distribution infrastructure and the quality of the management team.

"There is no better positioned company in the world to acquire and create products in this environment and put them into its massive distribution system," Simpson argues. "I'm not buying it because it has an AAA-rated balance sheet. I'm buying it because it gives its products a better chance at success -- whether it's contact lenses or artificial knees or prescription drugs."

Today, the stock represents excellent value, says Simpson, noting the stock's price-earnings multiple of 12 at recent prices, compared to 17 last year. "This is a wonderful opportunity to buy some of the best quality businesses I've ever seen," says Simpson, who has added to the holding. "This is a world-class business, and it's on sale."

A Sudbury, Ont. native who grew up in Montreal, Simpson has been in the investment industry since 1994. That year, he graduated with a bachelor of business administration from Bishop's University, and landed a post at MCAP, the mortgage division of Mutual Life.

Initially, Simpson ran the division's mortgage trading and securitization business. Later, he ran an in-house fund that invested in income trusts and oil and gas royalty trusts.

In 1999, the Ontario Municipal Employees Retirement System hired Simpson as a real estate analyst. He was involved in managing a public real estate portfolio and underwriting large real estate projects.

In 2000, he joined BayStreetDirect, an investment bank that distributed products to retail investors over the Internet. Simpson handled investment advisory work and conducted private and public equity ratings.

But his goal was to join the Trimark organization, which he achieved in 2001. "I liked the way the company invested," says Simpson, adding that he knew Geoff MacDonald, a former Trimark manager, at Bishop's. "It was one of the places I targeted."

Don Simpson: Invesco Trimark

Simpson began as an analyst. In 2004, he became co-manager of Trimark Diversified Income Class A. In April 2007, he was appointed co-manager of Trimark Canadian Plus Dividend Class Series A. That August, he was also appointed lead manager of the balanced fund, following the departure of Geoff MacDonald.

Simpson limits equity holdings to about 6%. Portfolio turnover has been moderate at 23.7% for the 12 months ended June 30, 2008. The balanced fund recently held about 59% in equities (toward the higher end of its target 50%-to-65% range), 25% bonds and 16% cash.

"We'd like to deploy some of the money into fixed income, but not government bonds at these yields," says Simpson, adding that the team will be focusing on quality corporate bonds. "In the meantime, we'd rather stick to the short end of the curve."

In 2008, the fund ranked in the first quartile of the Canadian Equity Balanced category, although it lost 16.3%, compared with the median loss of 19.8%.

Simpson's key focus is ensuring the fund has a conservative allocation. "I won't put 80% into equities, even though that's where the value is. There's a promise to unitholders to run it conservatively."

In the light of the market downturn, Simpson admits he is concerned about the global economy and that most people do not realize the seriousness of the situation.

Yet he does not see any quick fixes. As a consequence, he is investing on the basis of selecting the best businesses to own over the next few years. "From that standpoint, I feel very good about the prices we're paying. We'll be really well rewarded."

About the Author
Michael Ryval, a regular contributor to Morningstar, is a Toronto-based freelance writer who specializes in business and investing. Among the other publications in which his articles appear are Investment Executive, The Globe and Mail and FORUM.