

NATIONAL POST

Going global

by Jonathan Ratner, Financial Post



Heather Peirce



Dana Love

It has been a difficult decade for Canadians who invested globally. The 10-year average compound annual rate of return, based on the MSCI World Index in Canadian dollars, is -3.5% as of the end of February.

At the same time, Canada has been one of the best places to invest due to the appreciating loonie and the equity market's heavy exposure to commodities.

However, just as many investors and advisors are currently saying you can't make money investing outside of Canada, they were saying the opposite a decade ago, warns Dana Love, portfolio manager at Invesco Trimark.

After the Canadian equity market proved to be one of the worst places to invest in the 1990s (returns would have been higher in GICs or by simply rolling over treasury bills) investors wanted to get their money out of the country as fast as possible. This contributed to the elimination of the 30% foreign-content limit in RRSPs.

While neither Love nor the fund's co-manager, Heather Peirce, are sure where the market will be in 10 years, they are confident that the investment environment will look different than it does today.

Given Canada's strong currency, they insist investors have a unique opportunity to invest abroad. "You are able to purchase a dollar of foreign assets at a very attractive price," says Love.

Peirce notes that the Canadian marketplace has benefited from being extremely narrow and very cyclically focused. "However, many of the areas that we have exposure to in the global portfolio you literally cannot get in Canada," she says.

Sectors like consumer products, health care and technology have done relatively poorly in the past decade as investors shunned them to buy resource and commodity stocks. Yet many of these non-cyclical names have strong organic growth capabilities, regardless of the economic and macro backdrop, and they have rarely been as cheap as they are currently, the manager notes.

Meanwhile, Love points out that the investment environment is probably more artificial today than it has been in a generation.

"There is an unprecedented amount of various types of stimulus in the system – the whole global economy – whether it is targeted and directed fiscal stimulus

or more general economic stimulus," he says. "What we don't know is how that evolves once the stimulus is removed from the system. There is a cost to all of this, it isn't free."

The history of financial crises shows that recovery is a protracted affair. This makes focusing on high-quality companies that have a great deal of autonomy over their future, financial flexibility, dominant franchises and a sustainable competitive advantage all the more important, the manager says.

BUYS

MICROSOFT CORP. (MSFT/NASDAQ)

Microsoft has been the second-largest position in the fund for a while at about 8%. Love says it certainly fits the managers' sustainability criteria, both from a financial and operational perspective.

"It's the company that a lot of people love to hate because it is so dominant in many of the markets in which it competes," he says.

Despite concerns that the company has failed to execute on new projects in recent years, Love says Microsoft is doing a better job these days.

He cites its Bing search engine taking market share from Google, success with the Yahoo advertising deal, the popularity of the Xbox and the recently released Windows 7.

SYNTHESES INC.
(SYST/VTX-Switzerland)

This leader in trauma and spine medical devices is a company both managers have followed for a long time, but were unable to buy, due to its lofty valuation. They were able to add Synthes at a depressed price in the summer of 2009 as investors shunned stable businesses and focused on the crowded trade in more cyclical businesses that in many cases are carrying “overextended valuations.”

Peirce notes that the company is extremely well run, with significant ownership by its founder. She also highlights its “pristine financials,” 82% gross margins, 34% operating margins, no debt and 10% of the market cap in cash.

Synthes has roughly 50% market share in trauma and continues to grow.

BOSTON SCIENTIFIC CORP.
(BSX/NYSE)

This recent addition to the portfolio has a checkered history over the past five years, particularly because of its US\$27-billion acquisition of Guidant Corp., which saw a bidding war emerge with Johnson & Johnson. However, the maker of interventional medical devices, such as diagnostic catheters and pacemakers, has new leadership.

“Our comfort with this company essentially comes with an entirely new management team,” says Peirce, noting that both chief executive Ray Elliot and chief financial officer Sam Leno came over from successful medical-device company Zimmer Holdings Inc. “We have the utmost confidence that they will be able to right the business and deliver value for shareholders.”

SELL

KUEHNE & NAGEL
INTERNATIONAL AG
(KNIN/VTX-Switzerland)

The managers recently trimmed their position in this company, which was added to the portfolio late in 2008 and early in 2009. They were reluctant to sell, calling Kuehne & Nagel “a truly great business.” However, the stock appreciated remarkably in a very short period. So from a valuation perspective, the managers felt it got a little ahead of itself.

Kuehne & Nagel is one of the world’s largest freight forwarders and integrated logistics companies. Love points out that it has a phenomenal management team and a healthy balance sheet.

“It is intrinsically a good business because ultimately it operates like a toll road on global trade,” he says.

PROFILE

Managers

Dana Love and Heather Peirce
Invesco Trimark

Fund

Trimark Fund

Description

Concentrated, all cap global equity

Style & process

Focused on buying great businesses, long-term ownership view

Managers’ mandates

\$5.5 to \$6-billion

Performance (as at Feb. 28, 2010)

one year, +28.66%
three year, -12.22%
five year, -1.92%
10 year, +2.97%
MER 1.60%

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