# Ted Chisholm

Invesco Trimark Ltd.

**Manager Monitor**
Michael Ryval
18 Dec 09

**Trimark small-cap manager sees himself as a business person buying businesses.**

Rather than take a top-down view of markets, Ted Chisholm focuses on a select group of industry-leading companies that demonstrate high levels of growth.

"If we can get the two criteria first, and the stock is also beaten down, then we're all the more enthusiastic about it," says Chisholm, lead manager of the $147.4-million Trimark Canadian Small Companies and vice-president at Toronto-based Invesco Trimark Ltd.

Chisholm regards himself as a business person buying a business, and owns 25 through the fund. "When we invest in a company, we're investing in a business, as opposed to buying a stock to trade a piece of paper," says Chisholm, who shares duties with co-manager Robert Mikalachki.

Companies must have a sustainable competitive advantage, such as intellectual property, market-leading brands or barriers to entry. Chisholm cites North West Company Fund, the largest retailer in Northern Canada, which has pricing power because of very limited competition.

"The benefit of a sustainable advantage is that the business tends to be more consistent, and less prone to the economic cycle," says Chisholm. "In general, a business we prefer to own is one that is less capital-intensive, and generates strong free cash flow. It can use that cash flow to grow the business."

Seeking stocks that are trading at a discount to their intrinsic value, Chisholm uses the discounted cash flow model to determine if a stock is attractive. "This gives us a margin of safety."

Given the right conditions, in fact, he will hold a stock as long as possible. Names such Marsulex Inc. and FirstService Corp. have been in the portfolio for 10 and eight years, respectively.

With turnover at 32.6% last year, the holding period is about three to five years. "We're trying to find the highest quality businesses out there," says Chisholm, noting that individual names are limited to about 10% of fund assets.

Another representative position is Aastra Technologies Inc. The Canadian maker of Aastra-branded telephone handsets and PBXs sells its so-called enterprise telephony gear to the European market. "They were the third-largest player in Europe in 2005, when we took a position, but are now the largest," says Chisholm, noting that the company has grown through acquisition.

The stock hit a low of $7.50 in the market crash in October 2008, but has since rebounded to $33. In the meantime, Chisholm has taken some profits and reduced the holding to about 7.8% of the portfolio.

A Toronto native who grew up in Guelph, Ont., Chisholm has been in the industry since 1991. That was when he graduated from the University of Western Ontario with a bachelor of arts in economics and political science. Interested in the investment world, Chisholm answered a newspaper ad for a sales services position at Trimark Investment Management Inc., a predecessor of Invesco Trimark.

After 18 months, Chisholm became a wholesaler and served clients in Ontario and the Maritimes. In 1994, he moved to Vancouver and covered B.C. and Alberta. He returned to Toronto in 1997 as second-in-command of the sales department.

## Ted Chisholm: Invesco Trimark Ltd.

In 2001, Chisholm had an opportunity to get into money management and was hired as a Canadian large-cap analyst by Patient Capital Management, an institutional and private high-net-worth manager. In June 2003, he rejoined Trimark as an analyst on the Canadian and U.S. small-cap funds.

Three years later, Chisholm was promoted to portfolio manager. In June 2007, he and Mikalachki began managing Trimark Global Small Companies Class A.

For the 12 months ended Nov. 30, the 5-star rated Trimark Canadian Small Companies returned a second-quartile 50.8%, compared with 38% for the median return in the Canadian Focused Small/Mid Cap Equity category. Over the three-year period, the fund has an annualized 2.1% loss, well ahead of the 7.4% median loss.

Looking ahead, Chisholm expects that many of the names that he holds will return to their price peaks in 2007. And staying the course is part of his style. In 2006, he increased exposure to Kinetic Concepts Inc., a U.S.-based global leader in so-called negative-pressure wound therapy.

The company's stock was under pressure because of a lawsuit. Yet, anticipating a sales rebound, Chisholm hung in, confident that the firm would maintain its edge with a proprietary product, known as "vacuum-assisted closure" (VAC), used to seal wounds and reduce the risk of infection in large traumas. Last winter, he added on further weakness.

The stock has rebounded to US$34.70, up from its low of US$19 in March. Chisholm sees further upside, based on his view that sales growth in Europe and recent Japanese approval of the VAC technology should increase the company's cash flow considerably. "The stock could be worth US$73 to US$75," he says.

---

**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.