

## Q&A: Small-Cap Manager Change

### What's the primary reason for the change in manager?

We feel that some of the most fertile ground for our *undexing* philosophy in the years to come will be small and mid-sized companies in North America, and we want to broaden the scope of the fund. By appointing Galibier, we believe we can more fully take advantage of the opportunities in these markets, specifically by researching and owning more mid-cap stocks in Canada (medium-sized companies) and small-cap stocks in the U.S.

As well, Joe Sirdevan is a superb manager whom we have followed for a number of years. Now that he has established his own firm and has an experienced team in place, we want to get on board early with Galibier.

### What is Galibier's track record?

Galibier is a relatively new firm (established in 2012), and therefore doesn't have a long-term track record. That said, it has an excellent 3-year record in managing Canadian equities (1<sup>st</sup> quartile) and is quickly gaining a reputation as a top-tier manager.

Our focus is on long-term performance, and Galibier's founder and key decision maker, Joe Sirdevan, is a known quantity in the asset management industry and has an outstanding record of managing money over the last 20+ years. Joe primarily built his record and reputation at Jarislowsky Fraser as an institutional manager, where he was head of equity research and lead manager on North American equities. He also managed the firm's small-cap equity portfolio.

### How many managers did you consider before choosing Galibier? What put them over the top?

Salman and Tom met with 20-25 managers at the outset and narrowed the field to five, each of whom they visited and went through an in-depth due diligence process. Galibier stood out for the quality of their people and their discipline around their approach.

### How many stocks will the fund hold now?

The fund has the scope to hold up to 30 stocks, but will typically own 20-25 companies at any point in time.

### Will the fund's geographic profile change?

Not significantly. The fund will continue to invest a majority of its assets in Canadian stocks, with a smaller portion in U.S. stocks for diversification and return potential. U.S. stocks will make up slightly more of the portfolio than was previously the case, to a max of 30%.

### Will the new manager invest in companies of a similar size?

The focus will continue to be on smaller companies, although mid-cap stocks (medium-sized companies) will also play a prominent role. In Canada, Galibier's sweet spot is < \$3 billion of capitalization, although they may own some larger companies due to the nature of the market.

The U.S. companies will be a little larger (up to \$10 billion), but the focus will still be on small, less followed companies.

### Your Global Equity Fund has a poor performance record. So why aren't you changing the manager of the Global Fund too?

Salman and Tom's biggest job at Steadyhand is evaluating our fund managers to ensure we have the best possible team of investment professionals working for you. This involves reviewing our existing managers constantly, as well as meeting and assessing other managers. Salman and Tom meet 80-100 investment firms a year.

Past performance is part of that assessment (the Global fund has been weak on this measure), but they also consider a number of other factors that they believe are more reliable predictors of future performance. The others are: People; Parent (ownership and company structure); Philosophy; Process (decision-making and

portfolio construction), Price and Passion.

As we regularly point out in our writing, investing is all about looking forward. The next 5 years. 10 years. 20 years. Given their rigorous assessment of our managers and understanding of who else is out there, Salman and Tom continue to believe that Edinburgh Partners is a top-tier firm and will be a solid contributor to our clients' portfolios in the future.

### **Who owns Galibier?**

The firm is 100% employee-owned.

### **How many employees does Galibier have?**

The firm currently has 6 employees, all of whom are Investment Partners, and all of whom hold the CFA designation (Chartered Financial Analyst). They will likely add to the team in the coming years, although very selectively.

### **Does Galibier manage any other mutual funds?**

Yes. Galibier is the manager of the NexGen Intrinsic Growth Fund and co-manager of the NexGen Intrinsic Balanced Fund. They do not manage, however, any other small/mid-cap funds.

### **Do the partners at Galibier have their own money invested alongside clients?**

You bet. All Galibier employees have a significant amount of their investable assets invested in their funds.

### **How long will it take to transition the portfolio, and will there be any costs to me?**

Galibier will take over management of the portfolio immediately. We anticipate that roughly one-quarter of the holdings will remain in place. The balance of the selling and buying of stocks will be done methodically and opportunistically over the next month or so.

Because a number of stocks will be sold and several new holdings will be added, there will likely be higher than normal transaction costs this year. These costs will not affect the fund's fee, but have a small impact on

performance.

### **Will the manager change result in capital gains in the fund?**

It is expected that the tax consequences will be minimal. The fund has capital losses available from previous years, which we estimate will offset most or all of the capital gains realized in the sale of securities.

### **Will the fund's fee change?**

No.

### **You've indicated in the past that the Small-Cap Fund would be closed to new investors when it reaches around \$100-125 million in assets. Is this still the case?**

The fund has more capacity now with the inclusion of more mid-cap and U.S. stocks. We would contemplate closing the fund to new investors when it reaches \$250 million in assets, although it will depend on market conditions at the time.

### **How much money does Galibier manage? And would they cap their business at some point?**

After taking over management of our Small-Cap Fund, Galibier will manage roughly \$550 million in overall assets (including small, mid and large cap stocks in Canada and the U.S.). The team feels they can manage up to \$4 billion of Canadian equities, and \$500 million in small and mid-cap assets, before reaching capacity.

