

## Steadyhand Small Cap Equity

### Morningstar Quicktakes™ Report

David O'Leary  
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#### We like what we see so far from this new fund company and its small cap manager.

Many investors may not feel comfortable trusting their hard-earned money to a start-up fund management firm like Steadyhand Investment Funds Inc. But while Steadyhand's tenure may be short, its founder and president is an experienced industry veteran with an approach to money management that we applaud. And this fund's manager, Wil Wutherich, has been quietly building an impressive track record on private client accounts for over seven years. For these reasons we'd be willing to give this newcomer a shot.

Tom Bradley -- former president and CEO of Phillips, Hager & North Investment Management Ltd. -- started Steadyhand in early 2007, and the new firm is in many ways similar to PH&N. It sells low-fee, no-load mutual funds directly to investors, and it's evident that Bradley maintains a greater focus on performance than product creation or marketing.

Bradley himself doesn't manage money at Steadyhand, but we like his approach to creating mutual funds. Specifically, he argues that mutual funds should hold a concentrated portfolio of securities with low turnover. He also believes, that a fund's manager should operate with few constraints and dare to look different from the index. We often argue the same points.

In Wil Wutherich, Bradley has found a veritable stock picker. One look at this fund's top 10 holdings tells you a lot about Wutherich's investment philosophy and the risk it entails. His top two holdings, Gemcom Software International (GCM/TSX) and easyhome (EH/TSX), are tiny companies that most investors wouldn't recognize, yet they account for a fifth of the portfolio.

Wutherich typically owns just 10 to 20 stocks, which he selects from a list of roughly 30 primarily small-cap Canadian companies. These 30 names are companies that possess sustainable growth, sound balance sheets and strong management. Wutherich invests a significant amount of time getting to know managements well. Whether a stock makes it from the priority list to the portfolio is usually a function of its valuation.

Wutherich runs this fund using the same model that he employs on all his private clients' portfolios, and he has demonstrated impressive results. Since the numbers we've seen aren't from a regulated public mutual fund, we're taking them with a grain of salt. But they still provide a rough idea of how he's done. In the seven years ending in 2007, Wutherich has returned 24% annually and hasn't lost money over any calendar year during that time.

Our major concern is that any new mutual fund company entails a certain amount of business risk. If the business fails to turn a profit for too long, Bradley could run out of capital and be forced to close up shop.

#### Of Note

- ▶ Tom Bradley has been a vocal critic of the proliferation of gimmicky fund products that seem to be inundating the market. That's why Steadyhand offers just five mutual funds. Each one plays a different role in a portfolio, and investors could buy all five funds without much duplication.

#### Morningstar Rating

Fund Not Rated  
(as of 30 Apr 08)

#### Strategy

The manager invests in a concentrated portfolio of North American small-cap stocks. He applies a bottom-up research process with a growth-at-a-reasonable price (GARP) investment philosophy. He looks for companies that have sustainable growth in revenue, cash flow or earnings per share. Consequently, he tends to avoid stocks in cyclical industries. He aims to own 10 to 20 companies with a market capitalization between \$50 million and \$5 billion.

#### Management

Wil Wutherich is founder and president of Montreal-based Wutherich & Co. Investment Counsel Inc. He founded the firm in 1999 and managed small-cap portfolios for private clients. In January 2007 Wutherich & Co. was chosen by Steadyhand to manage Steadyhand Small Cap Equity. Wutherich has over 15 years of investment experience and previously worked at Van Berkom & Associates (another Montreal-based small cap specialist) and Standard Life. He holds a B.Sc. in molecular biology from McGill University and an MBA from Concordia University.

#### Kudos

- ▶ We like Tom Bradley's approach to the business. His funds are

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- ▶ All of Steadyhand's funds have a fee schedule that declines based on the size of investments how long unitholders have owned the fund. Each fund requires a \$10,000 minimum investment.
- ▶ Steadyhand's Web site tells a lot about Tom Bradley and the way he does business. The site contains a lot of useful information, yet its layout is clear and concise.
- ▶ This fund can invest up to 35% of assets in U.S. stocks and can hold anywhere from 0% to 25% in cash.
- ▶ Wutherich doesn't hedge the fund's foreign currency exposure.
- ▶ Managers are not required to disclose how much they have personally invested in their own funds but Wil Wutherich claims that he is one of the largest owners of his own portfolio. We like managers who eat their own cooking.
- ▶ The fund is only available in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

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### About the Author

DAVID O'Leary is Manager of Fund Analysis with Morningstar Canada. Previously he held various positions with Canada Trust. He spent several years working as a financial advisor providing advice on investment, credit and insurance products. As a result of his industry experience David is frequently quoted in the media as an expert on the Canadian mutual fund industry, is a regular guest on Business News Network (BNN), and travels the country as a guest speaker at various industry conferences. David holds a B.A. from the University of Toronto and an MBA from U of T's Rotman School of Management. He also holds the Chartered Financial Analyst (CFA) designation.

straightforward, have low fees, and allow their managers to invest freely.

- ▶ Steadyhand is a transparent firm and clearly lays out important information on its Web site.
- ▶ We're impressed with the performance numbers we've seen so far from Wutherich.

### Question Marks

- ▶ Wutherich runs a concentrated portfolio of small-cap names. The fewer names in the portfolio means a lower margin for error in his stock selection.
- ▶ Wutherich is a lone gunman. If he were no longer able or willing to manage this fund, Steadyhand would have to look to another investment manager to run this fund.
- ▶ There is business risk associated with a start-up money management firm like Steadyhand.