



BUILDING WEALTH

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STEADY AS SHE GOES

By Gordon Pape

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There are very few boutique mutual fund companies left in these days when critical mass is seen as the key to success. Calgary's Bissett funds were snapped up several years ago by Franklin Templeton. Vancouver's Phillips, Hager & North (PHN) is now part of the RBC fund group. The Cundill and Saxon funds operate under the wing of Mackenzie Financial. The AIC funds were bought by Manulife. And so it goes.

With the number of independent houses rapidly diminishing, it's a refreshing change to see a new one appear on the scene. Steadyhand Investment Funds is the brainchild of former PHN president Tom Bradley who has created a company that is very much in the original mould of his old employer: small, focused, low-cost, and straightforward. What you see is what you get, no surprises.

The company offers only five funds with no confusing array of units to complicate matters. (By contrast some funds have 30 or more versions from which to choose, making them an investor's nightmare.) Bradley has dubbed his line-up "the undex funds", meaning that they are not simply index funds in disguise.

"Our goal is to beat the market over the long run," the company's website says. "The best way to do this is to build funds that look nothing like it...Our managers run non-benchmark oriented portfolios comprised of the stocks they like best, regardless of their status in the index."

The funds were all launched in January 2007 so we now have a track record that enables us to judge how they're doing. Here is rundown.

Steadyhand Equity Fund. This fund is officially slotted into the Canadian Focused Equity category but it has significant foreign content as well. As of the end of June, 59% of the assets were in Canada, 27% in the U.S., and 14.5% overseas. The fund is directed by Ted Ecclestone of CGOV Asset Management, a small independent Toronto house that caters to high net worth individuals.

The manager is free to choose stocks of any capitalization and from any sector, giving him significant flexibility. The maximum size of the portfolio is 25 stocks. Top holdings include Crescent Point Energy (6% of assets), Suncor Energy (also 6%), and Asia Pacific Breweries of Singapore (5%).

The fund gained 14.9% during the 12 months to July 31 compared to 9.5% for the category. It also outperformed the S&P/TSX Total Return Index which posted a gain of 13.4% over that period. However, it's important to remember that the fund has a large foreign component which the index does not so this is really an apples and oranges comparison. The four-year average annual compound rate of return was -0.3% which was also better than the peer group (-2.3%) but below the benchmark index (+1.3%).

This fund is off to a decent start and we will give it a rating of \$\$\$ (out of four). The code is SIF130.

Steadyhand Global Equity Fund. This one has no Canadian content. It invests in countries from the rest of the world and offers good geographic balance. About 23% of the portfolio is in European equities with 22% in Japan, 21% in the U.S., 17% in the U.K., 13% in Asia ex-Japan, and the rest scattered around.

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The portfolio is directed by Dr. Sandy Nairn of Edinburgh Partners, an independent Scottish investment house that manages global equities for European pension funds and trusts. It's a relatively new firm, started in 2003, but the track record so far is good.

Unfortunately, the same cannot be said about this fund. It has underperformed the category average and the benchmark MSCI World Index in all time frames from one to four years. The most recent 12-month gain of 3.4% compares very unfavourably to the average return of 9.9% for the category. The average annual compound rate of return since inception is an unimpressive -7.1%.

This is the weakest link in the Steadyhand line-up and merits only a \$ rating. Code: SIF140.

Steadyhand Income Fund. We've written about this one before and it is on our Recommended List. It's a balanced fund that is heavily skewed towards bonds (target allocation is 75% although the current weighting is just 71%). The rest of the fund is in dividend-paying stocks, REITs, and income trusts (of which only a few remain).

The portfolio is in the hands of Warren Stoddart of Connor, Clark & Lunn, which has a solid reputation as a disciplined, conservative house. Returns have been excellent, exceeding the average for the Canadian Fixed Income Balanced category over all time periods. The average annual compound rate of return since inception is 6.5%.

The fund makes quarterly distributions of \$0.10 a unit plus a year-end capital gains payment which was \$0.53 a unit in 2010. In a few short years this has evolved into one of the better funds of its type and we are giving it our top \$\$\$\$ rating. Code: SIF120.

Steadyhand Savings Fund. This is a plain old money market fund so it is only a parking place for cash. Like all funds of this type, it invests in a portfolio of short-term notes with a target of 70% in corporate issues and 30% in government debt. Mr. Stoddart also calls the shots here.

Not surprisingly, returns are very meagre in this low interest environment with a four-year average annual compound rate of return of 1.5%. However, the fund has done better than the group average over all time periods thanks to a low MER of 0.65%. Code: SIF110. Rating: \$\$\$.

Steadyhand Small-Cap Equity Fund. This is Steadyhand's most volatile fund because of the nature of the portfolio. The mandate is to invest in between 15 and 30 small companies from Canada and the U.S. Normally, about 20% of the assets will be in U.S. firms but this could go as high as 40%. The mix as of mid-year was 79% Canada, 21% U.S.

The fund is managed by Wil Wutherich, the low-profile founder of Montreal-based Wutherich & Company. He runs only one model portfolio and has the majority of his personal wealth invested in it.

About 24% of the fund's assets are invested in the industrial sector with 23% in information technology and 15.8% in consumer discretionary. Exposure to the resource sector (energy and materials) is less than 20%. The cash position is on the high side at 13.3%.

Results so far have been reasonably good. The fund gained 28.2% in the year to July 31, much better than the category average of 21% and slightly ahead of the benchmark, the BMO Nesbitt Burns Canadian Small Cap Index, which was up by 27.4%. The four-year average annual compound rate of return was 3.1% which was better than the peer group performance (1.4%) but short of the benchmark (3.5%).

This fund can produce big losses when markets turn sour as was shown over the year ending Feb. 28/09 when it fell almost 36%. So low-risk investors should stay clear. The MER is 1.7%. Code: SIF150. Rating: \$\$.

Some brokers and dealers offer the Steadyhand funds, but not all. You'll find a list of those that do at www.steadyhand.com/news/2011/05/17/third_party_dealers/.

Alternatively, you can open an account directly with the company and pay no commissions of any kind. The minimum investment is \$10,000 per fund but if your total commitment is more than \$50,000 that is waived. Large accounts receive a fee reduction. For more information about opening an account go to www.steadyhand.com/accounts/.

The Bottom Line: Steadyhand offers one top-notch fund and two very good ones. That's an impressive start but it isn't enough to make the company a one-stop shop for your money the way that PHN once was.