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Laurus Goes For Gold With Focus On Quality, Culture

Laurus Investment Counsel's focus on quality investing and its commitment to people has helped the global small-cap equity manager grow to \$683 million in assets as of March 31.

The Toronto-based firm was founded in 2014 by President and CEO Christopher Page, who has over 40 years of experience in the asset management industry and previously served as a member of the Canadian Olympic Committee's investment board.

"If you think of AKO [Capital] in London or Mawer [Investment Management] here in Canada, there's very few of us around where we're what we call a quality investor," Page said. "What differentiates quality from value or growth, is that you're really looking to invest as a business owner. The idea being that, if we buy it, then we want to own it for a very long period of time."

Page finds it integral for "the dynamics of the firm" to work in "the favor of the investor" within the small- and mid-cap equity space and seeks to invest in companies with predictable cash flow generation, high returns on capital and attractive growth opportunities, such as being "a great disruptor within its industry."

Upon its launch, Laurus was also seen as going against the grain, with many of Page's peers in the asset management industry questioning his decision

to establish a Canadian small-cap equity firm.

"I've been in the business since the late [19]70s and when I decided to launch Laurus, my entire peer group said 'you're an idiot.' Basically, the general consensus was that Canada did not need another investment manager," he said. "My background is all small-cap and I found that the three major players in Canada that ran Canadian small-cap were basically filled and there was a need, at the time in 2014, for another Canadian small-cap manager."

The firm now has six strategies, which include the Canadian small-cap equity as well as a Canadian all-cap equity strategy, U.S. small-cap equity strategy, global small-cap equity strategy and international small-cap equity strategy, that were launched in collaboration with existing clients, Page said, noting that Laurus increased its investment depth in 2016 with the addition of a North American all-cap strategy through its acquisition of Bluewater Investment Management.

"That basically doubled our assets in 2016," Page said. "In our small-cap, we were about CAD \$200 [million] and [Bluewater President and CIO] Dennis [Starritt] was about CAD \$200 [million], so about CAD \$400 million combined."

He considers the North American all-cap strategy, which has an over 25-year

track record and \$244.1 million in assets as of March 31, to be the firm's "best performing product" due largely in part to Starritt, his longtime friend and senior v.p. and portfolio manager at Laurus.



Christopher Page

The duo serve on the investment team alongside V.P. and Head of Global Equity Louis Chan, V.P. and Head of Canadian Equity Raymond Lam and Analysts David Wu, Jing Huang and newly hired Takanori Nagatomo.

Laurus, which is 100% employee-owned, rates culture as the "number one" dynamic in building a firm and strives to have "everybody looking out for everybody else," offering external coaching support to all employees, according to Page.

"The reason you add coaches into a business is every person in this business is affected emotionally by the

business itself,” he said. “If you’re an analyst, you’ve got your peers and you made a recommendation on a stock, the stock goes into the portfolio and everybody’s agreed to it and then the thing blows up. It’s a mistake that may have nothing to do with the work you’ve done, but the problem is you’re less likely to come forward with another good idea. A coach will help you work your way through that and understand, first of all, did you follow the criteria for which we require as a firm? And, if you did, then it’s not your fault.”

I keep saying to everybody here that we need to be like an Olympic athlete. We’re trying to get better just a little bit every day.

The firm applies this team-based approach to its bottom-up research process, which begins with understanding a company’s differentiation, growth trajectory and management quality through a “very detailed, discounted cash flow model” that allows Laurus to “follow the company over longer terms,” Page noted.

“If we’ve passed through the cash flow, manager interviews and looked at competitors in the industry, we use an expert witness process to look at the company from external sources,” he continued. “Then, we pull the investment team together and everyone gets a shot at it. It’s sort of all eyes on the same idea and we discuss the merits of the investment.”

Laurus “gently” adds a company into its concentrated portfolios at 2%, with the objective of owning 32 companies in a minimum of six sectors and building weights up to a maximum of 8% as it familiarizes itself with manage-

ment over time, according to Page. “Our process is really management-centric,” Page said. “We got all fired up about a company a few weeks back and we tried to reach out and meet with management because that’s part of our process and they didn’t want to speak with us, so they’re no longer on our list. If you can get a company with a predictable cash flow, with returns on capital, run by a group that are very experienced and capable, as well as incredibly transparent that have proven capability, then you want to own a lot of them.”

Page explained that the firm is always looking to find replacement companies due to the \$25 billion maximum capitalization for its small-cap portfolios, however, Laurus’ outlier all-cap products allow for greater flexibility to hold onto “really great businesses.”

“We have the ability in some cases to own a company in Canadian small-cap and it gets too large, and we can move it into the Canadian all-cap,” he said. “In fact, we have businesses in some of our portfolios that Dennis and I have owned for 15 or 20 years.”

“And we’re getting a lot of pressure from the allocators saying ‘Well, why is your small-cap weighted market-cap so large?’ It’s basically a success,” Page added. “When you’ve got a rate of return in the twenties over a three-to-five-year period, your cap size is going up pretty quickly.”

The firm’s U.S. small-cap equity strategy reached its five-year track record in June, returning 16.5% net-of-fees

since inception as of March 31, while the Russell 2000 Index and MSCI USA Small Cap Index both returned 15.9% over the same time period. The global small-cap equity strategy, which is a best ideas portfolio, will reach its three-year track record in February and has returned 19.5% net-of-fees since inception as of March 31, while the MSCI World Small Cap Index returned 17.1% over the same period.

Since establishing a U.S. subsidiary and a distribution relationship with Tessera Capital Partners last year, Laurus is beginning to connect with U.S. allocators, including RockCreek Group and Bivium Capital Partners.

“I don’t expect that we’ll land our first U.S. client quickly; I expect it’s going to take time, same way we look at investing in companies,” Page said. “An allocator is going to have to look at us and get comfortable.”

As Laurus works on gaining a foothold in the U.S., Page’s time with the Canadian Olympic Committee remains a guidepost for the firm, which is named after the Laurus nobilis, an evergreen tree whose leaves were fashioned into a wreath and given as the prize in the Pythian Games.

“I keep saying to everybody here that we need to be like an Olympic athlete. We’re trying to get better just a little bit every day and we’ve been around for seven, seven and a half years, and every day we have just gotten a little bit better,” he said.



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