

Quality Investing Leads Equity Manager Laurus To Winner's Circle

Christopher Page, president and ceo of Laurus Investment Counsel, is looking forward to calmer waters as the global small-cap equity firm continues to rebound from tumultuous market conditions by sticking with its bottom-up, quality-oriented approach.

Toronto-based Laurus, which offers Canadian, U.S., global and international small-cap equity strategies as well as a North American all-cap equity strategy, has been “working our way through COVID and then through the 2022 market correction followed by the U.S. small/mid-sized bank collapses,” said Page, who founded the firm in 2014.

“I thought when we shut down in March of 2020 that it would be a three- or four-month pause, yet here we are in 2023 people are just really starting to come back into the office,” Page said. “We had a lot of meetings in 2022, something like 50, 55 presentations for a small, emerging firm out of Toronto. But they were mostly introductory meetings. A lot of the allocators and [outsourced cios] were still working from home and were struggling to balance the working relationship with their own clients. As a result, there was not a lot of activity going on in terms of new sales.”

The North American all-cap strategy, which was added in 2016 through Laurus' acquisition of Bluewater Investment Management, “is up 13% this year” after struggling in 2022 “largely because the mandate is more growthy and the multiples are a little higher,” while the international small-cap product launched in 2021 has seen its performance improve since the strategy “kind of got hammered” by its underweight to Japan and overweight to Europe last year, according to Page.

The U.S. small-cap strategy is also “up 10%” after the firm's exposure to Signature Bank cost both the strategy and the global small-cap strategy “probably about 300 basis points of performance” in the first quarter, he said.

Page believes that the firm's style of investing in high-quality small- and mid-sized capitalization companies, which “tend to have very strong balance sheets” and “be

Two Years Ago

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 A&O [Capital] in London or Mawer [Investment Management] here in Canada, there's very few of us around where we're called 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 dynamism 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.

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 CEO] 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 \$24.1 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 vp and portfolio manager at Laurus.

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 Takano 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.

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 “greatly” adds a company into its concentrated portfolio at 2%, with the objective of owning 25 companies in



Christopher Page

run by very good management teams,” over a long-time horizon is key to helping combat volatility and improve risk-adjusted returns in a challenging macroeconomic environment.

“We are biased to great companies, not to sectors and not to countries,” he said. “We search for these great businesses, these “emerging blue chips,” in the early stages, around \$1 billion to \$3 billion market cap. To maintain our small-cap strategy, we force ourselves to sell them at \$25 billion, which we've done with a couple already on the U.S. strategy. That's very different than doing this whole top-down thing of, ‘Well, we have to be careful about Europe weighting or Japan weighting or energy weighting or technology weighting.’ We don't think that way and that's not what we do. There's going to be periods of time where the market decides to turn right as we continue down the same path ... There is growth and there is value, but really what you want to do as an investor is you want to own very high-quality businesses for a very long period of time.”

Senior V.P. Raymond Lam, who serves on the firm's North American investment team that operates the Canadian and U.S. small-cap strategies as well as the North American all-cap strategy, has seen firsthand how the quality aspects of the portfolio shine through in periods of volatility.

“When we look at quality companies, we often look at companies that have high return on capital, which are less likely to rely on leverage to deliver returns for shareholders. As interest rates have begun to rise and continue to rise, our compa-

nies continue to perform well,” Lam said, in reference to the firm's U.S. small-cap product. “And, in fact, we see opportunities for our businesses to acquire and out-grow competitors, as their balance sheets are strained, concerned about rising rates and the impact on profitability in the longer term. So, over this period, we have been performing extremely well despite our previous exposure to Signature Bank.”

The U.S. small-cap strategy reached its seven-year track record in June, returning 6.4% net-of-fees for the quarter and 9.5% for the one-year period ending June 30, compared to 5.1% and 11.8% from the Russell 2000 Index over the same time periods.

As Laurus sees an increase in interest on the U.S. side, it has pivoted to directly marketing to institutions after previously using a third-party marketing firm.

The Laurus international and global investment team has also undergone changes this year with the planned exit of V.P. and Head of Global Equity Louis Chan this summer and the addition of Rob McKee, who serves as v.p. and coordinates the firm's global small-cap strategy.

McKee spent the past 10 years as v.p. and portfolio manager for U.S. and international equities on Mackenzie Investments' Ivy team and feels that he has found “the right cultural fit” with Laurus.

“I was looking at being at a firm where there is one culture and everything you do is aligned behind that, whether it is client interactions, how you invest and how you interact with each other, it's all guided by the same voting system. It's hard to do that in a large organization,” he said. “From a strategy perspective, where I was previously had a concentrated, quality strategy, but with larger companies and I think that there is more value to be added to investors in equities through smaller companies so, I wanted to focus on that. And the other piece was I like how Laurus is structured with three layers of early career, mid-career and late career. Chris and [Senior V.P.] Dennis [Starritt] are super experienced and have seen a lot of different market cycles, different companies, different dynamics,

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Clear Haven Looks To Bring Scalable Capital To Fintech Companies

Clear Haven Capital Management is all about providing solutions.

The New York-based minority-owned manager maintains a dual focus on asset-based lending and the structured finance world, providing both lending solutions and treasury solutions to growing fintech companies that need “right, scalable capital.”

“We work with a lot of venture-backed companies providing financial products. Consumer finance, auto loans, small business cards. They need capital to be able to offer those products. We provide that capital but also try to bring experience and perspective to help manage the risks around building those portfolios,” said Mark Simmer, cio and managing partner at Clear Haven.

The dual focus gives Clear Haven a clear competitive advantage, according to Jen Reinglass, who joined the firm earlier this year as a partner and head of business development and investor relations.

“We are seeing things directly, versus buying information, which I think a lot of our competitors that are solely focused on private credit do, but because we’re in the market, we’re trading, we see things right up close and are kind of living and breathing this stuff. We think ... the sourcing and analysis is just a huge differentiator,” she said.

Clear Haven, which was founded in 2012, saw current Head of Trading Alex Bashan join in 2016 while Simmer joined in

2019, effectively launching the private credit side of the firm, after spending roughly 12 years running the portfolio solutions group at Macquarie Group.

“What we were able to do was bring on that private credit side of the business that Mark built out and managed at Macquarie,” Reinglass said. “I think it’s extremely helpful to be actively engaged in both private and public asset-backed markets. It just makes us smarter, better investors because we have so many more data points to inform risk and relative value decisions.”

“The team has done a tremendous amount in that short time, especially given that it was through COVID,” she added.

Clear Haven was mainly focused on supporting its existing platforms during the onset of COVID but as 2020 ended the firm was able to reengage with the private credit side, Bashan said.

The firm now has an over four-year track record in the private credit space and a focus on specialty finance that has a market ranging anywhere from \$5 trillion to \$15 trillion, according to Simmer.

The last year has proven to be a pivotal one for Clear Haven and the specialty finance space due in large part to the rising interest rate environment limiting available capital and the shift away from bank capital leaving things in flux, which has provided a tailwind for the firm.

“The bank pullback has been really interesting ... what it’s really done is place an emphasis on being the right type of lender for your counterparty,” Bashan said, noting that more accommodative providers like Clear Haven now have access to deals they did not historically have.

“There’s a lot of benefits to going with a private credit lender ... you can really start to work with your counterparties,” he added.

Reinglass joins on the heels of this “inflection point” in the private credit space as Clear Haven offers private credit as well as a liquidity strategy invested through both commingled and separate account vehicles.

“I am looking at the relationships I have as well as [those institutions] that have a focus on allocating to emerging and minority-owned investment managers,” Reinglass said, adding that her initial focus has been on the foundation and insurance channels.

Ultimately, Clear Haven’s team, which collectively has over six decades of experience as specialists in and solely focused on the financial products space, helps position the firm as valuable partners to its counterparties and clients.

“This focus helps build consistency and efficiency to our risk management and investment decisioning but, just as importantly, we feel it also enables us to be the best partners we can be to the companies we work with,” Simmer said.

LAURUS: Manager Looks To Build For Long-Term Success

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and I think it’s great to have that exposure. Then you have me and Ray sort of in the middle and then the analysts. Having those three layers in place is a really good structure that we can continue.”

Page echoed that the investment teams, which also include Associate Portfolio Manager David Wu and Senior Analyst Takanori Nagatomo, is being constructed from “underneath as opposed to on top.”

“Our entire process is going to be built around Rob, Ray and David,” Page said. “We’re building on the analyst side as opposed to trying to bring in PMs. I think what we’ve tried to do is bring on more like-minded people that fit the philoso-

phy. Our long-term goal will be to bring in younger analysts and grow them into the philosophy as well. That’s all part of the maturity of a company.”

Although Page is not leaving the firm anytime soon, he is currently working on a succession plan that will see Lam get more involved in the operations of the business over time.

“I do believe it is our job to build succession, so our clients are comfortable with who is operating the firm longer-term,” Page said. “We’ve established [a] very formal process. We’re one of the few firms and businesses that use professional coaching as part of our normal regimen, so succes-

sion is part of this process.”

Laurus’ total assets under management has dropped to approximately \$500 million as of June 30 from \$683 million as of March 31, 2021, however, the asset size is acceptable for Page, who aims to further improve the firm’s process and communicate the changes with both existing and prospective clients.

“I’m not worried about building us out to be the next \$5 billion firm; we’re trying to build one client at a time,” Page said. “If we can do a great job for a client, then a door will open to the next client ... We’ll probably be an emerging manager for a while, but that’s okay. I’m not unhappy with that.”