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Holland Bloorview Investor Challenge: How three fund managers fared in the first quarter

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Brendan Caldwell, Wesley Roitman and Brandon Snow compete in an investment challenge to raise money for the Holland Bloorview Kids Rehabilitation Hospital

The path to profits in the first quarter looked very different for three different Canadian money managers, whose motivation this year has extra meaning beyond simply making money.

The three are participants in an investment challenge to raise money for the Holland Bloorview Kids Rehabilitation Hospital, which is the largest facility of its kind in Canada. The Toronto hospital's mission is to improve the lives of children living with disabilities – everything from cerebral palsy to autism.

In service of that purpose, three fund managers each started with $25,000 donated by their respective firms. And each will manage that money on behalf of Holland Bloorview over the course of the calendar year, with all capital and investment gains going to the hospital. Additional donations of cash or securities can be made to each manager's Investor Challenge fund at hollandbloorview.ca/investorchallenge[1].

In generating returns in the first quarter, the challenge's participants found themselves navigating a diverse set of market conditions, from the aftermath of the U.S. presidential election, to the evolution of India's markets, to alternative lending in North American real estate.

Here is how each money manager fared.

The manager: Brendan Caldwell, president and chief executive, Caldwell Investment Management

The fund: Caldwell Growth Opportunities Trust

When the Bombay Stock Exchange itself went public in February, it set this fund up for a huge gain.

By far the fund's largest position, Caldwell sold about one-quarter of its stake in the stock exchange into the initial public offering. The new listing's shares still account for about half of the fund's assets.

Largely as a result of the IPO, the fund returned more than 30 per cent in the first quarter alone.

Caldwell has a well-established track record investing in the world's exchanges, starting with the Toronto Stock Exchange back in the 1990s.

Rather than trying to predict the stock market's biggest winners, owning a piece of the exchange itself can give exposure to the broader economic engine.

"With India, I don't know if it's going to be technology, or outsourcing, or real estate, or finance that's going to drive the economy," Mr. Caldwell said. "But it's clear to me that this is an economy that's going to grow at a much faster rate than anything in the West."

The manager: Wesley Roitman, managing partner, Romspen Investment Corp.

The fund: Romspen Mortgage Investment Fund

To the uninitiated, the mandate of this fund might not sound as though it's designed for predictability.

After all, the provision of high-interest mortgages to borrowers who don't typically qualify for bank financing might invoke fears of risky real estate lending.

But this fund's performance has been remarkably consistent over the long term.

"We're the tortoise in this race," Mr. Roitman said. "The other guys investing in stocks and bonds, that's way more volatile. We're the sure thing."

Split just about evenly between the Canadian and U.S. markets, Romspen provides non-bank mortgages to commercial, industrial and residential property developers, typically at lower-double-digit interest rates.

"We deal with companies who don't have all their ducks lined up for bank financing," he said.

And while borrowers may struggle more than those in a typical Canadian bank's mortgage book, Romspen's rate of default has historically been less than 50 basis points, Mr. Roitman said.

Over the past 20 years, the fund's returns have averaged close to 10 per cent, he said.

In the first quarter, the fund returned 1.9 per cent, after fees.

The manager: Brandon Snow, chief investment officer, Cambridge Global Asset Management

The fund: Cambridge Global Equity Fund

Going into the start of this year, Mr. Snow decided to take the fund down a more cautious path.

The election of Donald Trump to the U.S. presidency had sparked an equity rally that didn't seem consistent with the policy uncertainty that surrounded the new administration, he said.

And he felt like China's credit splurge was due to retreat, he added. "We were wrong on both cases."

Fortunately, his gains in the technology and health-care sectors more than offset losses incurred as a result of the so-called Trump rally, which continued well into 2017.

From the end of 2016 up to early March, the S&P 500 index rose by 7 per cent on leadership from pro-cyclical sectors, as Mr. Trump's pro-business agenda combined with improving U.S. economic indicators to drive equity sentiment.

Most defensive stocks, meanwhile, lagged the index, putting a cautious investment strategy somewhat out of favour.

In the last month of the quarter, however, the Trump rally largely reversed, with financials falling to dead last among the 11 sectors, while defensive and rate-sensitive stocks were among the leaders.

After fees, the fund was up by 3.8 per cent in the first quarter.

References

1. www.hollandbloorview.ca/investorchallenge