introductioncapital

# THE 3RD CANADIAN ALTERNATIVE INVESTMENT FORUM

THURSDAY, APRIL 18, 2013

ST. ANDREW'S CLUB, 27TH FLOOR, TORONTO

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Stenner Investment Partners

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| YEAR | NET RETURN |
|---|---|
| 2003 | **9.7%** |
| 2004 | **9.8%** |
| 2005 | **9.9%** |
| 2006 | **10.3%** |
| 2007 | **10.5%** |
| 2008 | **9.9%** |
| 2009 | **8.7%** |
| 2010 | **8.7%** |
| 2011 | **8.2%** |
| 2012 | **7.7%*** |

# MAKING MONEY HAS NEVER BEEN SO BORING.

Results from January 2001 to January 16, 2006 reflect the pool of individually syndicated mortgages. Compounded net returns are calculated on a cash-on-cash basis. Results from January 16, 2006 to present reflect the Limited Partnership Fund, the successor to the individually syndicated mortgages. Compounded net returns are calculated in accordance with Canadian GAAP accounting. Returns may vary. *2012 returns still subject to final audit.

ROMSPEN

A LETTER FROM

# KAREN AZLEN CEO

introductioncapital

Dear Delegates,

I am delighted to welcome you to the 3rd Canadian Alternative Investment Forum. Once again I am very proud to present a stellar line up of speakers who are all experts in their respective fields.

Our forum maintains its Canadian focus whereby most of our speakers are from Canada. Our keynote speaker, however, frequently joins us from the U.S. to bring a different perspective to the day. I am thrilled to have Frank Casey with us this year, a fascinating and seasoned veteran and one of the foxhounds who blew the whistle to the SEC on Bernie Madoff's Ponzi scheme.

We always kick off the forum with our hedge fund panel and frequently cover alternative fixed income as well. The inclusion of an investor panel (this year we have chosen family offices) provides you with a current view on how and why they are participating in the alternative arena. I was thrilled to obtain a personal education about "infrastructure" and "growth capital technology" through my research in identifying the right mix of speakers and moderators for these panels. Our decision to cover tactical asset allocation this year brought a wealth of potential speakers to us which told me that we could host a half day forum on this topic alone. Your suggestions for panel topics at our future events are always welcome.

We thank our generous sponsors and advertisers who are all showcased here in this event guide. Their continued support allows us to produce this forum each year. As always, our intention is to bring sophisticated alternative investment professionals and investors together so that they can glean insight from the panel discussions and from one another in a friendly, high-energy networking environment.

Introduction Capital is pleased to serve the Canadian Alternative Investment industry by brokering relationships in many different ways. Our network has never been richer and our brand attracts many who are seeking consultation on raising capital, whether it is for their funds or for support with their business growth. We strive to do both and are now seeking strategic partners to join us in our efforts.

I continue to be inspired by the creativity of my industry colleagues who are alternative managers, sophisticated investors, service providers and dear friends. It is an honor to be a part of this industry in the making and to bear witness to those who are adapting and aligning in a new age.

Enjoy today's content and enjoy your colleagues!

Warm regards,

Karen Azlen
CEO
Introduction Capital
k.azlen@introcap.com
416.849.1927

# Enjoying the conference?

## Keep the conversation going. Keep asking questions.

Who has the right answers to these questions?

What are your controls and procedures?
When did you last upgrade technology?
Where are you growing your business?
Why are some investors treated unfairly?
How scalable are your service providers?

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Founded in Canada by former investment fund managers, CommonWealth Fund Services is a boutique, quality-focused fund administrator to more than 50 investments funds, using industry-leading technology, employing world-class people, and providing unsurpassed accuracy and responsiveness.

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For more information please contact:

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mackenzie@commonwealthfundservices.com
(416) 687-6654

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**8:00** AM Registration and Continental Breakfast

**8:30** AM Welcome, Introductions

**Karen Azlen**, Introduction Capital

**8:45** AM Opening Remarks

*The Heuristics of Hedge Funds*

**Jim McGovern**, Arrow Capital Management

**9:00** AM PANEL ONE

*Canadian Hedge Fund Managers Talk About Extracting Alpha in Volatile Markets*

Moderator: **David Kaufman**, Westcourt Capital
**Rob Wessel**, Hamilton Capital Partners
**Paul Sabourin**, Polar Securities
**James Hodgins**, CHS Asset Management

**9:40** AM Q & A

**9:50** AM Networking Break

**10:10** AM PANEL TWO

*Credit Strategies in a Dynamic Fixed Income Market*

Moderator: **David Kaufman**, Westcourt Capital
**Barry Allan**, Marret Asset Management
**Richard Pilosof**, RP Investment Advisors
**Andrew Torres**, Lawrence Park Capital Partners

**10:50** AM Q & A

**11:00** AM PANEL THREE

*Tactical Asset Allocation for a Core Portfolio—the Benefits of Losing Less*

Moderator: **David Kaufman**, Westcourt Capital
**Murray Belzberg**, Perennial Asset Management
**Tyler Mordy**, HAHN Investment Stewards
**Deborah Frame**, Cougar Global Investments

**11:40** AM Q & A

**11:50** AM **Networking Lunch**

**1:00** PM Introduction of Keynote Speaker
**Karen Azlen**

**1:05** PM KEYNOTE ADDRESS

*Due Diligence in a New Era: Transforming Crisis into Opportunity*

**Frank Casey**, Vintage Investment Partners

**1:35** PM Q & A

**1:50** PM PANEL FOUR

*Experts Discuss the Benefits of Investing in Infrastructure Funds*

Moderator: **David Rogers**, Caledon Capital Management
**Pierre Anctil**, Fiera Axium Infrastructure
**David Vickerman**, Greystone Managed Investments
**Larry Antonatos**, Brookfield Investment Management

**2:30** PM Q & A

**2:40** PM Networking Break

**3:00** PM PANEL FIVE

*Family Offices: Where do Alternative Investments Fit In?*

Moderator: **Ann Glazier Rothwell**, RP Investment Advisors
**Sloan Levett**, Fuller Landau
**Mike Jamani**, Tricap Investors
**Thane Stenner**, Richardson GMP/Stenner Investment Partners

**3:40** PM Q & A

**3:50** PM PANEL SIX

*Growth Capital Technology Investing*

Moderator: **John Eckert**, Round 13 Capital
**Michael Wekerle**, Difference Capital
**Justin LaFayette**, Georgian Partners
**Rick Nathan**, Kensington Capital Partners

**4:30** PM Q & A

**4:40** PM Closing Remarks, Acknowledgements and Door Prizes

**4:50** PM Networking Cocktail Reception

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Richardson GMP is an independent, leading-edge wealth management firm accountable to a very important group of people – our clients. Our firm has a history of serving some of the most successful families and entrepreneurs in the country. And there's something distinctly different in the way we do business. For one thing, our Investment Advisor teams consist of some of the sharpest minds in the business, each bringing many years of experience and knowledge to the table. They're all fully invested in Richardson GMP as owners, so they'll ensure that the priorities of the business are fully aligned with your priorities. We also believe our clients' best interests are served through innovative and exclusive investment opportunities supported by comprehensive financial planning and wealth planning capabilities. Our depth of resources ensures that you have an integrated approach to address all investment, tax, estate, insurance, philanthropic and business succession needs.

STENNER

Stenner Investment Partners

### About Stenner Investment Partners

Stenner Investment Partners is a highly skilled and nationally respected multi-family office group within Richardson GMP with experience and expertise in wealth planning and portfolio management. Our sole focus is to offer reliable and reputable services to Canada's ultra high net worth investors. We identify the unique and complex challenges of our ultra high net worth clients and use smart strategies, like our "Tax Alpha"™ after-tax efficient solutions, to turn those challenges into opportunities. From taxes, investments, insurance and business planning to wealth transfer, asset protection and lifestyle management, our services go beyond just managing investment risks. It's important to us to help our clients and their families meet their goals and to do so by developing a mutually beneficial, long term relationship with each of our clients. When our relationship thrives, so do your goals.

# EXECUTIVE SPONSORS

TIGER 21

### About TIGER 21

TIGER 21 is North America's premier peer-learning network for private high net worth investors. Members are wealth creators who come from virtually every segment of the economy; each meeting brings 10-20 peers together monthly to exchange ideas on the risks and opportunities of wealth. In aggregate, the 200 members are responsible for well in excess of $18 billion in investable assets. The sustaining principle is that no single individual is as smart as the Collective Intelligence of TIGER 21's extraordinary community.

Members use TIGER 21 to become better managers of their wealth; to identify investment strategies; to extend their business networks; to conduct due diligence; and to access peer feedback in a confidential and candid environment. Members also interact through online forums, on conference calls, and at our Annual Conference. We believe these experiences can help unlock the transformative value of wealth.

Q.

Where do wealthy investors turn for a safe harbour to discuss investment opportunities, wealth stewardship issues, and the complexities that significant wealth often brings, all within an extremely confidential environment?

A.

TIGER 21 is North America's premier peer learning network for high net worth investors. Our 200+ Members are responsible for aggregate investable assets of over $18 billion. Members are entrepreneurs, CEOs, inventors and top executives with various backgrounds including financial services, technology, biotech, real estate, industrial and consumer goods, legal services, entertainment and medicine.

The TIGER 21 learning experience centres on improving the Members' investment acumen through peer-to-peer critique and learning, as well as exploring common issues of wealth preservation, estate planning and family dynamics.

Confidential inquiries are welcome. To learn more, contact us.

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TIGER 21


MARRET
PERSPECTIVE
Marret Asset Management
is one of Canada's pre-eminent fixed income and hedge fund managers. With a proven track record of capital preservation, strong risk-adjusted and absolute returns, Marret has one of Canada's largest independent fixed income credit teams with deep expertise in high yield, investment grade and resource yield strategies.
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# ASSOCIATE SPONSORS

## About Arrow Capital Management

Arrow Capital Management ("Arrow") is an employee-owned company, founded in 1999 by James McGovern. Arrow's expertise in active portfolio management and manager selection is evident in its strong, diverse platform, which provides clients with access to a global selection of outstanding alternative investment funds. One of the most experienced alternative investment fund companies in Canada and with an extensive network of global resources, Arrow has successfully navigated its clients through all types of market conditions. With its affiliates, Arrow manages over CAD $1 billion of assets, comprising both single manager and multi-manager portfolio funds. Arrow's investment research, portfolio management and trading operations are located at the head office in Toronto. Arrow has sales offices in Calgary and Vancouver, as well as research and sales offices in London, United Kingdom, with their partner Generation Asset Management.

## About Auspice

Auspice is in the business of systematic CTA and commodity strategies. Auspice is an innovative asset manager that specializes in applying formalized investment strategies across a broad range of commodity and financial markets. Auspice's portfolio managers are seasoned institutional commodity traders. Their experience, trading one of the most volatile asset classes, forms the backbone of their strategy for generating profits while preserving capital and dynamically managing risk. The firm currently manages approximately $200 mm across strategies.

## About Brookfield

Brookfield is a global alternative asset manager with over $175 billion in assets under management as of December 31, 2012. We have an over 100-year history of owning and operating assets with a focus on property, renewable power, infrastructure and private equity. We offer a range of public and private investment products and services, which leverage our expertise and experience and provide us with a distinct competitive advantage in the markets where we operate. On behalf of our clients, Brookfield is also an active investor in the public securities markets, where our experience extends over 30 years. Through our registered investment advisor, Brookfield Investment Management, our public market activities complement our core competencies as a direct investor. These activities encompass global listed real estate and infrastructure equities, corporate high yield investments, opportunistic credit strategies and a dedicated insurance asset management division.


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# ASSOCIATE SPONSORS

DIFFERENCE
CAPITAL

### About Difference Capital Funding Inc.

Difference Capital Funding Inc. is a publicly-listed merchant bank focused on creating shareholder value through strategic investments in, and advisory services for growth companies, particularly in the technology and media sectors, as well as opportunistic investments in undervalued financial assets and real property. Our mission is to seek investments where our expertise and knowledge, combined with our investment, enhances the future value for all shareholders. Our team has proven experience in origination, value creation and monetization for investors.

- Capital Markets expertise: Michael Wekerle, co-founder and Former Vice Chairman of Institutional Trading, GMP Securities
- Corporate Management, Media and Government: Paul Sparkes, Former Executive VP at CTVglobemedia and Former Director of Operations, Prime Ministers Office, Rt. Hon. Jean Chretien
- Investment Banking: Neil Johnson, Former European Head of Investment Banking, Canaccord Genuity
- Fund Management and Principal Trading: Henry Kneis, Former CEO of Abria Financial Group and Maple Securities Ltd.

MARRET ASSET MANAGEMENT INC.

### About Marret Asset Management

Marret Asset Management is one of Canada's pre-eminent fixed income and hedge fund managers with assets under management in excess of $6 billion. With a proven track record of creating superior risk-adjusted returns, Marret has one of Canada's largest independent fixed income credit teams with deep expertise in North American high yield, investment grade and resource yield strategies. The firm is 100% employee owned and many of the key team members have been together for over a decade.

DIFFERENCE
CAPITAL

Difference Capital Funding Inc. is a publicly listed merchant bank focused on creating shareholder value through strategic investment and advisory services in growth companies.

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# ASSOCIATE SPONSORS

FIERACAPITAL

## About Fiera Capital

Fiera Capital is a prominent Canadian investment management firm recognized for its excellence in portfolio management, innovative and personalized investment solutions, and its ability to surpass client expectations. We offer expertise in both traditional and absolute return investment strategies and are one of only a handful of independent investment firms providing extensive expertise in Canadian active and structured fixed income, Canadian and foreign equity, asset allocation and non-traditional investment solutions through a broad range of strategies and services.

Since its creation, Fiera Capital has positioned itself to become a leader in the realm of non-traditional investment solutions. Our partners Fiera Axium Infrastructure and Fiera Properties play important roles in our non-traditional offering, as illustrated by the recent successful launch of an infrastructure fund.

With offices in Montreal, Toronto, Calgary, Vancouver, Halifax and New York, the firm has over 255 employees and benefits from the expertise and diversified experience of more than 100 investment professionals, dedicated to servicing our highly diversified clientele with offerings comprising pension funds, foundations, religious and charitable organizations, high net worth individuals, financial institutions, mutual funds and managed asset platforms.

ROUNDTABLE
CAPITAL PARTNERS INC.

## About Roundtable

Roundtable provides actively managed pool fund offerings to high net worth individuals, families, endowments and foundations.

Our central mission is to build and protect the capital of our clients who seek superior long-term absolute returns. We focus on a limited number of client relationships to ensure the highest standard of personal service.

Roundtable is registered with the Ontario Securities Commission as an Exempt Market Dealer, Portfolio Manager and Investment Fund Manager. The Roundtable Funds are purchased via Offering Memorandum.

# ROUNDTABLE
CAPITAL PARTNERS INC.

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The **Investment Partners Fund** is a concentrated large-cap globally diversified equity fund that is actively managed. The Fund uses a market adaptive trading system that emphasizes risk management and seeks to maximize the reward to risk ratio of each trade. Downside risk limits are strictly adhered to for every position and preservation of capital is paramount.

**38.89%***

Cumulative performance 10/01/09 to 03/31/13
Returns are before management and performance fees.
Returns after Sept 30, 2012 are net of Fund operating expenses.

For more information on the Investment Partners Fund:
Toronto: Robert Lendvai, 416-670-7851 or rlendvai@ipfund.ca
Ottawa: James Maxwell, 613-688-3860 or jmaxwell@ipfund.ca

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The foregoing is intended to provide information only and shall not be deemed as or considered to constitute advice on, or as an offer, inducement or solitcitation to trade in any securities. In the event that JDM Investment Partners Ltd. should decided to distribute units, the units shall only be offered to eligible subscribers on an exempt basis pursuant to exemptions from prospectus requirements under applicable securities regulations. Investors are advised to seek independent legal and financial advice.

# ASSOCIATE SPONSORS

RP INVESTMENT ADVISORS

## About RP Investment Advisors

RP Investment Advisors (RPIA) is an alternative Fixed Income asset manager based in Toronto that specializes in active investment grade credit funds. RPIA was founded in 2009 by a group of partners who previously ran the fixed income operations globally for RBC Capital Markets. Each brings more than 20 years of debt market expertise and international capabilities to the firm.

We aim to provide strong, absolute returns in fixed income for high net worth investors, family offices and institutional clients through active security selection, interest rate management and a focus on wealth preservation. RPIA currently manages two distinct strategies, a long short credit hedge fund and an actively managed investment grade credit fund which hedges interest rate exposure to protect capital. Collectively, the partners are the largest investors in our funds along side clients who are primarily family offices and institutions in Canada and Offshore.

We have a unique skill set in investment grade credit, a proven track record and have achieved positive returns with low volatility in 37 of 40 months since inception in the RP Debt Opportunities Fund.

THE INVESTMENT PARTNERS FUND
www.ipfund.ca

## About Investment Partners Fund

Founded in 2009, The Investment Partners Fund is managed by JDM Investment Partners Ltd. Clients of the Fund include high net worth individuals and family offices. The Investment Partners Fund is a concentrated, large-cap, globally diversified equity fund that utilizes an active trading philosophy. The Fund's market adaptive trading strategy emphasizes risk management and seeks to maximize the reward to risk ratio of each trade. Downside risk limits are strictly adhered to for every position and preservation of capital is paramount. More information is available on our website at www.ipfund.ca.


RP INVESTMENT ADVISORS

148 Yorkville Ave, 2nd Floor, Toronto, Ontario M5R 1C2 | Phone: 647.776.1777 | www.rpia.ca

# ASSOCIATE SPONSORS

WESTCOURT CAPITAL CORPORATION

### About Westcourt Capital

Westcourt Capital Corporation is a registered Portfolio Manager with assets under advisement exceeding $1.5 billion. The firm's defining characteristic is its innovative approach to portfolio analysis and construction, with a single-minded focus on contemporary risk measurement and management in an ever-changing economic environment. We have specific expertise in the sourcing and due diligence of investment funds and managers in the alternative space. The inclusion of alternative asset classes and investment strategies is a critical element in diversifying portfolios beyond the traditional stock and bond investments that do a poor job of protecting against down markets and low fixed income returns.


Westcourt Private Wealth specializes in constructing conflict-free customized core and alternative investment portfolios for high net worth individuals, family offices, foundations and endowments.

We have access to institutional-class alternative investment fund sourcing, due diligence and monitoring through Westcourt Capital Corporation, a registered Portfolio Manager and service provider to pension funds and other institutional investors.

Please contact us to discuss how we can provide you with a fresh perspective to building and managing your assets.

Conservative.
Alternative.

David Kaufman, President and CEO

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Enquiries, contact Sarah King, Director, at sbk@westcourtpw.com

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# KEYNOTE SPEAKER

Vintage Investment Partners
Liquid Alternative Investments

## Frank Casey

### Co-Founder and Managing Partner, Vintage Investment Partners

Frank Casey has garnered broad capital markets knowledge over his 38-year career.

Upon leaving the US Army as an Airborne-Ranger Qualified Infantry Captain in 1974, Frank joined Merrill Lynch to serve wealthy investors, innovating equity-option portfolio management. In late 1978, he launched Merrill's northeast area corporate risk management initiatives, specializing in equity, oil and metals derivatives.

In 1982, Frank led Prudential Securities' bank risk management efforts, specializing in hedging the nascent mortgage-origination/MBS-pipeline risks arena until 1992.

Early 1998, Frank helped develop and market Rampart Investments' option-based portfolio management strategies. It was there that Frank discovered Bernard Madoff's fraud in early 1999. Frank, Harry Markopolos and Neil Chelo formed the core Fox Hounds team blowing the whistle to the SEC on Bernie's nearly nine year Ponzi scheme. Their work is detailed in his co-authored book No One Would Listen and in the documentary "Chasing Madoff".

Starting in late 2001, Frank helped build Benchmark Plus, a hedge fund of funds, nearly tenfold to $2 billion in assets over 6 years. He later served London-based Close Brothers-Fortune as President-USA.

Starting in 2008, Frank began building alternative investment management and advisory businesses with specialized partners. Today he works with Granite Asset Management, Vintage Investment Partners, and leads CP Baker & Co.'s technology private equity efforts funding direct-investment and PE fund structures.

Frank Casey stresses transparency, liquidity, client control, and uncompromising absolute honesty in every representation and execution.

# SPEAKERS

## Barry Allan

Founding Partner, President and CIO, Marret Asset Management

Barry Allan is the founding partner, President, and Chief Investment Officer of Marret Asset Management Inc. in Toronto, Ontario. He has over 25 years of investment experience and has operated in virtually all areas of the fixed income market. Prior to founding Marret, Barry spent six years with Altamira where he managed a wide variety of fixed income mandates, as well as being responsible for internal risk management and overseeing the hedging activities for the company's own balance sheet. Prior to joining Altamira, Barry was with Nesbitt Thomson where he founded the Derivatives Group within the Fixed Income Department and was responsible for Fixed Income Capital Market activities. Barry was also with the Bank of Montreal where he spent time in the commercial credit area, provincial underwriting department and was one of the founding members of the interest rate and currency swap trading department.

Barry has an undergraduate degree from the University of British Columbia and an MBA from the University of Arizona. Barry is a regular media commentator and speaks frequently at conferences.

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# SPEAKERS

FIERACAPITAL

## Pierre Anctil

President and Chief Executive Officer, Fiera Axium Infrastructure Inc.

Mr. Anctil has more than 25 years of public and private sector experience in strategic planning, business development and management. He is President and Chief Executive Officer of Fiera Axium Infrastructure Inc., an infrastructure investment firm. He was an executive with SNC-Lavalin starting in 1997, as well as Executive Vice President and Member of the Office of the President, from 2001 to 2008.

Mr Anctil is a member of the Board of Directors of Gaz Métro and of the Laurentian Bank (LB:TSX). He is also Chairman of the Board of Directors of the Montreal Heart Institute.

Mr. Anctil holds a Bachelor in Mechanical Engineering and an MBA and has been working in the investment infrastructure field for over 15 years.

Brookfield

## Larry Antonatos

Director and Product Manager,
Brookfield Investment Management

Mr. Antonatos is Director and Product Manager of the firm's equity business. Working in partnership with the global portfolio management teams, Mr. Antonatos is responsible for the development and growth of Brookfield's equity investment strategies. In this capacity, Mr. Antonatos is involved in the marketing and positioning of the firm's equity products to the global investment community. Prior to joining Brookfield, Mr. Antonatos was a portfolio manager for a US REIT strategy for 10 years, managing $6 billion in assets. Mr. Antonatos has a Master of Business Administration from the Wharton School and a Bachelor of Engineering from Vanderbilt University.

# SPEAKERS

PERENNIAL
ASSET MANAGEMENT

## Murray Belzberg

President, Perennial Asset Management

Murray is renowned for his unique insights and skill in helping investors meet their objectives, having honed his expertise over the past 35 years. His guidance has helped investors avoid major losses – from the oil shock fallout of the late 1970s, to the tech stock bubble of the late 1990s, to the recent 2008 financial crisis.

Murray began his investment career in 1977, and within a few years he became the youngest Vice President at Merrill Lynch Canada. Murray later joined First City Trust Company, where he was responsible for growing the Mutual Fund and Personal and Corporate Trust Division. Prior to setting up Perennial Murray spent 10 years building an investment firm to over $700 million in assets. In 2005, Murray set up Perennial with Jim Ruess, where the Perennial team continues to help their investors achieve their investment objectives.


FIERA CAPITAL
ALTERNATIVE INVESTMENTS

WITH CLOSE TO
**$66 BILLION**
IN ASSETS UNDER MANAGEMENT,
FIERA CAPITAL, AN INDEPENDENT FIRM,
IS ONE OF CANADA'S LEADING
INVESTMENT MANAGERS.

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- > Fiera Axium Infrastructure Fund
- > Fiera Global Macro Fund
- > Fiera Market Neutral Equities Fund
- > Fiera Long/Short Equities Fund
- > Fiera Properties

FIERACAPITAL

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# SPEAKERS

## John Eckert

**President, Round 13 Capital**

John co-founded Round 13 Capital with Bruce Croxon in 2011 to focus on growth stage investing in information technology companies. Investing for over 20 years, he is one of Canada's most experienced venture capital investors. In 1994, John co-founded McLean Watson Capital, one of the most successful technology investors in Canada. Start-up funding was provided to FloNetwork (sold to Doubleclick) and Fortiva (sold to Proofpoint) as well as growth stage capital to Lavalife (sold to Memberworks). McLean Watson was also the majority investor in i4i, and driving force behind its patent infringement victory against Microsoft. John also provided the initial funding to Softimage, the world-leading 3D animation and first public company bought by Microsoft.

John is a past President and Chairman of the Canadian Venture Capital Association and for several years, a judge of the Entrepreneur of the Year Award, sponsored by E & Y. He is also a frequent guest lecturer at the Ivey Business School. As a VP & Director at Wood Gundy, John gained experience in M&A and public financing. For 3 years, he was Managing Director of CIBC Wood Gundy Australia.

# EDITORIAL

## The Prescience of Baron von Rothschild: Right Time for Venture Capital?

**By John Eckert;**
**Co-founder, Round 13 Capital and previously the co-founder and Managing Partner of McLean Watson Capital**

Every investor is no doubt familiar with the oft-quoted maxim by the 18th century financier Baron von Rothschild: "invest when there is blood in the streets". More successful investors know the true quote: "invest when there is blood in the streets, even if that blood is your own". The wisdom behind this quote is simple to grasp although very few investors have the courage to act when the outlook seems bleak and yet the opportunities great.

Sometimes the running of blood in the streets can last as little as a few months but sometimes much longer. For over a decade, venture capital has been the leper of the investment industry. Rolling back the clock to the late 90s, the amount of venture (mostly institutional) invested in Canadian companies peaked at over $5.8 billion. The vast majority went to first generation Internet companies. When the Internet market exploded, venture returns were massacred.

Having recently met with over 200 institutional, family offices and high net worth investors over the past 12 months, I can say first-hand that investors' memories are long and still vivid. Most institutions wrote venture off as an asset class years ago and still view the sector as anathema. Total funds invested in all of Canada were a measly $1.2 billion in 2012. If you consider that the number and quality of Canada's technology companies has never been higher, the opportunity starts to look compelling.

Let me try to describe the venture opportunity today and; in particular the outlook for Canada:

**Venture ranks as the # 1 performing asset class over the long term:** The world's most respected data sources (including Cambridge & Ass, Dow Jones, Frank Russell, S&P and Thomson Reuters) recently released a report showing the returns of various asset classes for the 1, 5, 10, 15, 20 and 25 year periods leading up to June 2012. It is no surprise that annual US venture returns lagged in the 10-yr and under periods. However, over 15, 20 and 25 years, venture generated an astounding 27.5%, 27.9% and 18.7%, respectively – far and away the best performing asset class. Compare this with the returns for NASDAQ of 4.9%, 8.6% and 8% over the same periods. We all know that the time of entry is critical but then, that is precisely what this article is in large part all about.

**Long-term technology cycle is just beginning:** After more than a decade in the doghouse, technology investment is at long last being unleashed. The global market is now more than 50 times larger than a decade ago and consumers have benefited from dramatic breakthroughs in mobile computing, data storage and user friendliness. U.S. multinationals are cash rich and acquisition hungry. The public technology markets are recovering with NASDAQ trending higher and the IPO window for mid-sized companies slowly opening. Venture investing is very simple in that its returns always lag, but are nevertheless driven directly by a strong public market.

**Canada offers outstanding technology and human resources:** Canada has as many people as California, great universities, emerging technology centers and a much stronger record for innovation than realized. Canada is Google's second most active hunting ground for acquisitions (Pushlife, Bufferbox, DNN Research, etc.) and Salesforce has bought 3 companies (Sitemasher, Rypple and GoInstant) over the past 2 years. Over 75 Canadian tech companies have been bought by large multinationals over the past 5 years and the trend is accelerating.

Canada is now chock full of second and even third generation entrepreneurs keen to do it again. Canada has the reputation of being the most multinational country in the world and attracts many of the world's best entrepreneurs. It is no surprise that ***Start-up Genome*** ranked Toronto as the 4th best city in the world for launching a start-up and ***2thinknow*** ranked Toronto the 10th Most Innovative City in the World and 4th in North America.

**Attractive pricing and terms:** Despite all the positives listed above, the lack of capital means great pricing and terms for technology investors. If a 10% ownership position cost $1 million in 2000, that same 10% interest might cost as little as $100,000 to $200,000 today. Furthermore, Canadian private companies trade at significant discounts to comparable U.S. companies, offering further arbitrage as the markets recover.

So what then is the best way to play the technology market over the next 10 years? If done well private company returns can be much greater than in public companies. But real and lasting success means hard work, industry expertise and a sensible and focused approach. If you can't make this commitment, consider investing in a well-managed and diversified venture fund.

There are many factors contributing to success in venture investing but far and away the most important is choosing the right Manager. Look closely at past returns but also Insist on a committed entrepreneurial team with experience spanning more than one investment cycle. The best performing funds have been proven to have diversified teams with hands-on operating experience including technical and operational (including marketing) skills, and not just financial services backgrounds.

Make sure your Manager has the reputation to attract the best deals ahead of other investors. Without this, not much else matters as really great opportunities go fast. Furthermore, because the best companies often need the funding and connections available only in the U.S., make sure your Manager has a strong network of foreign co-investors upon which to call.

Lastly, make sure your goals and those of your Manager are well aligned. The most effective way is to insist that the individual partners of the Manager have significant skin-in-the-game and on the same terms as you and the other investors.

There is no question that the Internet collapse in 2000 spilled a lot of blood and the effects of that collapse continue to live on. But unless you believe that technology is some passing fad, now is the time to stand back and recognize what a great buying opportunity still exists in Canada's technology markets. For those investors willing to commit today, the next several years should prove to be some of the best vintage years ever for the venture industry.

As Baron von Rothschild knew instinctively, timing is everything.

The opinions expressed here are those of the author and do not necessarily reflect those of Introduction Capital, Inc.

# SPEAKERS

## Deborah Frame

VP, Investments and CCO, Cougar Global Investments

Deborah has an extensive background in managing investments and has held executive positions over the past 25 years at a number of major Canadian life insurance and investment companies. She was most recently Chief Investment Officer at Empire Life and sat as a director of both private and public companies during this period. She received her Master of Business Administration degree from York University with a specialty in Finance and her undergraduate degree in Economics and Business from the University of Guelph. Deborah is a CFA Charterholder and is registered as a Portfolio Manager - Advising Representative with the Ontario Securities Commission.

## James Hodgins

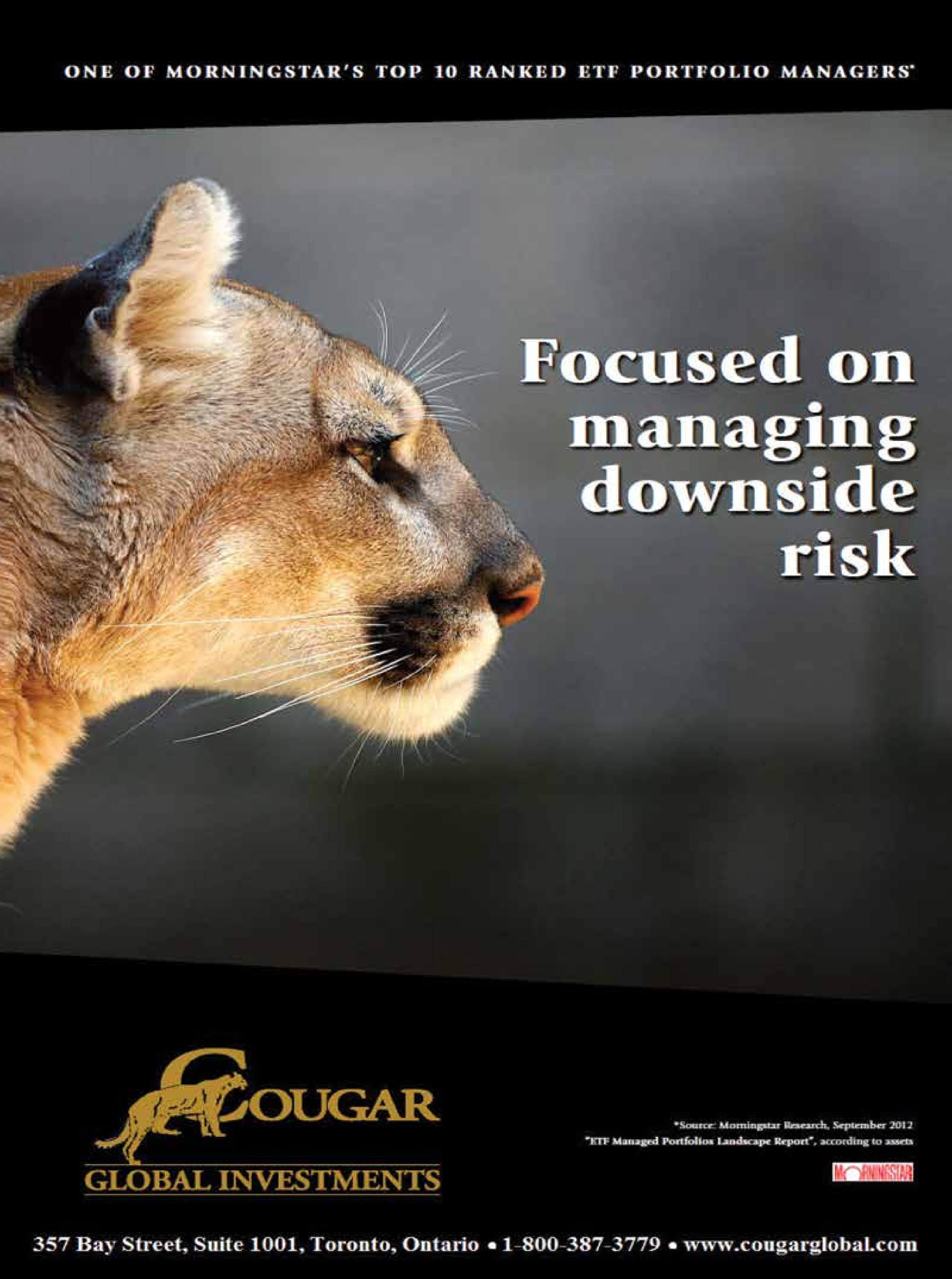
Chairman and CIO, CHS Asset Management

Mr. Hodgins is Chairman and Chief Investment Officer of CHS Asset Management and leads the Investment Team for the Curvature Fund L.P.

Prior to co-founding CHS, Mr. Hodgins founded Canaccord Adams' Hedge Strategy Group in 2004. Mr. Hodgins developed a significant information network to support investment idea generation as he and his group were also involved in the structuring and distribution of more than 250 financings after meeting with hundreds of small company senior management teams in the process.

An avid student of the market, Mr. Hodgins has developed particular expertise in applying non-linear quantitative techniques grounded in Behavioural Finance, Reflexivity and Option theory to the relatively inefficient small cap market. Borrowing heavily from George Soros, Mr. Hodgins has coined the term "Reflexive Change" to explain a number of observed market inefficiencies. He also has developed deep understanding of small company financing and sector cycles and their implications for the performance of equity and equity-linked securities and their inherent volatility.

Prior to joining Canaccord, Mr. Hodgins spent approximately 5 years with the Quantitative Investment Division of the OTPP. Mr. Hodgins holds a degree in business, and an MBA from the Simon School of Business, University of Rochester. He achieved his CFA Charter designation in 2001.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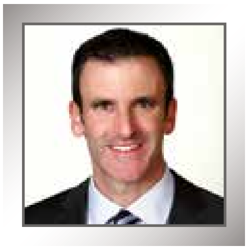
## Mike Jamani

President, Tricap Investors

Mike Jamani founded Tricap Investors Inc., a multi-family office in 1998. Tricap manages the financial and investment affairs of a small number of families. Prior to this, he was a senior partner at Ernst & Young LLP in Toronto. During the last 16 years at E&Y, he was in the firm's Corporate Finance practice where he advised clients in the areas of mergers & acquisitions, financings and strategic corporate development matters.

Mike has his Chartered Accountant's designation from England and Canada.



WESTCOURT CAPITAL CORPORATION

## David Kaufman

President and CEO, Westcourt Capital Corporation

David, a non-practising lawyer, brings more than 18 years of experience in the legal, real estate and investment industries to his role as President and CEO of Westcourt Capital Corporation.

David founded Westcourt Capital in 2009 as a registered Exempt Market Dealer, sourcing and conducting due diligence on conservative alternative investment managers and funds. Originally focused on real estate related income-oriented investment strategies, Westcourt added the registration of Portfolio Manager in 2012, and now provides unbiased portfolio construction advisory services to its high net worth and institutional clients.

With assets under advisement exceeding $1 billion, the firm's defining characteristic is its alternative approach to portfolio analysis and construction, with a single-minded focus on contemporary and tactical risk measurement and management in an ever-changing economic environment.

David remains a member of the Law Society of Upper Canada and is a CAIA charterholder. David writes a bi-weekly column, "Alternative Investor", for the Financial Post, in which he covers a wide range of alternative investment classes and strategies. He is also a regular contributor and co-host on CBC's Lang & O'Leary Exchange.

## Justin LaFayette

### Managing Director, Georgian Partners

Justin LaFayette is a managing director of Georgian Partners, which he co-founded in 2008. Prior to Georgian Partners, Mr. LaFayette was Vice President of Strategy for Information Platform and Solutions with IBM Software Group.

Prior to IBM, Mr. LaFayette was a co-founder of DWL, an enterprise software company which grew over 10 years to become a leader in Master Data Management (MDM). Under Mr. LaFayette's leadership, DWL developed its Customer Data Integration (CDI) software, now called IBM Infosphere MDM Server, and helped pioneer the MDM space. DWL was named one of the fastest growing technology companies three consecutive years by Deloitte and Touche, and was acquired by IBM in 2005. Mr. LaFayette was the recipient of Ernst & Young's Entrepreneur of the Year award for Technology in 2001.

Current investments: Silanis, Syncsort, Kony, Shopify, Polar Mobile and 41st Parameter.

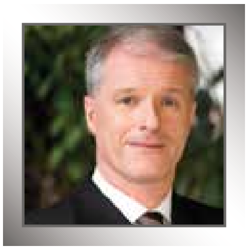
## Sloan Levett

### President, Fuller Landau Family Office Services

Sloan is a partner in Fuller Landau's Advisory practice and President of Fuller Landau Family Office Services. In this role, he leads the firm's multi–client family office initiatives, which include independent and objective investment portfolio advisory, insurance advisory, will and estate planning, and related tax strategies which ensure total alignment with our clients' best interests. Sloan has extensive experience designing and implementing wealth management and tax strategies including asset allocation and tax deferral/minimization to high net worth individuals. He maintains a conservative yet highly strategic approach to wealth optimization, customized to each individual. Sloan is widely recognized for his expertise and knowledge of Family Office Services and is regularly quoted in the national media.

Prior to joining Fuller Landau, Sloan acted as the wealth advisor for one of Canada's wealthiest families.

# SPEAKERS

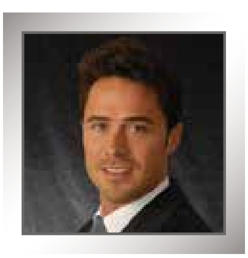


## Jim McGovern

Managing Director and CEO, Arrow Capital Management

Mr. McGovern founded Arrow Capital Management Inc. in 1999 after working for over 13 years at BPI Financial Corporation (Canada) (“BPI”), a company which he co-founded, and where he ultimately held the positions of President and Chief Executive Officer. BPI, a publicly traded company, managed or administered over $6 billion on behalf of Canadian and U.S. investors. Mr. McGovern was the founding Chairman (currently, Past Chairman) of the Canada National Group of the Alternative Investment Management Association (“AIMA Canada”). He is actively involved in the international hedge fund community and has spoken at conferences in Canada and globally.

Mr. McGovern graduated from the University of Toronto with a Bachelor of Commerce and Finance degree in 1985. He is active in charitable organizations, including Hedge Funds Care Canada and University Health Network. He also serves on the Board of Trustees of the Fraser Institute, an independent Canadian economic and social research and educational organization.

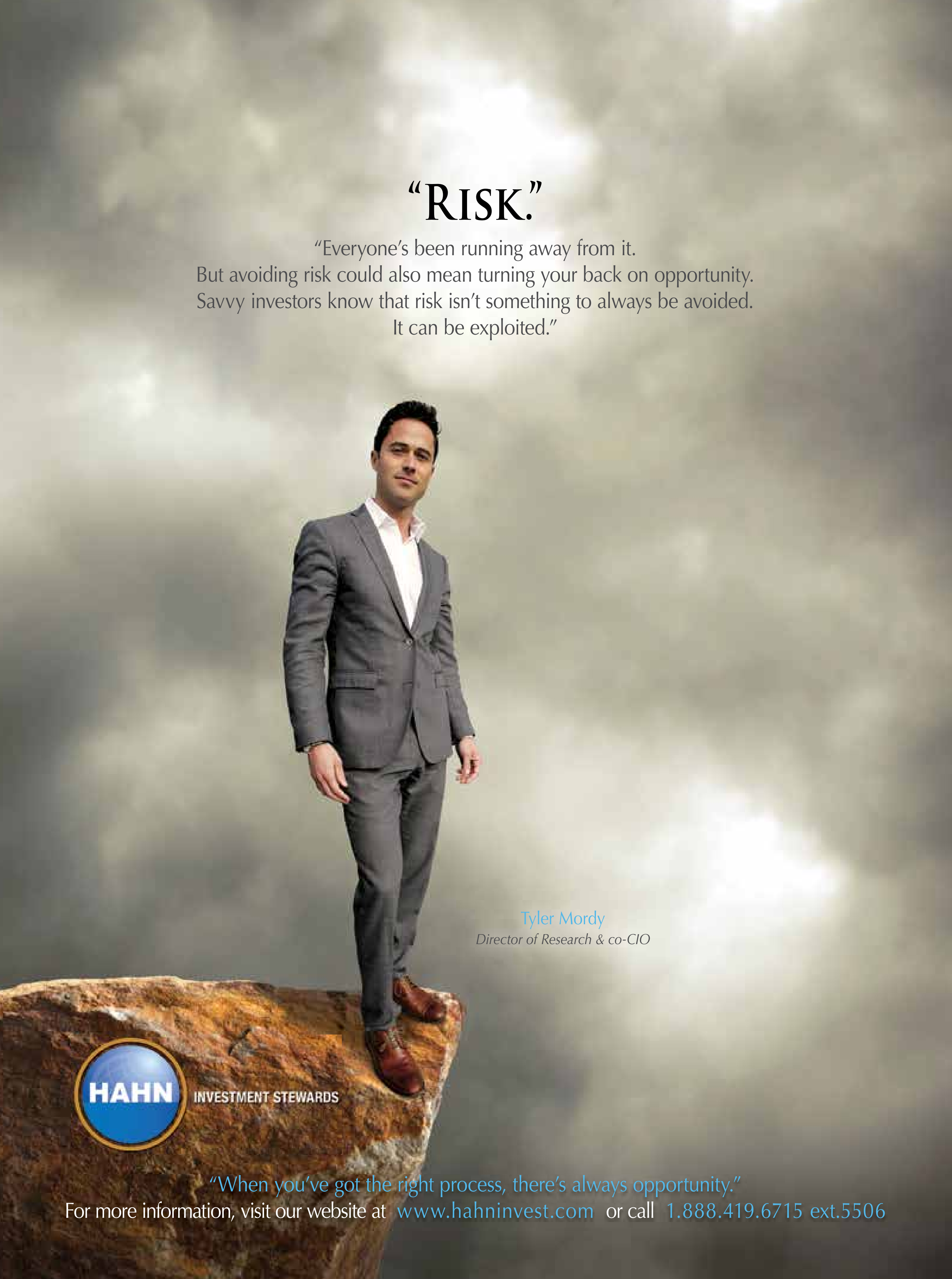


## Tyler Mordy

Director of Research and co-CIO, HAHN Investment Stewards

Tyler Mordy is the Director of Research and co-CIO for HAHN Investment Stewards. Since joining the firm in February 2003, Tyler has become a recognized innovator in the design and application of “global macro” managed ETF portfolios. He is widely quoted and interviewed by the financial media (including CNBC, BNN, Forbes, the Globe and Mail, and the Wall Street Journal) for his global investment strategy views as well as ETF trends. Recently, IndexUniverse profiled Tyler Mordy as one of the “best and brightest” working in the ETF industry.

A member of HAHN’s Investment Committee, he is engaged in top-down strategy, investment policy and securities selection. Prior to joining HAHN, Tyler gained international experience at Deutsche Asset Management in London, UK. A graduate of the University of British Columbia (Mathematics and English Literature), Tyler is a CFA charterholder.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## Rick Nathan

### Managing Director, Kensington Capital Partners

Rick is a Kensington Managing Director and a member of the Investment Committee and Advisory Board and is the Co-Chair of the Canadian Innovation Exchange (CIX). Rick serves as a Board member (or observer) of Public Mobile Holdings Inc., D-Wave Systems Inc. and Blue Ant Media Inc., and is on the Advisory Board of the Novacap and Vanedge (Chair) funds. He is also a member of the Small and Medium Enterprise Committee (SMEC) established by the Ontario Securities Commission. Rick served as President and Chair of CVCA – Canada's Venture Capital and Private Equity Association between 2005-2012. Rick was previously a founding partner of Brightspark Ventures, a Toronto venture capital fund focused on incubating early stage technology companies, and the Managing Director of Goodmans Venture Group, a strategic advisory and investment division of Goodmans LLP. Rick also spent more than 10 years as a corporate and securities lawyer at Osler, Hoskin & Harcourt LLP, including as leader of the firm's Technology Business Group. Rick holds a B.A. (Computer Science) from Dartmouth College and an LL.B. from the University of Toronto, Faculty of Law.

## Richard Pilosof

### Managing Partner, CEO and Head of Risk, RPIA

Richard Pilosof is a former Managing Director and Head of Global Debt Markets for RBC Capital Markets (RBCCM), having held positions on the Operating Committee, Management Committee, Executive Committee and a succession of senior management positions in his greater than 25 years with RBC. In 1987, Mr. Pilosof had the distinction of becoming RBCCM's youngest managing director at the age of 27, the same year he was appointed head of Canadian Domestic Fixed Income Trading. Mr. Pilosof transferred to the United Kingdom in 1998 and worked on the Hambros Bank Limited business integration, later becoming a member of the Global Markets Operating Committee in 1999. While in London, Richard managed and built RBC's international capital markets platform into a world class operation with significant operations in London, Hong Kong, Sydney and New York, substantially increasing RBC's percentage of revenues earned from operations outside Canada from 1998 to 2008. Mr. Pilosof managed and traded, on a discretionary basis, foreign exchange, fixed income and credit products portfolios, reporting to the Co-President of RBCCM. Richard holds a BA in Finance from University of South Carolina is the Chair of the Finance & Investment Committee for the Mount Sinai Hospital Foundation.

GREYSTONE
MANAGED INVESTMENTS INC

## David Vickerman

**Executive Director, Global Infrastructure Fund, Greystone Managed Investments**

David joined Greystone in 2012 and is responsible for the development of the global infrastructure fund, asset sourcing and execution, and portfolio construction and management.

Prior to joining Greystone, David was Managing Director and Head, Global Infrastructure Investments at Scotia Capital and was responsible for global infrastructure deal sourcing, advisory and execution. Prior to Scotia Capital, David spent more than 12 years in London, UK, focusing on alternative investments, including asset allocation, portfolio construction and risk management.

Specifically, David was Co-Founder of Man-Vector UK Ltd., a quantitative investment firm, where he served as Managing Director and CEO/COO. Concurrently, David was the Founder, CEO and CIO of Vector Asset Management (UK) Ltd., an alternative asset management firm focused on managing global illiquid investments.

During David's 19-year fund development and infrastructure advisory career, he had direct responsibility of building out three funds totaling over US$600 million of raised equity capital, as well as providing advice on several infrastructure opportunities, representing more than US$2.9 billion of direct investment capital.

David received an MBA (Finance) with academic distinction from Wake Forest University and a B.Sc in Mathematics from UWO.


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## Ann Glazier Rothwell

Head of Business Development, RPIA

Ann Glazier Rothwell has more than 20 years of experience in Canadian capital markets and alternative investment strategies. Prior to joining RPIA in May, 2012, Ms. Glazier Rothwell was the co-founder & Chief Investment Officer of Alpha Scout Capital Management, a Canadian focused fund of hedge funds. Prior to founding Alpha Scout in 2004, Ann was Vice President & Director in the Alternative Investment Strategy and Proprietary Trading Group at TD Newcrest. Ann began her career at RBC DS in fixed income sales and trading, eventually moving to the High Yield Arbitrage Proprietary Trading Group and then spent 9 years in institutional equity sales in Toronto and New York with RBC DS, First Marathon/National Bank Financial and Newcrest Capital.

Ms. Rothwell is a Chartered Financial Analyst, a Leslie Wong Fellow of the UBC Portfolio Management Foundation and holds a Bachelor of Commerce from the UBC Sauder School of Business.

## Paul Sabourin

Chairman and CIO, Polar Securities

Paul graduated from the University of Toronto in 1975 with a B.A., and the University of Western Ontario in 1980 with an MBA. He joined Burns Fry Ltd. in 1982 as a research analyst focusing on small cap stocks. In 1983, he moved to the institutional trading area and worked in a number of areas including preferred shares, convertible bonds, risk arbitrage and liability trading. In 1987, Paul became a director of Burns Fry, and later became a member of the Executive Committee, responsible for managing the institutional trading area. In 1991, Paul was a founding partner of Polar Securities Inc. Since that time he has variously managed the convertible arbitrage, merger arbitrage, and equity special situations portfolios. Paul has been the Chief Investment Officer since 1991.

STENNER

Stenner Investment Partners

## Thane Stenner

### CIM®, FCSI, Director, Wealth Management, Portfolio Manager, Stenner Investment Partners

Thane Stenner has almost 25 years of experience in successfully advising ultra high net worth families, entrepreneurs, as well as corporate and philanthropic entities. He is the founder of Stenner Investment Partners, a multi-family office group within Richardson GMP Limited, a firm with $14.74 billion in client assets under management. As Director, Wealth Management, and Portfolio Manager, Thane leads Stenner Investment Partners' overall strategic asset allocation of portfolios as well as wealth and estate planning strategies for our valued clients from across Canada. Thane is also the Founding Member and Managing Director for TIGER 21, Canada. TIGER 21 is a North American peer-to-peer network of high net worth investors with over 200 members who collectively manage over $18 billion in assets. He is frequently quoted in a variety of national publications and writes an exclusive high net worth column for Globe & Mail and Report on Business.

LAWRENCE PARK

CAPITAL PARTNERS

## Andrew Torres

### Founding Partner and CIO, Lawrence Park Capital Partners

As a former Vice Chair and Global Head of Credit Trading at TD Securities, Andrew Torres has been trading credit for most of his 20 year career. Andrew was based in London, UK from 1997-2009, and also spent significant portions of his career in New York and Toronto. During his 14 years at TD, he held increasingly senior trading roles in the Credit Products Group, culminating in his appointment as Vice Chair overseeing a $30 billion trading portfolio which focused on proprietary strategies in corporate bonds and credit derivatives. More recently, he was a partner and portfolio manager at the London offices of Aladdin Capital Management, an $18 billion credit asset manager based Stamford, CT. Andrew is currently the Chief Investment Officer at Lawrence Park Capital Partners, a Toronto based fixed income manager which he co-founded in 2011.


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# SPEAKERS

CALEDON
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## David Rogers

### Founding Partner, Caledon Capital Management

David Rogers is the founding Partner of Caledon Capital Management, an independent Private Markets portfolio management firm based in Toronto, Canada. Caledon provides North American institutional investors with customized infrastructure and private equity investment solutions targeting both global Fund commitments and direct investments.

Prior to Caledon, David was the team leader and SVP of the OMERS private equity group. David and his team were responsible for sourcing, structuring, and negotiating investments into global private equity Funds and direct co-investments.

Prior to OMERS, David was a Vice-President Investments with a Canadian venture capital firm and prior to that, Vice-President Finance and C.F.O. of FirstService Corporation, a TSX and NASDAQ-listed public company.

Professional designations: C.A. and C.B.V.
Education: MBA and BBA Schulich Business School – Toronto

# SPEAKERS

DIFFERENCE CAPITAL

## Michael Wekerle

Executive Chairman, Difference Capital

*The Globe and Mail* described Michael Wekerle as one of Bay Street's legendary investment traders. Wekerle is currently the Executive Chairman and Co-founder of Difference Capital Inc. He was a Partner and Co-founder of Griffiths McBurney & Partners' (GMP) sales and trading operations. He served as Vice Chairman of Institutional Trading at GMP Securities until August 2011, where he was widely considered a leading investment advisor in Canada. During this time, he helped establish the firm's hedge fund, institutional trading desk and a reputation for assisting clients in profiting from large-scale transactions.

Aside from his work on Bay Street, Wekerle donates to various charities such as CAMH, Bloorview Kids, Mount Sinai Hospital, Sick Kids Hospital and Toronto General. He has been heavily involved with Seeds of Hope, an organization providing a safe, fun and enriching environment for underprivileged children. He is a major sponsor of Opera Atelier, the production of opera, ballet and drama from the 17th and 18th centuries.


# SPEAKERS

Hamilton Capital
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## Rob Wessel

**Managing Partner, Hamilton Capital Partners**

Rob has specialized in financial services since 1995. Before founding Hamilton Capital Partners (HCP) in 2009, Rob was a Managing Director at NBC Alternative Investments where, overlapping the financial crisis, he successfully managed an internal long short strategy specializing in North American financials.

From 2001 to 2007, Rob was the Financial Services Analyst at National Bank Financial. During this time covering the Canadian banks, Rob was voted an "All Star" analyst by institutional investors each and every full year (according to Brendan Wood International). He also added coverage of the Canadian life insurers in 2004. Prior to his time at National Bank, Rob worked in investment banking at a bank-owned dealer, and corporate finance at a large financial institution.

Rob is a Chartered Accountant and a CFA charterholder. He has also completed the CICA In-Depth Tax Course. Rob has a Bachelor of Business Administration from Wilfrid Laurier University.


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## Why "Global Macro" is Now the Golden Approach to Tactical Strategy

**Tyler Mordy, Director of Research and co-CIO**
**HAHN Investment Stewards & Company Inc.**

Remember the "Great Moderation" phenomenon? A Harvard economist coined the phrase in a 2002 research paper to refer to the persistent decline in economic and inflation variability since the early 1980s. The slogan gained traction when future Federal Reserve Chairman Ben Bernanke used the same words in a 2004 speech. From there, many pundits embraced the concept and projected a continuing trend well into the future.

Since 2008, those forecasts have proven to be well off the mark. Interest rates remain tethered to multi-century lows, conviction is in short supply, and macro volatility has been stubbornly high. Indeed, five years on, the "Great Recession" still lingers.

Where to next? Given ongoing structural re-alignments, it is clear that macroeconomic dynamics will play a more significant role in influencing the direction of capital markets in the coming years. In this environment, a top-down, tactical investment approach will become mandatory (*often referred to as "global macro"*).

Below, we list key reasons for incorporating this approach into investment decision-making process:

**1. Slow-Growth Era.** While the global economic free-fall has passed, the United States and other consumption-driven appendages are likely to settle at a new, lower level of economic activity, experiencing more subdued nominal growth than witnessed since the mid-1980s (*where the tailwind of US household debt expansion existed — soaring from 64% of GDP in 1995 to over 100% today*).

Headwinds caused by deflating asset bubbles, radical capital misallocations and government debts will constrain overall growth in the wider economy. In this environment, lower benchmark returns should be expected. Therefore, a broad-based, strategic portfolio approach is unlikely to be a successful strategy.

**2. Expanded Measures of Risk.** Risk is perhaps the most misunderstood concept in finance. It certainly cannot be distilled into a single number (*standard deviation or VaR measures for the quants out there*). But large portfolio declines in 2008 have challenged traditionally held assumptions about risk.

What went wrong? To begin, it's instructive to recognize that many traditional financial models rely on historical data inputs. Yet, relationships among financial variables are continually changing, often experiencing structural shocks that alter their correlations. What's more, since many risk models use historical volatility assumptions (*often from a benign period*), they seduce their users into a false complacency, leading to a vast underestimation of risk.

Investors need to expand their risk definitions and remain avid students of financial history (*particularly as it pertains to structural changes in markets and underlying causality*).

**3. "Money Manager Capitalism".** The late economist, Hyman Minsky (*who wrote an excellent non best-seller on financial instability in 1986)*, theorized that institutional investors would come to dominate capital flows during advanced stages of capitalism. He could not have been more correct. International markets are now more interconnected than ever and capital mobility is high.

Really, this is symptomatic of an advanced, globalized financial system. After a post-war boom in the developed world, a "global glut of managed money seeking returns"[2] now exists and provides a ready pool of capital to chase investment returns. Under these conditions, where a surplus of capital is not tied to national boundaries and attractive returns are in short supply, we should expect "managed money" to continue looking further afield for higher returns. Expect big swings in global asset classes.

**4. The Rise of ETFs.** We remain steadfast advocates of the portfolio-building conveniences and benefits of ETFs — transparent, low-cost, tax-efficient, and flexible trading. Who can argue with that? But these are favorable features of just the wrapper itself — the ETF vehicle. The primary benefit of ETFs has caused a paradigm shift for global asset allocators, granting access to a multitude of global investment classes in a single security ... really, the perfect macro tool for top-down, global approaches to investing. According to Blackrock, there are now 4,560 exchange-traded products around the world with assets of USD 1.7 trillion from 159 providers on 46 exchanges. Only five years ago, this macro toolbox was not available for the top-down, global investor.

**5. Globalization of Finance.** A number of issues emerge from a progressively synchronized and interconnected financial system. During 2008, classic portfolio diversification did not pass the test. What portfolio malfunction happened here?

It's vital to understand that cross-asset correlations among asset classes have been rising for several years now. Research Affiliates has recently shown that the classic 60/40 portfolio has a 0.97 correlation with the S&P 500 index. This high correlation can be partly attributed to investors taking on too much risk in the stock component (*thus overwhelming the positive benefits of bonds as shock absorbers within the balanced construct*).

Two takeaways should be noted here. Firstly, diversification is achieved more successfully by tactically allocating investments by risk factors instead of by conventional asset-class categorizations (*the latter are often too highly correlated*). Secondly, an expanded set of global investments should be used. Both these objectives will rely on macro factors and themes to guide the tactical portfolio construction process.

**Conclusions.** The same economist who coined "the Great Moderation" also issued a stern warning at the end of his 2002 paper: "we are left with the unsettling conclusion that the quiescence of the past fifteen years could well be a hiatus before a return to more turbulent economic times."

It was a prescient forecast. Today's private sector deleveraging is being fought at an enormous cost — escalating government liabilities (*and, in many cases, the further misallocation of capital*). But an important lesson from the GFC is that sustained debt growth in excess of underlying economic growth rates is not a sustainable model. The resulting symptoms — asset bubbles, monetary inflation and imbalances of both excess capital formation and consumption — are ultimately destabilizing forces.

It is precisely in these types of unstable macroeconomic environments that the top-down, tactical approach can add substantial value to an investment process. In the post-GFC environment, portfolio policy benchmarks need to adapt ... forward-looking, less-constrained mandates with a global perspective will be optimal approaches to investing.

[1] *Stock, James H. and Watson, Mark W., "Has the Business Cycle Changed and Why?" (August 2002). NBER Working Paper No. W9127. Available at SSRN: http://ssrn.com/abstract=327153*

[2] *Minsky, Hyman P, "Stabilizing an Unstable Economy," Yale University Press, 1986.*

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## What to do About Equity Market Volatility

JDM Investment Partners Ltd.
Manager of The Investment Partners Fund

*"What will the stock market do? It will fluctuate."*
*-John Pierpont (J.P.) Morgan*

One equity market forecast that you can count on is that, as J.P. Morgan said, the stock market will fluctuate. Volatility in short term stock prices is a quintessential part of equity investing and no investment strategy is immune to its effect. Equity market volatility is forcing market participants to adapt to the changing marketplace and search for investment strategies that are capable of exploiting volatility. Traditional investing approaches are being challenged due to underwhelming historical investment performance.

Let's start with a simple definition of what volatility means for the sake of our discussion. We'll define volatility as the frequency of experiencing a meaningful correction in a stock price. According to Robert D. Edwards and John Magee in, "Technical Analysis of Stock Trends", a correction is a stock price decline of between -5% and -20%.

From January 1, 2000 to today, the Dow Jones Industrial Average has experienced a total of 20 corrections, or an average of about 1.5 corrections per year. The astute reader will discount any discussion of "average" volatility by pointing out that equity markets tend to move with less volatility during a period of rising prices (bull markets). It is during a recession or market crisis (bear markets), that increased levels of volatility will be experienced. This observation is correct. During the technology lead meltdown in the early 2000's and the more recent credit crisis in 2008/2009, volatility spiked and experienced an increased frequency of meaningful corrections in equity markets.

By breaking historical volatility into 2 distinct periods, with each period containing a crisis/recession/bear market and recovery, we are able to gain some insight into recent volatility trends. The first period we have chosen for examination is from January 1, 2000 – December 31, 2007, a period that includes the technology meltdown, a recession and a recovery. We will refer to this period as the "early period". The second period we will examine is from January 1, 2008 – December 31, 2012, a period that includes a credit crisis, a recession and a recovery. We will refer to this period as the "recent period". These periods are chosen based on market cycles rather than the calendar and therefore, have different lengths.

| TABLE 1 | INVESTMENT GAIN (Price Change) | AVERAGE NUMBER OF MEANINGFUL CORRECTIONS |
|---|---|---|
| DJIA EARLY PERIOD | 15.4% | 1.1 |
| DJIA RECENT PERIOD | -1.2% | 2.2 |

Table 1 presents the differences in volatility and performance in the recent period compared to the early period. The DJIA experienced, on average, 1.1 meaningful corrections per year in the early period, compared to 2.2 meaningful corrections per year in the recent period. By this measure, volatility has doubled in the recent period. Interestingly, the DJIA's total return, measured by its price gain in the early period, was +15.4%. This compares to the DJIA's total price return of DJIA of -1.2% in the recent period. This means that a buy and hold investor in the DJIA Index during the most recent period experienced **twice the volatility AND a lower investment return.**

The increase in volatility coupled with lower returns is one reason why we believe investors have been seeking alternative strategies to successfully navigate the equity markets in the last half decade or so. As an example, OMERS (one of Canada's largest pension funds with over $60 billion in assets) has reduced its exposure to public markets to 60% from over 82% in 2003, with a long term strategic plan to reduce public market exposure to 53%.

We believe a percentage of a diversified equity portfolio should be allocated to an equity strategy that is considerably more active than typical buy and hold techniques. We are not referring to day trading hedge fund strategies, but to trading strategies designed to exploit the naturally occurring volatility that are present in the markets as described above in the recent period. For example, if an investor was able to find high probability trades during every 5% correction in the DJIA (of which, there are an average of 6 per year), it would imply a holding period of about 2 months per trade.

The conditions that are necessary to produce a high probability trade are not always present and in the absence of these conditions an investor should wait patiently in cash. The focus of an actively managed trading oriented portfolio is on total return and trades are only taken that have a high probability of success on a risk adjusted basis. This strategy will produce returns that are not as highly correlated with general market indexes.

The persistence of increased volatility is something that will define the experience of equity investors in the years to come. We believe that the best time to employ a traditional buy and hold investment strategy is during periods where equity prices are recognizably cheap. The markets of 1982, or the spring of 2009 come to mind as unique periods of attractive equity valuations. However, an investment strategy that is tailor made to conditions that may only present themselves once every 5-10 years can lead to sub-optimal risk adjusted performance over most planning horizons. By combining traditional buy and hold strategies with more active, trading oriented strategies, investors can reduce the overall risk and enhance performance of their overall portfolio.

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## The Macro Headwinds and the Market's Ostrich Syndrome

Murray Belzberg, President, Perennial Asset Management Corp.

If you assessed stock and bond market returns at the end of Q1, 2013, with the S&P 500 up 10.6% and hovering at all-time highs, and the DEX Long-Term Bond Index down -0.25%, you'd likely conclude that the economic outlook was all sunny skies. Granted, the spring sunshine encourages an optimistic outlook, but should Mr. Market Ostrich not heed the macro headwinds?

### Pricing of Risky Assets — Déjà vu 2007?

The herd mentality has kicked in and investors are once again jumping into risky assets and willing to pay high prices, despite very slim risk premia. We are back to a world of narrow spreads on high yield bonds, emerging market bonds or anything with yield. The current focus for investors is on earning better returns on their capital, and not worrying about the return of their capital.

Do investors really expect to be well compensated for the risks they are assuming, given current prices and profit growth expectations? Consensus expectations are for profits to grow over 25% in 2013, and this is already built into stock prices. It will be difficult to meet these expectations, and investors could be sorely disappointed. So, as we approach frothy levels of over-valuation not seen since 2007, investors should heed the storm clouds above.

### Valuations and Real Profit Growth

In a world where the North American economies are growing at 1-2% a year and the Euro zone is shrinking, there is a significant disconnect between this modest economic growth and the "strong" stock markets and high valuations. To assess valuations, we use the Shiller Price-to-Earnings ("P/E") Ratio (i.e., the "cyclically-adjusted" P/E) to measure stock Prices (P) over a 10-year average of Earnings (E) of S&P 500 companies. Today, this P/E is in excess of 23, which is at the high end of the range over the past 100 years. In fact, a P/E of 23 is well above the average P/E of 16.5, and implies that investors have priced in very high growth expectations. So what is a realistic outlook for earnings growth?

S&P 500 companies' profit margins are currently retreating from all-time record high levels. At the end of 2012, these profit margins were still extremely high at 7.7%. Note that during a period of relatively strong economic growth from 1954 to date, profit margins were generally between 3.3% and 6.2%. So why should profit margins persist at or above 7.7% today? Since profit margins have historically reverted to the mean, Mr. Market Ostrich should seriously consider the possibility of falling margins at this juncture.

Note that the primary driver of profit growth has not been strong revenue growth; rather, companies cut costs as a means to grow profits. However, corporate cost cutting can only achieve so much, and prospects for global demand to drive revenue growth may continue to be anaemic. It appears likely that earnings have peaked, and may in fact fall significantly in a slow-growth environment.

### Macro Headwinds

One could argue that risky assets are currently priced extremely high, and that there is a significant risk of an equity market correction. If a weaker stock market with disappointed investors is not enough of a risk, throw in the challenging backdrop of unacceptable debt levels, an endless cycle of bank / sovereign bailouts, and limited real economic growth. The Japanese are 24 years into this cycle and are still a long way from a substantive resolution. Could we be headed down this road?

To put the macro picture in perspective, the credit boom from 1980 to 2000/2007 helped power large advances in consumer demand and asset prices. However, instead of supporting real growth, credit demand financed a series of asset price bubbles, which each burst in turn, making way for the next – commercial real estate, technology stocks, residential real estate, and commodity prices. Since the credit boom peaked in the U.S., economic growth has faltered, and consumers have tightened their belts to improve their balance sheets.

We remain in a battle between two forces – on the one hand, the heavy debt burden is pushing down on economic growth, while on the other hand central banks are desperately trying to spur real economic growth. Central banks want to drive up financial assets, such as stock, bonds, and real estate, in the hope that the "wealth effect" will induce consumer spending and borrowing. Also, central banks hope that low interest rates will spur capital expenditures from businesses.

But alas, to date there is little evidence that low rates or the central banks' large scale asset purchase programs have had much effect on Main Street — only on Wall Street. So where will those profits come from in 2013 and beyond? Caveat Emptor Mr. Market Ostrich.

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## Alternative Investments for All Seasons

David Kaufman
President and CEO, Westcourt Capital Corporation

It's funny how quickly investors switch from "absolutists" to "relativists". When the markets are in a tailspin and the macro outlook is glum, our clients – whether high net worth or institutional investors — are very clear about their investment objectives. Make 6-8% annually. And don't lose money. Then, when the sky doesn't fall and the equity markets start to pick up steam, those objectives begin to shift towards performance relative to those markets, as investors become motivated more by greed than fear.

Advisors of all stripes must manage this waxing and waning of risk aversion. It is true that it is difficult to keep up to a raging bull in any given year when a portfolio is designed with guardrails. It is also true that a well-diversified portfolio including alternative asset classes and investment strategies has performed far better on a risk-adjusted basis than a traditional 60/40 portfolio over almost every rolling five-year period in the last 20 years. In other words, it is possible to experience satisfying returns without having to endure wild fluctuations in asset values over time. The question is how. I believe the answer can be split into three distinct categories: correlations, liquidity, and income.

### Correlations

There was a time when diversification referred to having part of a portfolio in bonds and the other in a basket of equities. This quaint approach depended on two key assumptions. First, that bonds would act as a ballast against precipitous drops in equity values. Second, that skilled stock pickers could somehow immunize an equity portfolio against unacceptable losses by diversifying among sectors and geographies. Unfortunately, neither of these assumptions proved to be true when investors most needed them to be.

True diversification requires that assets be split not at a granular level, but at a macro level. While it is the case that many investments' correlations increase during financial crises, it is not the case that during those times — the watershed moments that determine the long-term performance of a portfolio – there is an effective "market of one". Suitable allocations to credit and equity hedge strategies, managed futures, and real assets such as infrastructure and real estate can play the role of "smoothing" returns during these volatile periods.

### Liquidity

For high net worth and institutional investors, there is a portion of their investment portfolio that will not be touched for many years. That portion – whether 10, 15 or 20% — is suitable for illiquid investments that are designed to reward investors with "illiquidity premiums" over time. Large institutional investors figured out years ago that illiquid private equity and real estate investments (available to smaller players in diversified investment funds) could provide significantly higher total returns than publicly traded instruments. With proper due diligence and advice, allocating to less liquid alternatives is an important element in increasing risk-adjusted returns over time.

### Income

I believe that one of the most counter-productive implications of traditional investing is the notion that income-producing investments are less risky than those that do not distribute cash in real time to their investors. While the distribution of cash is an indication that an investment or a business is a going concern, it is wholly fallacious to conclude that one that does not is somehow riskier than one that does. Because many investors need income in real time in order to live (if you're reading this that is probably not the case), and because of the love affair investors have with yield, dividend paying equities and fixed income products have a special place in investors' hearts at a time when higher total returns can be had more cheaply with investments that do not distribute on a regular basis.

As someone who has devoted much of the last ten years to the study of alternative investments, it is not surprising that I would advocate a significant allocation to alts in any portfolio and under any market conditions. What is surprising is that, even as more institutional investors turn to non-correlated alternatives to bolster their returns, many high net worth investors, especially in Canada, have been slow to follow suit. Your attendance at this conference is proof that you are among those who see the potential of adding alternatives to your portfolio.
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# NOTES:

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