

Funds with concentrated portfolios key to success at Mavrix

Small stable of funds managed by seasoned veterans attracts business from 2,000 advisors across Canada

IN 2002, WHEN MAL SPOONER was pondering a name to reflect his new firm's innovative and non-conformist spirit, the avid motorcycle rider decided "maverick" fit the bill. And, by giving it an unconventional spelling, he managed to add a double dose of free-spirited attitude. **Mavrix Fund Management Inc. was born.**

"Our name signifies our contrarian investment approach, although in our business operations we are extremely conservative, and don't flout or break the rules," says Spooner, the Toronto-based company's president. "We are a small group of fund managers who are seasoned veterans and have learned our investment strategies the hard way."

Nowadays, with about \$800 million in managed assets, Mavrix is pushing against the \$1-billion mark that typically signals a fund company's maturation into adulthood. The firm was formed with \$50 million in fund assets after being spun out of Toronto-based YMG Capital Management Inc., and went public in 2004 with assets of about \$345 million, less than half what they are today.

Although Mavrix has one broad-based core equity fund — Mavrix Canada Fund, run by vice president and portfolio manager Jackee Pratt — the firm focuses on funds with concentrated portfolios. The funds complement the mainstream equity funds offered by the major Canadian fund companies that tend not to stray too far from major stock market indices.

Within the Mavrix family of 13

mutual funds, there are small-cap funds, a resource fund and an income fund. Mavrix has also been involved in the launch of a closed-end fund and a handful of flow-through share partnerships. The Mavrix portfolios have a strong focus on small- and medium-cap companies, and managers will trade actively when warranted, buying when stocks are out of favour and selling when popularity is high.

"Mavrix has carved out a bit of a niche," says Dan Hallett, president of fund analyst **Dan Hallett & Associates Inc.** in Windsor, Ont. "Some of its funds are on the aggressive side, and the firm has some expertise in companies specializing in resources commodities."

Spooner, who plays lead guitar and sings with a band called the Dealers in his spare time, wrote a book entitled *Resources Rock: How to invest in and profit from the next global boom in natural resources*, which was published in 2004 as resources stocks were beginning to reap juicy returns.

"When natural resources sectors are extremely out of favour, there are great opportunities for people to make profitable investments," Spooner wrote in his book. "The key is to look ahead and identify potential catalysts that might change the status quo. After all, the only constant in the investment world is change."

Mavrix's stable of managers includes Pratt, Roger Dent, Ray Steele, Bill Shaw and Stephen Rogers as well as Spooner. The funds incorporate various management styles, including growth and value, but

Mavrix is not a supermarket fund company or marketing machine, Spooner stresses.

"We don't have the economies of scale of a large firm, but we work hard on developing strong communications and a personal touch with the advisors we consider to be our clients," he says. "Instead of having 100 funds like a large marketing organization does, we have a small family of funds, and managers with capabilities in the key investment areas. We know that no single style works all the time, and any style can slip from time to time. We'd rather cover the bases so there are always a couple of categories doing well, rather than blowing up when one style slips."

Spooner manages Mavrix Explorer Fund, which has a natural resources focus and tends to be volatile. In 2003, the fund rocketed ahead with the best return in the industry, 69%, but stumbled in 2005 when it produced the resources sector's second-worst return, a 12.5% loss. In 2006, it gained 9.8%, and its average annual compound return for the past three years is about 2%.

Spooner sold out of the energy sector early, missing many of the gains as oil prices defied gravity for longer than he expected. He has some large holdings in forest products stocks that represent attractive valuations but have yet to catch

fire. He is optimistic about mining stocks, which he says will benefit from a shortage of supply and strong demand as Asia, South America and Russia develop and grow.

"The fund is extremely volatile," says Spooner. "There are stretches when it produces great returns, but sometimes we are early getting

into stocks and early getting out. Part of our philosophy is to go where we anticipate the returns will be, and not dwell on what has happened. We're generally correct, but sometimes it takes clients a few years to see we're not kidding. Once they understand us, they tend to be long-term clients."

Mavrix's largest fund is the \$309-million Mavrix Canadian Dividend & Income Fund, accounting for 39% of the firm's assets. The next biggest fund is Mavrix Small

Companies Fund, a long way behind with \$39 million in assets.

"Mavrix is a niche player, and it's good to have funds in some areas it's playing in, such as the micro-caps, which tend to be too illiquid for the big players," says Mark Chow, senior fund analyst at Toronto-based **Morningstar Canada**.

Although it can be a disadvantage for a firm to have a disproportionate amount of assets in one fund, the flagship dividend and income fund tends to be one of the more conservative funds in the stable, with lower-than-average volatility.

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Manager and senior vice president Shaw takes a strict valuation approach in buying companies.

Spooner sees opportunities in specialty funds, and may launch a few exchange-traded funds tied to some of the specialized market indices. He's also considering principal-protected notes, designed to have returns tied to customized baskets of stocks.

Flow-through shares will also present opportunities as long as the tax advantages remain intact. And, although mining flow-through shares are more attractive now, a time will come when energy flow-throughs will have their day in the sun again, he predicts. Right now, many energy companies have been bid up in price, and high profits in the industry mean many are using their own tax writeoffs rather than being able to pass them through to investors in flow-through stock.

Spooner says Mavrix managers are accessible to advisors who request conversations or formal presentations. About 2,000 advisors buy Mavrix funds, and they're served from a network of offices across Canada. Spooner also makes regular trips to meet advisors in person.

"We want to be the little hardware store on the corner where you can discuss a solution to your problem with the owner, rather than the big Home Depot superstore," he says.

Initially, Mavrix funds were more popular with independent brokers with large books looking to diversify clients' portfolios. The mix has changed in the past two years; now almost 40% of Mavrix clients are financial planners. **IE**