

# Fund manager reaps rewards with 'core and more' strategy

Ed Sollbach's Spartan MM Fund among more than 80 funds celebrated for strong performance

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**T**he stock market can be a harsh judge and slow to reconsider excessive punishments.

That can make investing in beaten-down companies due for a revival an exercise in endurance. And when patience alone doesn't work, an accelerant in the form of an acquirer can move things along nicely.

"If investors don't recognize value, sometimes strategic buyers will," said Ed Sollbach, a portfolio manager at Spartan Fund Management.

Successfully identifying turnaround and takeover candidates is one reason Mr. Sollbach is receiving an award for best-in-class returns.

U.S. fund-research firm Lipper Inc., a unit of Thomson Reuters, this week handed out awards to Canadian mutual funds and exchange-traded funds for superior returns in a broad set of categories.

The Lipper Fund Awards recognized more than 80 Canadian funds, including Spartan's MM Fund, which beat all its Canadian-equity peers in returns over the past three years, up to the end of July.

The fund, which launched in 2015, posted an annualized return of 13.7 per cent over that time. By comparison, the S&P/TSX Composite Index returned about 7.5 per cent a year during that period, after factoring in dividends.

The MM Fund employs a "core and more" approach, with a pool of Canadian dividend stocks forming the base of the investment process. This core of the fund is designed to deliver yield and relative stability while generally avoiding the mainstays of the Canadian equity space.

"Investors don't need me to pick the best bank," Mr. Sollbach said.

Investing for yield has a proven, market-beating track record in Canada, particularly when focusing on companies with stable profits, he said, naming A&W Revenue Royalties Income Fund, Chorus Aviation Inc. and Slate Office REIT as current "core" picks.

It's in the "and more" part of the port-



Spartan Fund Management portfolio director Ed Sollbach, seen in Toronto Thursday, is being recognized by the Lipper Awards for producing best-in-class returns. 'If investors don't recognize value, sometimes strategic buyers will.' CHRISTOPHER KATSAROV/THE GLOBE AND MAIL

folio where the fund swings for the fences. This includes more speculative investments with big potential payoffs and higher risk – micro-cap stocks, high-leverage securities, market anomalies and stocks with turnaround potential.

"We're looking for upside of 50 per cent. But some of these are companies that could also go to zero," Mr. Sollbach said.

Protech Home Medical Corp. is one current example. Formerly known as Patient Home Monitoring Corp., the U.S.-based small-cap, which is listed on the TSX Venture Exchange, is loved by few.

Once a darling health-care stock, Protech's shares have declined by nearly 90 per cent since peaking in 2015. The 3½ years since have seen some questionable acquisitions, a restructuring, a change in management and the disappearance of investor interest.

"It's totally ignored by the Street," Mr.

Sollbach said, who added that despite the negative sentiment, he sees the signs of a turnaround in Protech's fundamentals.

Recent bets on more familiar turnaround stories include Air Canada and Home Capital Group Inc.

The former's stock tanked in the back half of 2015 even as the airline made progress in its operational performance – just the kind of divergence Mr. Sollbach said he looks for in a potential comeback stock. The MM Fund bought Air Canada at around \$8 a share and sold the stock for as much as \$25 less than three years later.

The investment in Home Capital, meanwhile, was also made at about \$8 a share as the lender was going through a liquidity crisis last year. But at that point, the bank's book value was about \$25, making for a compelling value play, Mr. Sollbach said.

The fund sold the last of its Home Cap-

ital shares in the summer at around \$15.

At times, however, the market can be too slow in recognizing a company's improving fates, paving the way for a strategic acquisition.

The list of the MM Fund's holdings that have been taken out over the past few years includes: Pure Industrial REIT, Student Transportation Inc., BrightPath Early Learning Inc., Veresen Inc., Canam Group Inc., International Road Dynamics Inc., InnVest REIT and DirectCash Payments Inc.

One turnaround that has yet to fully come to fruition, however, is the Canadian energy sector, which Mr. Sollbach saw as alluringly cheap last year compared with the prospect of oil rising in price.

"What we didn't anticipate was the [discount] on Western Canadian Select going to US\$50," Mr. Sollbach said. "That's hurt sentiment for the whole sector."