

Hillsdale Canadian leads small-cap equity pack

BY OLEV EDUR

There should be no mystery behind Hillsdale Canadian Performance Equity Fund's consistent top marks – its Fundata Fundgrade A rating is based on a track record best described in superlatives.

Over both the three and five-year periods ended February, 2004, this fund delivered compound returns in excess of 25%, compared with 12.4% and 12.8% respectively for the average Canadian small-cap fund, and 4.3% and

8.6% on average for pure Canadian equity funds overall.

Even during the past year, when small caps soared 44.6% and pure equities grew 34.8%, the Hillsdale Canadian Performance Equity Fund outperformed the pack, with a 62.53% one-year return.

Furthermore, those high-flying yields entailed less risk than average. The fund's three-year standard deviation of 4.37 is significantly lower than the Canadian small-cap average of 4.95.

Indeed, the Hillsdale Canadian Performance Equity Fund has been a top performer since its inception in January, 1996, under the co-management of Christopher Guthrie and Arun Kaul at Hillsdale Investment Management Inc. in Toronto.

"We use a bottom-up style, but we're not value or growth oriented," Mr. Kaul says. "We look at a lot of factors. We run stocks through a multifactor model that includes earnings or sales growth factors, valuation factors, technical measures, balance sheet and risk measures, and we combine all that to arrive at a score."

"We also tend to trim our holdings so that no one stock grows to dominate the portfolio," Mr. Kaul says of the fund's 40-stock portfolio.

"Our targets weight is between one and four percent each, so there's never any single stock leading the parade."

The fund's stock universe consists of companies with floats of \$100-million to \$1-billion, although Mr. Kaul admits that some stocks are allowed to break the billion-dollar barrier. "We have a few names over one billion, but they've grown to that – we don't buy them at that point."

The fund's current top holding – Sierra Wireless Inc. – is pushing the \$1-billion envelope, although at 3.5% of total assets, it's still within the weighting target spread.

"Sierra was fairly expensive in terms of peer evaluation," Mr. Kaul says, "but they had good growth figures, and there was a fairly significant turnaround in earnings."

"Looking at the most recent quarter over quarter, their earnings grew by 56%," says Mr. Kaul. "And looking forward to the next quarter, we're expecting eight cents per share versus three cents in the latest quarter."

Inmet Mining Corp., the second-largest holding, was a purchase based to a large extent on earnings growth, although value was a larger consideration than with Sierra.

"It had a fairly decent valuation – under 1.5 times book a year ago when we bought it – but had very good earnings growth too," says Mr. Kaul. "Since then they've had quite a run – their forward PE is now eleven."

A more recent purchase has been Transat A.T. Inc., with the same to recommend it. "We looked at what were moderate to neutral value, and earnings were growing well," says Mr. Kaul. "Going forward, we saw a significant change in levels of profitability."

Another new holding is Ainsworth Lumber Co. Ltd., a relatively small company but again, one with good value and growth potential.

"It's a fairly small stock – the float is about \$50-million – but we can buy some smaller stocks with the potential to outperform," says Mr. Kaul.

"It was fairly cheap – the trailing PE was something like six, and it's a fairly profitable company."

Taken together, the holdings of the Hillsdale Canadian Performance Equity Fund certainly attest to the merits of Msrs. Kaul and Guthrie's stock picking ability.

About the only downside to this fund – if it can be called such – is that it's not really accessible to the average investor.

The minimum investment is \$150,000 (\$50,000 for accredited investors), and the fund will be closed to further investment once total asset values climb from their current \$15-million to \$100-million.

Financial Post

HILLSDALE CANADIAN EQUITY

Managers: Christopher Guthrie, Arun Kaul

Managers since: January 1, 1996

Fund inception: January 1, 1996

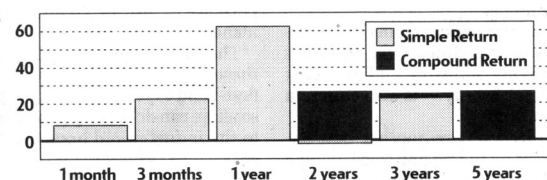
Fund load/fee: Front load

Management expense ratio: 2.86%

Fund category: Canadian small-cap Equity

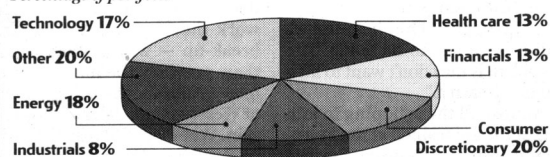
FUNDGrade: A

Fund performance February 29, 2004
In per cent



Allocation – sectors

Percentage of portfolio



Allocation – assets

Percentage of portfolio: 100%

Top 10 holdings February 29, 2004

Percentage of portfolio

Sierra Wireless Inc.	3.5%
Inmet Mining Corp.	3.4%
CoolBrands International Inc.	3.4%
Great Canadian Gaming Corp.	3.4%
Pan-Ocean Energy	3.2%
Centurion Energy International	3.0%
Home Capital Group	2.9%
Sino-Forest Corp.	2.9%
Total Energy Services	2.9%
Newalta Income Fund	2.9%