THE GLOBE AND MAIL

This $100-million fund manager has overseen returns of 19% over the past year. Here's what he's buying and selling

BRENDA BOUW
SPECIAL TO THE GLOBE AND MAIL
PUBLISHED AUGUST 26, 2019
UPDATED 21 HOURS AGO
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While many investors are focused on when the next recession will hit, value manager Talbot Babineau is thinking about his next home run.

"We aren't beholden to invest in a particular market. As a result, we really don't focus on where markets are going in the short term. We are focused on individual securities and their underlying fundamentals and what's impacting their intrinsic value versus the [market] noise," says the chief executive of Toronto-based IBV Capital Ltd., which has about $100-million in assets.

Mr. Babineau's IBV Capital Global Value Fund, launched in June, 2014, includes investments in both private and public companies. The fund has returned 33.7 per cent year-to-date and 19.3 per cent over the past year, after fees of 1.75 per cent for the fund's Class A units. The fund's compound annual growth rate over the past three years is 20.1 per cent, Mr. Babineau says. About 30 per cent of the fund today is invested in the United States, 3 per cent in Canada and the rest in Europe and the Caribbean.

The fund's latest win was its four-year investment in Bermuda-based Ascendant Group Ltd., the company behind Bermuda Electric Light Co., which was recently bought by Algonquin Power & Utilities Corp. for US$365-million. IBV was the largest independent shareholder with about an 11-per-cent stake and saw a return of 189 per cent.

The Globe and Mail recently spoke with Mr. Babineau about what he has been buying and selling.

What concerns are you hearing from investors today?

Investors are concerned about the frequency and the magnitude of disruptive forces in the market [for example, political uncertainty such as Brexit and the U.S.-China trade war] and the impact they're having on macroeconomic factors. This leads to a discussion about valuations and whether investors should alter their capital allocation.

How are you responding to the market volatility?

Historically, we've seen opportunity during periods of heightened uncertainty and volatility. A lot of that is based on our ability to capitalize on these environments. We have a permanent, flexible capital base. Our largest investors are high-net-worth families focused on long-term results. Because of that, we enjoy an investment horizon that's a lot longer than usual, so we can act as an owner/operator and focus on protecting against our definition of risk – the probability of a permanent loss in capital.

What stock(s) have you been buying lately?

One is DaVita Inc. [DVA-NYSE] is the largest provider of kidney-care services in the U.S. The company's dialysis business is really attractive but was being masked by its medical-group division. The company recently sold that division, making it a pure-play dialysis company. That gives investors far more visibility into the underlying economics of the dialysis group and will also allow the company to deleverage and continue with its aggressive share-buyback program. We also see it as a recession-resistant company.

Another is FirstGroup PLC [FGP-LSE]. It's a train and bus operator based in the U.K., and operates school buses in North America. It's another recession-resistant business. It was underperforming its peers. The company has been restructuring, including selling its Greyhound division and building up its First Student [school bus] division. There is also some shareholder activism around this company. We think all of this should help unlock more value in the company.

What stock(s) have you been selling?

Advance Auto Parts Inc. [AAP-NYSE], an after-market automotive parts distribution company. The company has experienced the beginning of a turnaround under CEO Tom Greco. The market began to recognize that. We sold our stake earlier this year because we felt the company had become fully valued, so the risk-reward profile was no longer in our favour. We earned a 57-per-cent return in 16 months.

What's the one stock you wish you bought?

A.O. Smith Corp. [AOS-NYSE]. It’s the world’s leading manufacturer of residential and commercial water heaters. I first looked at the company in 2011, when the stock was around US$10. It was a great company with a great runway. It was trading at a multiple that was a bit higher than I would usually pay, so I decided to wait. The stock went to US$60 by 2018. All of the companies I invested in back then did really well, but this one did really, really well. It’s definitely the one that got away. It’s down a bit now, but it’s a small consolation. Even at [around US$45], that’s still a great return.

This interview has been edited and condensed.