

PORTFOLIO MANAGER

A steady hand

Portland Investment Counsel portfolio manager **James Cole**, whose funds have won several awards, shares the investment philosophy that's steered him through his 37-year career

AN INDUSTRY veteran of nearly four decades, James Cole is a senior vice-president and portfolio manager at Portland Investment Counsel and the manager behind Portland's award-winning Portland Focused Plus Fund LP, which he has constructed with a focused strategy aimed at long-term success.

Cole's multi-award-winning fund is built around three key strategies. First, he prides himself on focus, going deep on a narrow field of consistent performers. Second, he maximizes returns with a leverage strategy, a play that might come back to bite a less seasoned portfolio manager. Finally, he rounds out his approach by attempting to protect against downside risk at every stage. It's an investment philosophy that has served Cole well for years and one he believes in so much that he's willing to put his own skin in the game.

"One of the defining facets of the last 11 years is that the returns available to investors in so-called safe investments like cash and bonds have been close to zero, and close to zero doesn't cut it," Cole says. "Stocks are the only game in town, but people are generally not professional investors in equities. The advantage they get with the fund is that it has a professional, seasoned manager whose skin is in the game right along with them."

He explains how the three principles that drive the Portland Focused Plus Fund LP all fit together within the fund. First, Cole takes pride in saying that the fund is, to his know-

ledge, "the world's most focused investment fund." It's currently composed of holdings in five banks, one auto parts manufacturer and a small stake in Berkshire Hathaway.

"If I wouldn't invest a lot in a company," Cole says, "I don't invest anything at all."

The second principle is leverage, which has proved to be a good strategy over the past 11 years as central banks have made money so cheap to borrow. The principle of borrowing to invest is not unfamiliar to Canadians – indeed, the housing market is underpinned by leverage, and most Canadians who have used leverage to buy their homes have seen benefits as a result.

Cole explains that the same principles apply to equities, except that interest rates for margin borrowing are typically much lower than for mortgages. The fund typically borrows at an interest rate of around 2%, which is tax deductible. Borrowing, Cole says, will enhance rates of return if returns on investments exceed the cost of borrowing.

Leverage has some risk, though. As much as it magnifies positive returns, it also magnifies negative returns. Cole says that especially in the alternatives space, more and more portfolio managers are aiming to use leverage. But, he warns, there's a serious learning curve with leverage, and some portfolio managers might not have used leverage before. Cole has been using leverage since his early days and knows how to manage it,



balanced with focus.

"I'm always focused on what I expect the business to generate in terms of a rate of return," he says, "but I also think about the downside, asking, 'How bad could this get?'"

That outlook informs his third principle: preservation of capital, where his primary focus is protection from downside risk.

"If you can't find investment ideas that meet your criteria, preserve your capital and live to fight another day," he says. "I think anybody who's been in the business for 37 years and doesn't [admit] they have some scars isn't being completely honest."

In Cole's case, those scars represent the lessons learned by every portfolio manager with real experience, which have become key to his management style. He has the knowledge to apply those lessons to the funds he manages to try to safeguard them for the future.

Cole has another reason to safeguard his funds: They contain a lot of his own money. When he pitched the Portland Focused Plus Fund LP to Portland's executive chairman,



WHO IS JAMES COLE?



Title: Senior vice president and portfolio manager

Company: Portland Investment Counsel Inc./AIC Limited

Designations: CFA

Education: Bachelor's degree in economics from Trent University

Years in the industry: 37

Years as portfolio manager: 25

Awards: The investment funds Cole manages have won several awards, including Canadian Hedge Fund Awards, Lipper Awards, FundGrade A+ Awards and the Private Capital Markets Association of Canada's Investment Fund of the Year Award.

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Michael Lee-Chin, he put a significant amount of his own money into the fund.

That had a few advantages. The first is that it made the fund economic from day one, helping to ensure that its operating expense ratio was reasonable. The second is that as the fund's portfolio manager, Cole was able to align his interests with those of the fund's investors and eliminate the need to manage his own personal investment portfolio on the side. Today, Cole's investment in the fund represents a significant part of his personal net worth.

“That's what we like to see in the senior executives of the companies in which we invest, that they have major skin in the game,” he says. “That way, the management's

incentives are truly aligned with those of the investors, as mine are.”

Five years ago, Cole had the audacity – or “foolhardiness,” as he puts it – to provide an expected 50-year asset class return forecast in an annual letter to investors. He predicted that common equities would outperform bonds, which in turn would outperform cash. Five years in, that prediction is proving accurate.

In early 2019, regulatory changes were made to allow retail funds to make use of alternative investment strategies typically reserved for accredited investors, giving rise to alternative mutual funds, also known as liquid alternatives. Cole says he's looking forward to the rise of liquid alternatives as

part of the industry's future, as he believes they are an ideal tool to democratize alternative investment strategies and expand them to most Canadians.

“I think the opportunity [of liquid alternatives] is a very exciting one because the constraint that we all live with in this industry is that in order to invest in my two Portland Focused Plus funds, investors generally must be accredited investors ... those tests limit access to about 4% of the Canadian population. Ninety-six per cent of Canadians generally aren't permitted to invest in the Portland Focused Plus funds, but anybody can invest in liquid alternative funds.

“We at Portland greatly believe in democratizing investment opportunities,” he adds. “That's why, subject to regulatory approval, Portland has recently filed a preliminary prospectus for a new liquid alternative fund named the Portland North American Alternative Fund. We want the 96%, who have only been able to watch as the 4% earn greater returns, to be able to take part.” **WPI**