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Credit: Yvonne Berg, National Post

SECRETS OF CANADA'S TOP FUND MANAGER

Normand Lamarche, managing partner at **Front Street Capital** in Toronto, guided his firm's Special Opportunities Canadian B fund to a return of 121.2% last year fuelled by soaring metals stocks.

ACTIVE TRADING

Nimble \$40M fund jumped in and out of winning sectors

In a 2003 marked by strength in the price of gold, a soaring Canadian dollar, strong equity markets and low interest rates, a small, versatile fund with an ability to jump in and out of sectors and capitalize on emerging opportunities has come in as the top performer.

"There is no real common theme to it, other than what we come up with day-to-day," said Normand Lamarche, who manages the Front Street Special Opportunities Fund, which delivered a 2003 top-dog return of 121.2%.

"It's a big number and we never expect anything like that at all," he said yesterday of the return, noting the \$40-million fund is likely the Front Street group's most volatile.

The second half of the year was particularly strong for the fund, which invested in base and precious metals as they rose at a rapid clip thanks to a "synchronized global recovery setting," Mr. Lamarche said.

For 2004, he said the fund will position itself to take advantage of the energy and power sector, which will be "a predominant source of performance this year."

Mr. Lamarche's fund was followed by the S&P/TSX Canadian Metals & Mining fund, which returned 113.7% for the year ended December, cashing in on the growth in base and precious metals prices.

The top three was rounded out by the Acuity Pooled Canadian Small Cap Fund, where metals, gold and technology picks contributed to a 2003 return of 102.9%.

"We're underweight gold now," said Hugh McCauley, director of equities at Acuity Investment Management Inc.

Mr. McCauley said companies such as Wheaton River Minerals Ltd. and Eldorado Gold Corp. performed very well, while solid tech picks included Research in Motion Ltd.

Mr. McCauley said he believes that the declining U.S. dollar, one of the drivers behind the growth of the price of bullion, is poised for a correction, "so we're going to stay

probably low in gold for the first six months of the year and then revisit."

Precious-metals funds have been one of the strongest categories of the past year, with the Sprott Gold and Precious Minerals Fund leading the pack with a 2003 return of 72.4%.

Bond funds had a much weaker year as investors returned to equity markets, often choosing individual stock-picking over equity mutual funds.

In Canadian bonds, the best hand was held by the Acuity Pooled Fixed Income Fund, with a return of 13.9%.

Both Mr. Lamarche and Mr. McCauley predicted that 2004 will offer investment opportunities in China, a major consumer of commodities and the owner of mineral-rich properties which could soon come into private hands.

Mr. McCauley said China's appetite for copper and nickel could benefit the stock of smaller mid-cap plays such as bcMetals Corp.

Mr. Lamarche said that experienced Canadian management teams are exploring investments in China's minerals, but also added that "there are obviously a lot of risks to this," including the possibility of changes to the fiscal regime and re-nationalization.

Last year, funds invested in Asian and Pacific Rim equities delivered solid returns, with the one-year pack led by the Talvest China Plus Fund at 43.3% in 2003.

However, where there are winners, there are also losers.

The year's worst performance was generated by the @rgentum U.S. Master Portfolio fund, which returned -93.8% in 2003. The same fund also holds the dubious honour of being the worst performer in the three- and five-year return categories as of the period ending in December.

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