

Normand Lamarche

Front Street Capital

Manager Monitor

Diana Cawfield

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Investors have been well rewarded for the risks this manager takes.

Normand Lamarche acknowledges that for the last four or five years, the mutual funds that he manages have looked like natural resources funds.

But the main defining characteristic of Front Street Small Cap Canadian Series B and Front Street Special Opportunities Canadian B under Lamarche's tenure is his high-risk pursuit of high returns.

"The first thing we tell potential investors is that these funds aren't run like your conventional small cap funds, they're run more aggressively," says the vice-president and director at Front Street Investment Management Inc. in Toronto.

Volatility offers opportunities, says Lamarche. "It's painful sometimes," he says, "but if you've done the work and the fundamentals don't change, you can plough ahead with the strategy."

The riskier of the two funds is Special Opportunities, whose 40 to 50 holdings are concentrated in emerging situations and micro-capitalization companies. Because of Lamarche's need to be nimble, and the illiquid nature of many of his holdings, the previously capped fund will probably again be capped at \$200 million.

Lamarche's sell discipline is primarily based on thematic or macroeconomic calls, such as his expectations of commodity price trends. Recently, for instance, he has reduced his exposure to uranium producers.

Lamarche likes to act quickly in response to changing opportunities. Clad in blue jeans when interviewed by Morningstar, he prefers to spend most of his time "on the Bloomberg" in the firm's small loft, trying to figure out what trends lie ahead. His portfolio turnover is "probably 100% to 200% a year for my funds in general," he says.

The 44-year-old Lamarche says he "cut my teeth in the business" at Altamira Management Ltd. He joined Altamira in 1987, a month before the October 1987 market crash. While there, his responsibilities included managing Altamira Resource.

In January 1995, Lamarche took a sabbatical to reflect and have "greater control of my own destiny." After a year off, he established Tuscarora Capital Inc., one of Front Street's two founding companies.

While at Altamira, Lamarche received his CFA designation in 1990. He also holds a bachelor of arts degree in economics from Carleton University, which he received in 1985. After graduation, he joined the Bank of Canada in Ottawa, where he worked as a research assistant before entering the investment management business.

Although Lamarche doesn't think that Front Street set out to become a "resource house," it has a history of investing mostly in mining and energy-related securities. While that will change over time, Lamarche and his colleagues continue to invest overwhelmingly in resources sectors.

Currently, the materials sector accounts for about 45% of the portfolio of Front Street Special Opportunities, with energy taking up about 33%. Similarly, in Front Street Small Cap Canadian, materials weigh in at around 42% and energy at 34%.

In terms of security-specific risk, it's not unusual for Lamarche to have many 4% to 5% stock weightings in the portfolio. As for his cash reserves, they're currently running at around 8% on average in his mandates, but they've been much higher when he believed market risks were unduly high. Last spring and summer, in some instances, his cash reserves reached 30%.

Normand Lamarche: Front Street Capital

At Front Street, Lamarche is responsible for more than \$1.1 billion in total assets under management. He has managed both the Small Cap Canadian Series B and the Special Opportunities Canadian B since August 1999.

During Lamarche's tenure, the two funds' returns have been among the highest of any retail mutual funds in Canada, with the volatility overwhelmingly on the upside. Front Street Small Cap Canadian Series B, with a Morningstar 5-star rating, has an annualized five-year return of 31.4%, the seventh highest of any fund in Morningstar's retail database. Meanwhile, the unrated Front Street Special Opportunities Canadian returned 39%, the highest of any retail fund in the Morningstar Canada universe.

Among the major beneficiaries of these returns, in more ways than one, are Lamarche and his colleagues. They are the largest investors in their own funds, he says.

Front Street's principals have also reaped performance fees that are charged to the funds and have caused management expense ratios to be inflated to more than double or triple the norm for their peer groups. At last report, the MERs for Special Opportunities and Small Cap Canadian are 5.56% and 8.53% respectively.

"The two funds are measured off the TSX benchmark," says Lamarche, "so we have to beat the TSX, and anything beyond that we keep 20% of. The difference you'll see in the MERs compared to our peers would be entirely the performance fees -- our clients have benefited and so have we as fund managers."

Funds Managed

Since	Fund Name	Total Assets (\$,000)	Star Rating
Aug/99	Front Street Small Cap Canadian Series B	\$241,016	★★★★★
Aug/99	Front Street Special Opportunities Cdn B	\$163,170	No Rating
		\$404,187	

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About the Author

Diana Cawfield is an award-winning writer who has been a regular Morningstar contributor since 2000. Her numerous publication credits include the Toronto Star, Advisor's Edge and Chatelaine, as well as the Canadian Securities Institute's online educational services.