

VALUE PARTNERS INVESTMENTS



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Building Client Wealth Effectively



Jim Lawton, Chairman

Celebrating more than a decade of exceptional growth in the financial services industry, privately-owned Value Partners Investments Inc. of Winnipeg is a unique investment fund management firm, offering a group of six prospectus qualified mutual funds with assets under management that is quickly approaching \$2 billion.

THE NARRATIVE OF VPI's creation began in 2005 with an independent financial advisor in Winnipeg named Jim Lawton, who had been working with local entrepreneurs for 35 years. Lawton came to realize his clients were crucially in need of an investment management firm that

invests money alongside their clients, something that happens far too infrequently throughout most of Canada.

The Canadian Business Journal recently spoke with VPI President Gregg Filmon about the company's history and its rapid ascent within the financial services industry.

"Jim believed very strongly that there was an opportunity for an investment firm that invested their own money alongside their clients that was completely transparent about the investment decisions and continued to look for ways to reduce fees, to find efficiencies and reward clients that stayed for a long time by offering lower fees," Filmon says. "This was Jim's vision. He hired me and also his son Paul. There were

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(L-R): Gregg Filmon, Paul Lawton, Dean Bjarnarson, Steve Norton

"I think there are a lot of people in Canada that are looking for a common sense, simple, easy to understand, perfectly transparent approach."

– Gregg Filmon, President, Value Partners Investments

two of us at the start that drafted the business plan and we've been executing on that ever since for the past 10 years."

As concrete evidence that VPI firmly stands behind its promises in serving the public to the highest possible standards, the employees and shareholders have invested more than \$20 million of their own money into the various VPI pools.

Four fundamental promises are made to each client from the outset. First, VPI staff invest their own money alongside the client, for good or bad; second, they take every measure to protect their clients' money; third, VPI deals only with businesses that are easy to understand, hard to compete with and pay a VPI dividend every

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quarter and grow those dividends faster than the rate of inflation; and finally there is a pledge to keep clients informed as to what has been done with their money and how much is being charged for professional services. It's a methodology that ensures each client investor is always in the best possible position to make an informed, educated decision as to whether full value is being achieved.

"I think there are a lot of people in Canada that are looking for a common sense, simple, easy to understand, perfectly transparent approach," Filmon remarks. "The industry has gotten so complicated and convoluted with so many investment firms with hundreds of mutual funds."

Oftentimes mutual fund companies will proclaim a seemingly endless quantity of funds

or will be constantly launching news ones, which only serves to confuse most people. Filmon and his team take a far more focused approach and instead target a core group of six mutual funds.

"To understand why we have the six pools you have to understand the clients and what they are trying to achieve. If you think of all the different clients that we work with they all have varying needs," he explains.

Everyone's Goals Are Different

People in their 40s and 50s tend to primarily be saving for retirement by building up their dividends and interest so at some point they have



Steve Norton at Columbia University.

the wherewithal to retire with the necessary cash flow stream that sustains them in retirement. Some clients may already be retired and for them it's about finding a tax efficient income stream they can rely upon month-in and month-out. Others are putting money aside for their children's education.

"We invest to achieve client goals and do the things they want to do in life; that's why we invest. We have a mortgage pool with the objective of being able to keep pace with inflation," Filmon says.

If, for example, a client is planning to purchase a cottage two years from now or requires a certain amount of cash available on a certain date, VPI has a pool of mortgages that are fixed term and fixed rate that will result in a return between 1.5% and 2.5%. The client has a comfort in knowing that when the money is needed, it will be there.

VPI carries two different equity portfolios – a Canadian equity and foreign equity – that solely invest in high-quality businesses that pay dividends and grow those dividends over time.

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– Gregg Filmon, President, VPI

"We own things like the Royal Bank of Canada, Bank of Nova Scotia, Johnson & Johnson, Union Pacific and Visa," Filmon says. "They are the types of businesses that are going to be paying you more as an owner when you need the money."

VPI manages an income pool that includes cash, mortgages, corporate bonds and

dividend paying stocks and is designed to kick out sustainable income that clients can live off in retirement. The company's balanced portfolio is a one-stop shop for clients in their 50s and 60s where you have 70% of dividend paying companies and 30% government bonds that are there for stability.

"It's a standard balanced portfolio where you are going to achieve a reasonable rate of return without huge losses. Every one of the portfolios is designed for a specific client application," Filmon says. "Our job is to understand what the application is, and what the money will be used for, and to make informed investment decisions and communicate those decisions transparently."



A Proven Business Model

Comprehension of each individual client's financial requirements and their risk tolerance for investing is something VPI's professional advisors thoroughly analyze, taking the time and effort to properly evaluate. The powerful business model executed by VPI assures that each and every client is teamed with an experienced, knowledgeable professional who works closely with them in identifying the goals that are sought and the type of portfolio that will best suit their needs and expectations. About 125 financial advisors across the country work with VPI along with a

complement of 23 full-time employees in the Winnipeg office.

"We manage all of the Canadian equity research and portfolio management in-house. We have another firm, Patient Capital Management, that provides the research and portfolio management for foreign securities," Filmon says.

Building wealth and achieving financial security inevitably boils down to one thing: cash flow. From there it's about protecting it, growing it and wisely transferring it within the overall financial planning process. A primary advantage of mutual

funds is that they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities, which otherwise would be exceedingly difficult, if not impossible, to achieve with a small amount of capital.

"Most portfolio investment firms do not have money invested alongside their clients, which is just shocking and it's wrong," Filmon declares. "It means taking on significantly more risk than they otherwise would and more risk than their clients were anticipating."

Additionally, many investment management firms typically charge higher fees than necessary and it is often difficult to ascertain what exactly they do with the money put into their trust due to a lack of transparency.

Central Location and Expansion

Winnipeg has traditionally been known as one of the main financial hubs in Canada with successful insurance and investment companies headquartered in Manitoba's capital. The excellent geographic location allows VPI to take full advantage of the fact the city has an excellent business school – the Asper School of Business Management and some huge firms with the likes of Investor's Group and Great West Life that provide training and resources where there are a lot of experienced, knowledgeable people in the community to tap into from time to time.

Despite the obvious shift to an increasingly

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INVESTMENT MANAGEMENT

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digital world, Filmon says there are still many benefits to being centrally located where they are, especially when the company deals with clients from Duncan, B.C. to St. John's Newfoundland. And, Filmon says the VPI team is quite comfortable about running their business frugally.

"When you come here you're not going to see fancy artwork or the Taj Mahal. It's very practical. We don't spend a lot of money on marketing or glitz if we don't think it adds value for the client," he says.

Operating a business with proven, responsible, transparent procedures has saved VPI's clients about \$4 million in annual fees and Filmon says that number will significantly

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increase as the firm grows. "If a client writes a cheque and adds to their portfolio, or you add another \$100 million in client assets, you're not duplicating the research or the portfolio management or the record keeping. There are



significant efficiencies as you grow. We still have material opportunity to keep reducing the fee burden that our clients have.”

As part of ongoing expansion efforts, VPI has put two employees on the ground in Toronto in the past year and Filmon is convinced the business there will grow substantially. Next on the agenda will be expansion to the Maritimes and either Calgary or Vancouver in the west. “Our intention is to absolutely continue to expand. You first build a critical mass of clients and then you open an office.”

A desire to serve the public in one form or another is passion that comes naturally in Filmon’s family. Gregg Filmon’s father is former Manitoba Premier Gary Filmon and his mother is

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– Gregg Filmon, President, VPI

Janice Filmon, the current Lieutenant Governor of Manitoba. It’s not everyone who can say both their parents are members of the Order of Canada and Order of Manitoba for their vast contributions to public service.

“When I think about my parents and see what they’ve given back I also think of an investment management firm such as ours. When managed the right way, it has the ability to change lives in a very positive way,” Filmon states.

Looking to the Future

In a financial industry that has become so concentrated with the six major banks and three large insurance companies in addition to five multi-national mutual fund companies, most of them range in size from \$60 billion to \$120 billion in assets. But amongst the giants Filmon believes there is a tremendous opportunity for an independent boutique firm such as VPI to enjoy substantial growth, with a long runway ahead.

“We don’t have any debt on our balance sheet. We’ve been investing in people and technology and have built the business to be sustainable over the long run. Our staff is young, highly educated and motivated. The advisors we work with are younger than the industry average and feel that the overall opportunity ahead of us is significant,” he says.

Within the next three to five years Filmon would like to have 200 advisors who are as good, or better, than the advisors they now do business with. It’s about always wanting to improve and setting the bar higher. He says VPI often focuses on three core pillars when dealing with staff members and advisors: energy, intellect and integrity.

“We would like to have at least \$4 billion in assets under management,” Filmon says when

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envisioning the three-to-five year timeline. “To this point, clients with VPI have \$382 million in investment gains. That’s how much our clients have made. I want to be here at that point in time when we make \$1 billion for our clients.”

At VPI, revenue and profitability targets are transparently laid out, with all of it existing within the context of delivering on the promise they are making to each of their clients.

“Taking clients that are saving money and investing that money prudently, we can change lives,” Filmon proudly says. “I believe we’re one of the best investment firms in Canada; people just don’t know it yet.” **CBJ**



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