

'What you see is what you get' **Barrantagh boasts low fees and double-digit returns**

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Wally Kusters, managing director of Barrantagh Investment Management, focuses on cash flow when evaluating a business. "Cash flow will be very consistent from company to company on a global basis."
CREDIT: Glenn Lowson, National Post

There are dozens of places to eat around Bay Street, but Wally Kusters picks World Eats 'N Treats, a modest spot with an ambitious name on Richmond Street West, around the corner from Barrantagh Investment Management Inc., where he's a managing director and partner. He's a regular here and it's handy. But more important, it's unpretentious and focused on serving up good value with its array of sandwiches, soups, salads and pastas. Meantime, the husband and wife running the place make a good team in the business.

We get the drift.

Settling in at a corner table with rare roast beef on focaccia, a bowl of soup and a can of V8, Kusters looks around and smiles. "What you see is what you get," he says referring both to the World's dishes on display at the front counter and to Barrantagh's competitive fees of 0.75% on fixed income portfolios and 1.25% on balanced and equity portfolios. Lunch Money opts for a two-fisted roast beef on a French stick and a bottle of water. It's plenty.

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Barrantagh, pronounced "bare-n-tah" and Isle of Man Gaelic for "trustworthy" and "dependable," has grown its assets under management by 80% in the past year to more than \$200-million, with about 75% in individual accounts and 25% in institutional accounts such as foundations, charities and corporate pension plans. Besides the Manx name and the low fees, it tries to differentiate itself in the crowded field of wealth managers jostling to sign up wealthy clients in two ways: by sticking to a tailor-made approach to its strictly segregated portfolios and to a bottom-up style of equity investing that relies heavily on looking at cash flows.

"There are a lot of investment counsellors out there," Kusters says. "And there's no one walking around the Street with a 'high-net worth' tag on their forehead. We find clients through word of mouth, referrals, people who cold-call us. We don't do products. We tailor to individual needs and focus on the long term."

Barrantagh has been in business under that moniker a relatively short time, but the company goes back to 1995 as McCutcheon Comber, which was founded by John McCutcheon and Peter Comber. When Kusters and Bruce Jackson came aboard as partners in 2002, the name was changed to reflect the new set-up. They almost settled on the name Clearport, but came up with Barrantagh when McCutcheon searched a Gaelic dictionary on the Internet.

The four are co-managing directors, with McCutcheon the lead manager of fixed income portfolios, Comber the lead on oil and gas portfolios (a Barrantagh specialty), Jackson working on equity portfolios and oil and gas, and Kusters, who made his name on Bay Street as a mutual fund manager at Trimark and CI Funds, the lead on equity portfolios.

Their performance record is good. Over the past eight years, Canadian equities in their portfolios were up an average 14.7%, fixed income 11.2%, and oil and gas equities 19.8%. Performance over the past year has been even more impressive, but Kusters says he and his partners try not to focus on the short term. "That's not really what we're trying to sell to people. The average length of time we hold companies is three to five years. The average on Bay Street is probably less than six months. It takes a lot of static and noise out of what we do and how we look at companies."

When Barrantagh looks at companies, cash flow is "hugely" important, Kusters says. "If you look at earnings, they're sort of decided by accounting policy. Cash flow will be very consistent from company to company on a global basis. Cash flow tells you whether the company can grow, whether they can handle debt, whether they can pay special dividends. Earnings don't necessarily tell you any of that."

He says the partners are fiercely disciplined when it comes to the pricing of securities. "You can find great managers. You can find a great company with a great built-in competitive advantage of some kind. But if you overpay for it, forget it. It could take you years to get back outside."

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Among those Canadian equities that Barrantagh believes are well-priced and that it holds are **ATI Technologies Inc.**, **Bombardier Inc.**, **Canadian Imperial Bank of Commerce**, **Nortel Networks Corp.** and **Shoppers Drug Mart Corp.** Its top U.S. holdings are **Harrah's Entertainment** and **McDonald's Corp.** Holdings in the oil and gas portfolio, which concentrates on juniors, include **Cequel Energy Inc.**, **Compton Petroleum Corp.** and **Progress Energy Ltd.** Among income trusts, Barrantagh favours **Bell Nordiq**, **Yellow Pages** and **Consumers' Waterheater.**

While Kusters and his partners look at companies from the bottom up, they have a top-down view of the world that helps guide their investment decisions. "We're really positive about what is going on in the economy, with the synchronized global growth that's going on. There are not many soft spots."

One of the strong spots, he says, is oil and gas, which stands out in the resources sector. "We don't have any worries about the merry-go-round stopping. We think the music continues to play."

Barrantagh also believes the Canadian banks continue to be good plays. "Everybody thinks they're overpriced. We think they're well valued. They're giving a fairly decent dividend yield, they're trading at 12 times earnings and there are no credit concerns at this time."

As Kusters says, Barrantagh employs a "very plain-vanilla-type strategy." But it has produced strong performance and, in down markets, capital preservation.

The determination to stick to low, flat fees is another big selling point. "We don't believe in performance fees," Kusters says as the coffee is served.

"In our mind, performance fees tend to make you do wrong things because you're going for the short-term performance to try to bring in the fees to your firm. With a performance fee, your needs as a manager might be very different than those of the client, in that you're trying to generate revenue for yourself."

It's been a pleasant lunch at the World Eats N' Treats. It is not fine dining, but it is good value at \$25 for the two of us, and the high-ceilinged space and the angular metal-and-glass fittings give it a smart Euro-style decor. It is different.

Like Barrantagh.

As we step out on to Richmond Street, we reckon Kusters is getting the message across.

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