



The Power of Superior Diversification

Description

One of the pillars of astute investing has always been having a properly diversified portfolio. This has a tendency to lead investors down the road to mutual funds and ETFs. However, in many cases this path does not always provide even average returns. An alternative is to invest directly in a diversified holding company whose management teams exert control over their investee companies.

Control is an important attribute mutual funds and ETFs do not to offer and it can greatly enhance returns. The executive teams of diversified holding companies tend to be very active in the management of operations and the financial results of their portfolio. This proactive approach can often create the above average returns that so many investors seek.

An overview of two of Canada's most prominent conglomerates is provided below.

Once just a boring utility

It is not unusual for highly diversified conglomerates to evolve from a company with completely different roots. This is exactly what occurred at **Power Corporation of Canada** ([TSX: POW](#)).

Power Corp. was born originally from a Canadian utility. The company grew by consolidating power plants across Canada and providing various services to those affiliates. When the government moved to nationalize hydroelectricity during the 1960s, much of the Power Corp. portfolio was liquidated. It was later in this decade the company would find a new leader in Paul Desmarais which transformed Power Corp. into the company it is today, and now run by his son's Paul Jr. and Andre.

Power Corp. is made up of three primary divisions – **Power Financial Corporation** ([TSX: PWF](#)), **Great-West Lifeco Inc.** ([TSX: GWO](#)), **IGM Financial Inc.** ([TSX: IGM](#)) and Pargesa Holding SA. Power Corp. owns 65.8% of Power Financial which in turn owns a 68.1%, 58.7% and a 55.6% interest in Great-West Lifeco, IGM Financial and Pargesa, respectively. The operations of Power Financial are primarily run through these holdings.

Great-West is involved in the financial services industry across the globe with an emphasis on life insurance, health insurance, asset management, reinsurance, retirement and investment services.

The global operations of Great-West are primarily located within Canada, the United States and Europe with Canada supplying the bulk of earnings followed by Europe.

The company has been opportunistic when it comes to the struggles in Europe. Earlier this year, a subsidiary of Great-West agreed to acquire Ireland's largest life, pension and investment management operator, Irish Life, for \$1.75 billion from the Irish government as part of an ongoing restructuring of parent Irish Life & Permanent Plc.

What Great-West is to insurance, IGM is to financial services. IGM is one of Canada's largest investment managers and is comprised of three main subsidiaries – Investors Group, Inc., Mackenzie Financial Corporation and Investment Planning Counsel. The company's wealth management and financial planning services are handled through Investors Group and Investment Planning Counsel while Mackenzie is an investment management firm distributing mutual funds and other services through a network of financial advisors.

Pargesa is interesting as it is a joint holding with Belgium's Frere family each holding 50% interest in Parjointco which in turn owns 56.5% of Pargesa. Pargesa itself is similar to Power Corp. as it is also a diversified holding company with a wide range of interests. Pargesa through its 50% (52% of voting rights) ownership of Groupe Bruxelles Lambert holds influential positions in several European companies.

- Imerys (56.9%) – Industrial minerals
- Lafarge (21%) – Cement and building materials
- Total (4%) – Oil and gas
- GDF Suez (5.1%) – Electricity and gas
- Suez Environment (7.2%) – Water and waste management
- Pernod Ricard (7.5%) – Wines and spirits

In addition to the core holdings of Power Corp., it also holds interests in communications and media that include newspapers, online media, online recruitment and television production. The company holds a 4.3% interest in Hong Kong traded CITIC Pacific which is a diversified company with a focus on steel manufacturing, iron ore and property development with most of its capital allocated in China, Hong Kong and Australia. Lastly, Power Corp. owns and invests in various private equity vehicles.

A superior choice

Well maybe... Shares of **Superior Plus Corp.** ([TSX: SPB](#)) have been on a tear for the last year, almost doubling in price. A breather might be in store. However, that does not take away from the quality companies that make up Superior's diversified portfolio.

An investment in Superior gives the shareholder exposure to three businesses – 1) Energy services, 2) specialty chemicals and 3) construction products distribution.

- 1) Through the company's energy services division, Superior is involved in the procurement, trading and distribution of propane, heating oil and other refined fuels. The company operates through its network of operating centers, market locations and satellite locations throughout Canada and in the North Eastern United States. In addition, the company provides natural gas and electricity use analysis and customized solutions to manage costs.
- 2) Tracing its roots back to 1897, the company's specialty chemicals division operates nine specialty chemical plants (Canada – 6, United States – 2, Chile – 1) through subsidiary ERCO Worldwide. ERCO's products include sodium chlorate, chlor-alkali products, sodium chlorite and chlorine dioxide technology and serve industries such as the pulp and paper, food, energy, agriculture, water treatment, airport de-icing, fertilizer and specialty chemicals.
- 3) Through its 131 branches in 31 U.S. states and five Canadian provinces, the company provides the distribution of commercial and industrial insulation and specialty wall and ceiling products through subsidiaries Winroc and Specialty Products and Insulation. Some of the company's products include drywall, steel framing, fire protection, insulation, acoustical products and residential roofing. The company's products service such industries as construction, energy, petrochemicals, utilities and institutional organizations.

Final thoughts

Both Power Corp. and Superior have active management teams with significant influence over the operations and financial results which may bolster returns. However, even among diversified holding companies further diversification considerations are necessary. Many tend to focus broadly across similar industries of expertise. Power Corp gives prospective investors international exposure to primarily various types of financial services and insurance. On the other hand, Superior is an industrial company which derives revenues principally from North America.

Of course not all diversified holding companies will outperform, so do your homework and buy them when they appear cheap.

Power Corp. is one of the 5 companies we've profiled in our special **FREE** report "**5 Companies to Replace Your Canadian Index Fund**". Another of the 5 just got taken out at a huge premium. To learn more about Power, as well as the other names, [click here now](#) to download this report at no charge.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GWO (Great-West Lifeco Inc.)
2. TSX:IGM (IGM Financial Inc.)
3. TSX:POW (Power Corporation of Canada)
4. TSX:SPB (Superior Plus Corp.)

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