



Passively Active: 3 Small Caps to Make it Happen

Description

I saw a Fundata Canada statistic recently that listed the top 15 mutual funds over the 15-year period ended December 31, 2016. Nine were small/mid-cap equity funds with the top fund in this category delivering a 15.7% annual compound return and the worst a very respectable 10.8%.

In January, I wrote an article about a [nine-stock portfolio](#) that combines passive and active investing using a simple process that all investors can use to improve their performance while reducing fees paid.

It's called passively active investing, and it can be implemented with almost any type of stock, including small- and mid-cap stocks from above.

Now, for this article, I won't give you nine stocks — just three — but you can take what I've done and run with it until you've got the number of stocks you want in your investment portfolio.

The criteria

- One stock per fund, preferably the top holding.
- One sector per stock.
- Stocks must be making money.
- The market cap should be higher than \$250 million.
- The debt should be less than 75% of its market cap.

Fund #1: Mawer New Canada A

The portfolio managers at Mawer have been collecting a lot of hardware at the annual industry awards in recent years; in 2014, New Canada portfolio manager Jeff Mo won the Morningstar Award for best domestic equity manager. Since its inception in January 1988, the fund has an annual total return of 14.3%.

- The fund's top holding at the end of 2016 was **New Flyer Industries Inc.** ([TSX:NFI](#)) with a 5.1% weighting.
- As a manufacturer of motorcoaches and transit buses, it's considered part of the industrials

sector.

- Its trailing 12-month earnings per share is \$2.15.
- Its market cap is \$2.7 billion.
- Its long-term debt is \$477 million or 17.6% of its market cap.

I recently [recommended](#) its stock to readers in part because it has one of this country's best CEOs.

Fund #2: Norrep Fund MF Series

The fund invests in Canadian small- and mid-cap stocks that trade at reasonable prices operating in growth industries with strong fundamentals. Available since April 2000, it's a small fund with just \$77.3 million in assets, which allows the three-manager team running it a lot more flexibility, and that's paid off with above-average returns over the past 15 years.

- The fund's top holding as of October 31, 2016, was **BRP Inc.** ([TSX:DOO](#)) at a weighting of 4.5%. However, as of January 31, it's not listed in its top 10 holdings, so I've gone with the fifth-highest holding during both periods, which is **Altus Group Ltd.** ([TSX:AIF](#)) at 3.6%.
- Altus is a provider of real estate data intelligence and advisory services. It's considered part of the financials sector.
- Its trailing 12-month earnings per share is \$0.32.
- Its market cap is \$1.2 billion.
- Its long-term debt is \$117 million or 9.8% of its market cap.

I haven't covered Altus Group, but Fool.ca contributor Chris MacDonald has, and he [considers](#) it a great long-term play.

Fund #3: NEI Ethical Special Equity Fund A

While NEI's website leaves a lot to be desired, I was able to figure out who manages the fund — QV Investors out of Calgary, who manage \$14.8 billion, most of it institutional — and how it invests.

QV Investors go for small-cap companies with market caps of between \$100 million and \$2.5 billion that have good management teams and strong business franchises. The subadviser's Canadian Small-Cap Pooled Fund has a 15-year annualized rate of return of 15.5%.

- The NEI fund's top holding as of December 31, 2016, was **Altagas Ltd.** ([TSX:ALA](#)) at a weighting of 6.1%.
- Altagas is an energy infrastructure company that transports natural gas, produces electricity, and delivers natural gas. It's considered part of the energy sector.
- Its trailing 12-month earnings per share is \$0.39.
- Its market cap is \$5.2 billion.
- Its long-term debt is \$3.3 billion or 63.5% of its market cap.

Fool.ca contributor Nelson Smith [likes](#) Altagas because of its 6.8% dividend yield and \$3 billion expansion plan.

Bottom line

This is another example of how investors can make money by getting passively active.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AIF (Altus Group Limited)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:DOO (BRP Inc.)
4. TSX:NFI (NFI Group)

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