



Value Investors: 1 Closed-End Fund With Historical Outperformance

Description

Canadian General Investments ([TSX:CGI](#)) is a [closed-end equity fund](#) focussed on medium to long-term investments in primarily Canadian companies. It strives, through prudent security selection, timely recognition of capital gains and losses, and appropriate income-generating instruments, to provide better than average returns to investors. Canadian General Investments (CGI) was established in 1930 and has been managed since 1956 by Morgan Meighen & Associates Limited (MMA).

Long-term outperformance

A clear indication of outperformance is the fact that a \$10,000 investment in CGI would have grown to nearly \$147,000 over the 25-year period ended December 31, 2020. This equates to a [compound annual average growth rate](#) of 11.3%. By comparison, a \$10,000 investment in the benchmark index would have grown to nearly \$68,000, equating to a compound average annual growth rate of 8.0%.

MMA utilizes a bottom-up investment strategy in an effort to achieve CGI's objective. With this type of investment strategy, the manager first seeks individual companies with attractive investment potential, then proceeds to consider the larger industry, economic and global trends affecting those companies. This investment style allows for sector weightings that can differ from those of the company's benchmark.

Steady growth

In the stock market downturn of 2020, many investors capitulated during this period, but CGI held to long-term principles and eventually was rewarded. The markets turned and whipsawed investors and the reversal produced the fastest recovery from a bear market on record. Recovering impressively from deep declines in March, CGI delivered a net asset value (NAV) return, with dividends reinvested, of 38.1%.

A number of things contributed to CGI's success. It held steady through the worst of the market collapse and rode out volatility so extreme that it caused irrational behaviour. It would have been easy

to succumb to the intense pressures but the manager was guided by CGI's long-term principles, philosophies, and structural underpinnings.

Geographical diversification

Consistency, quality, diversification, and experience are key characteristics that CGI's manager demonstrated last year. This unique bundle of fundamentals has been instrumental in the production of steady and consistent returns for CGI's shareholders for many years.

Overall, the company's portfolio success depended, not only on choices made in the broader perspective but, also on the individual level. In this regard, CGI had a very good combination of both.

Last year, the manager prudently capitalized on the strong growth of investments and made sales that generated considerable capital gains. The company is also geographically diversified. This is not the result of a recent initiative or change of strategy and nothing fundamental has changed in the company.

Driven by the manager's bottom-up style and pursuit of an expanded opportunity set, CGI has held investments outside Canada for many years and this flexibility has long been considered a desirable option for the portfolio. Guidelines and constraints are in place regarding total size and geography.

Further, as a result of the company's investment corporation status under Canadian tax law, CGI can recover taxes paid or payable on realized taxable capital gains through the payment of capital gains dividends to shareholders. This could make it an attractive investment over the long term.

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Author

nikhilwaterloo

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