



## Montrusco Bolton

Jean David Meloche

Philosophy: Fundamental, Discretionary and Focused





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We invest in companies that have a competitive edge, which protects their position in the industry. These are companies that grow over the long term due to their quality. This is what we mean by quality growth.

Jean David Meloche

# Philosophy: Fundamental, Discretionary and Focused

Quant strategies are on the rise. Asset price inflation triggered by central bank-led support of the securities markets has created a quite challenging environment for stock pickers. Does this mean the time has passed for fundamental bottom-up investing? Not at all. The performance of the global equity strategy of Canadian asset manager Montrusco Bolton Investments Inc. proves the point. In an interview with Tim Habicht, Founder and Managing Partner of news platform Fundview, Jean David Meloche, Head of Global Equities at Montrusco Bolton, explains how he and his team deliver value through their “quality growth” investment approach. Jean David Meloche describes why his quality growth portfolio can handle a long-term increase in rates and why he sold his position in Netflix at the start of the pandemic to invest in a company that provides construction and industrial equipment.

**Mr Meloche, to start the interview, could you outline your investment philosophy? What is important to you and how do you pick stocks?**

**Jean David Meloche:** As fundamental bottom-up investors, we aim to beat the benchmark and generate alpha for our investors through stock selection. We are experts in fundamental analysis and studying the individual business models of companies in depth. We model the impact of operational challenges, such as inflation or a change in the supply chains. We invest in what we consider to be quality growth companies. These are firms that have a natural competitive advantage, which protects them. They are also companies that are likely to grow due to their strong management teams and robust business models.

**You have a concentrated portfolio of around 35 stocks in the UI I – Montrusco Bolton Global Equity Fund, a sub-fund of UI I SICAV. Why did you adopt such a focused investment approach and how do you manage the risks associated with such a concentrated portfolio?**

We are often asked this question by our investors. It is important for us to know in which areas of fund management we can generate added value for our investors through our analysis. We are aware that Montrusco Bolton does not have a competitive advantage over other fund boutiques, asset managers or analysts

in all approaches to asset management. So, the way we reduce risk is by not taking risks in areas where we do not have a proven competitive advantage and track record. Top-down macro bets on the price of oil, for example. In addition, we do not try to time the markets by buying more volatile companies when we expect the overall market to go up. We focus our investment process on finding misunderstood and therefore mispriced business models that hold catalysts, or positive surprises, that will allow them to outperform the broader market. However, it is important that our concentrated portfolio of 35 ideas is broadly diversified across regions and sectors. In addition, we regularly test the fund portfolio for stress situations as well as factor risks and the ongoing robustness of the companies’ business models.

**Studies indeed show that equity portfolios with 40, 50 plus stocks do not add value in terms of diversification.**

Correct. If we were to double the number of companies in the fund, we would have to make compromises and dilute the impact of the investment ideas we generate. In the end, we include as many different ideas as we need to diversify away various risks that we do not want to be reflected in the portfolio. The number 35 has been a sweet spot in terms of strength of conviction and diversification.



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Looking back over the past decades, we can see that our strategy has outperformed during regime changes.

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**How do you select these companies for your portfolio?**

First, the companies we focus on must meet our high quality standards. For us, this means that they must be in the top quartiles in terms of historical and forecasted return on capital and net margins. We also shy away from companies with even moderately high debt levels. This screening process helps to minimise risks. We also focus on growth stocks. We want to invest in companies whose growth is above the average of their respective sector. With the help of these guard rails and our fundamental analysis, we can streamline our investment process to deliver outperformance within a defined quality growth universe. But there is also of course a certain degree of volatility in our portfolio, which we can accept with a view to longer-term outperformance.

**In the current turbulent market environment, are you focusing more on quality stocks in your portfolio to reduce volatility?**

Our stock selection is based on fundamental bottom-up forecasts. We do not act from a top-down perspective. We have experience in environments of rising inflation and interest rates. We evaluate the impact on our securities. It is not directly the quality or growthiness of stocks that are negatively impacted by this environment, but stocks with high valuations. To control this risk, we focus on companies that can pass on higher prices to their customers and, while we assemble portfolios of investment ideas that could outper-

form, we pay special attention to pick companies trading at lower multiples.

**Among other aspects, you focus on growth stocks as the sector has outperformed over the past decade. As you mentioned, however, you might come under a certain amount of pressure as inflation and interest rates rise. Does this changing environment pose a challenge for your strategy?**

No. Looking back over the past decades, we can see that our strategy has outperformed during regime changes. This is because there are significant opportunities for active portfolio managers during periods where markets undergo major changes. In this market environment, higher excess returns can be achieved because it is precisely in this scenario where our fundamental selection pays off.

**Do boutique funds need to be focused, concentrated and deliver value with bottom-up analysis to beat large flagship funds?**

There are indeed several ways to deliver real value to investors. For this, a specialised approach is undoubtedly necessary. This can be top-down with excellent macro-opinions, based on quantitative analysis or even in niche markets that deliver a liquidity premium. Our strength, on the other hand, lies in stock selection. This is also shown by quantitative evaluations of our portfolio. As an investor, it is important to stay true



to your approach, pursue a clearly defined investment philosophy and remain innovative. After all, every strategy must be permanently analysed and possibly also adapted as the market environment also changes continuously.

**There is much debate about the difference between discretionary and quantitative strategies. Is it still possible to analyse companies purely on a discretionary basis, despite ever-increasing amounts of data?**

We are and will remain old-school in our approach. The increasing number of available data points is a great boost to our fundamental modelling, reducing the uncertainty surrounding our forecasts. Nevertheless, we are not a quant house but focus instead on bottom-up analysis. We use technical and quantitative analysis tools to filter and sort the information in advance. Much of the data is so negligible that it has no significant impact on the overall investment thesis of a company. Our investment process helps to increase our efficiency in parsing data and using it in a targeted manner across ideas and time horizons.

**Can you provide an investment example from the portfolio?**

Ashtead Group rents a full range of construction and industrial equipment for a variety of applications to a diverse customer base. The company is listed in the UK but generates the majority of its revenue in the US,

where it operates under the name Sunbelt Rentals. We added this company to our portfolio late in the first quarter of 2020, at the start of the pandemic. To do this, we needed to reduce our position in Netflix because the stock had risen very sharply over a short period of time. The risk of a correction in Netflix's stock price had increased and the overall potential of the stock had decreased. We therefore increased our position in Ashtead, which as a company with a high correlation to the construction industry undoubtedly suffered a brief setback at the beginning of the pandemic. However, we were quick to note in our analysis that the US government was going to be strongly supportive in terms of infrastructure investment. In addition, we predicted that funds not spent in restaurants or shopping malls during lockdowns would instead be invested in home improvements, such as landscaping or renovations. After a strong performance, we divested this stock due to the rising and then high relative valuation at the end of 2021. The share price rose a staggering 300 percent during our holding period. This is undoubtedly an extreme example, but it illustrates our mindset and philosophy particularly well.

# UI I – Montrusco Bolton Global Equity Fund

Independent Canadian asset manager Montrusco Bolton has offered a global equity strategy since 2009. It now manages around 1 billion US dollars in assets for this particular strategy. The investment approach it takes is based on a time-tested quality growth philosophy. The fund, which is based on this investment strategy, has been launched as Lux SICAV on 21 April 2022.

Even though the fund market already offers a wide choice of global growth strategies, Montrusco Bolton's distinctive investment approach clearly sets it apart from the competition. Montrusco Bolton's approach demonstrates that a growth portfolio does not always have to consist of the same internet stocks and technology companies you expect to see in common growth strategies.

## **Process:**

Various filters are used to reduce the investable universe to 400 companies across the global equity market. Stocks are filtered for liquidity, ESG factors, quality attributes and growth. Companies with a low debt-to-equity ratio, high ROIC and above-average earnings growth within their respective sectors are basically appealing for the portfolio. The most promising stocks are subjected to detailed fundamental bottom-up analysis. This includes the creation of financial models, the analysis of ESG factors and how the company is valued on a relative and absolute basis according to various key metrics. This helps determine a concrete target price during both bull and bear market environments. Unlike other growth managers, valuation is a very important factor. Montrusco Bolton is not willing to pay any price for quality and future growth. Ultimately, this is about identifying turning points (or catalysts) that could reduce the level of undervaluation that a company experiences and which is not yet reflected by the market consensus.

## **Management:**

The global equities team at Montrusco Bolton is led by Jean David Meloche, CFA, who has been with the firm for 17 years. He is joined by an Assistant Portfolio Manager, Robert Hiscock, CFA, whom he has worked

with for more than seven years. They are supported by a team of four sector specialists with diverse personal and professional backgrounds.

## **Portfolio:**

The concentrated portfolio consists of 35 to 40 stocks which show above-average quality- and profitability ratios, above-average growth profiles and consequently have slightly richer valuation ratios. Active weightings range between 4 to 5 percentage points. The management team is also not afraid to completely forego index heavy weights such as Apple and Nvidia if they don't suit their criteria. This leads to a high active share ratio of more than 90 percent, which emphasizes the active and benchmark-independent approach of the portfolio management team. Nevertheless the fund shows a beta of around 1 to the broad equity market. In contrast to other growth strategies any deviation at sector level is limited, removing any bias towards the technology sector.

## UI I – Montrusco Bolton Global Equity Fund - EUR IX A

**ISIN:** LU2361251064 (numerous share classes)

**Investment focus:** Global equities

**Launch date:** 21. 04. 2022

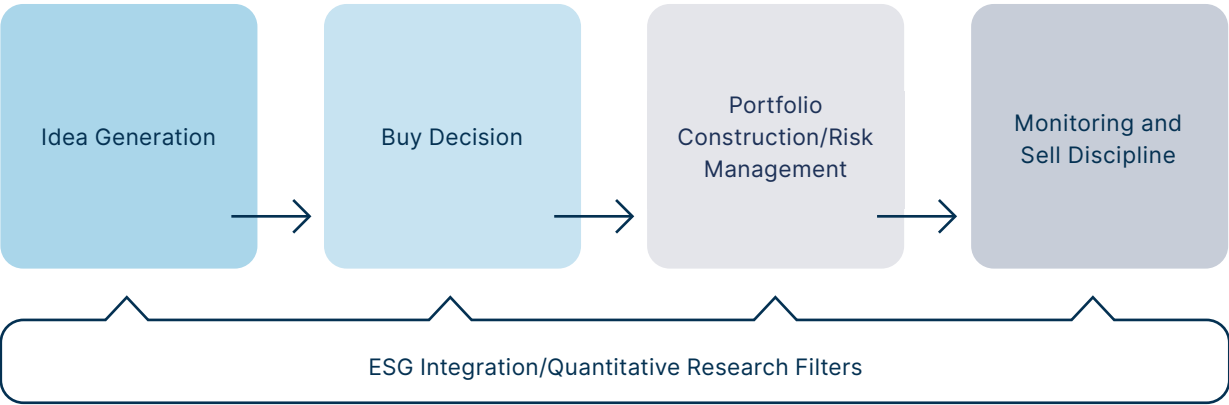
**Investment strategy:** Launched in 2009 for Canadian institutional investors

**Fund currency:** USD

**Domicile:** Luxembourg

Source: Universal Investment (as of 15. 05. 2022)

**Quality and growth at a reasonable price (Quality-GARP):**  
**The investment process behind the UI I – Montrusco Bolton Global Equity Fund**



Source: Montrusco Bolton, May 2022

**Conclusion:**

Montrusco Bolton offers a global growth strategy with an above-average track record that stretches over 13 years. In addition to this, it also has an information ratio greater than one, where an attractive upside-downside capture ratio can also be generated. This concentrated portfolio is managed by Jean David Meloche with a steady hand and an unbiased view from Montreal, away from the “Wall Street sell-side” consensus. The portfolio's composition differs significantly from other growth strategies and therefore represents an interesting investment opportunity in the “Equities Global Large Cap Growth” sector.

**Risk information**

**Price risk:** A downward trend in the overall market as well as weaknesses in individual stock markets may have a negative impact on price performance.

**Currency risk:** If you buy units in funds that invest internationally, the value of your investment will also change with the development of the exchange rate of the respective currency.

**Economic risk:** Market development depends heavily on the economic environment.

**Special investment risk:** Funds with a special investment focus generally have a more pronounced risk and return potential than funds with a broad diversification. On the one hand, this is the basic prerequisite for higher price opportunities, but on the other hand it can also lead to higher risk exposure.

**Key Facts**

**Asset manager**

Montrusco Bolton, a Canadian boutique asset manager with roots tracing back to 1946, had approximately 8 billion US dollars in assets under management as of March 31, 2022. Headquartered in Montreal, the firm has an entrepreneurial culture, long-term strategic partners, a robust infrastructure and a sound governance as well as a diversified investment offering. The company, which is privately owned and independent, serves institutional clients in North America, Europe and Asia. Montrusco Bolton has been a signatory of the UN Principles for Responsible Investment since 2011.

**Fund manager**

Jean David Meloche manages the U.S. and Global Equities for Montrusco Bolton. He joined the company as an equity analyst in January 2005, covering the financial sector. He has managed the Global Equities division since early 2009. Jean David holds a Bachelor of Business Administration specialised in Finance from HEC Montréal and is a qualified Chartered Financial Analyst (CFA).

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