GlobeinvestorGOLD

The right trusts

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WINNIPEG (GlobeinvestorGOLD) — Ian Ihnatowycz's knack for picking good income trusts in a market that last year turned into a sideshow of ever-more-unusual offerings has kept his investors well in the black.

In 2002, his Acuity Pooled High Income Fund produced a 7.5-per-cent return, compared with 0.3-per-cent for a benchmark composed of 60-per-cent Scotia McLeod Bond Universe and 50-per-cent S&P/TSX Total Return Index. Mr. Ihnatowycz, president of Toronto-based Acuity Investment Management Inc., and portfolio manager Warren Fenton pilot the $39.6-million fund. It has lost money in only one year since inception in March 1993. Invested a third each in income trusts, bonds, and dividend-paying blue chip stocks, the fund aims to provide an 8.0-per-cent to 8.5-per-cent annual return and to preserve capital.

“Several income trusts have recently been put on the market that have not been well received,” Mr. Ihnatowycz said. “That’s not because the market is overvalued, as techs were before they crashed, but because some lesser-quality issues have been rejected by investors.” Mr. Fenton added, “Companies that don’t even generate net income but that go public as income trusts are not the kind of trusts in which we invest”.

CCS Income Trust is a Calgary-based company that specializes in oil-field waste management. It does well no matter what the price of oil, Mr. Ihnatowycz said. With a 3.7-per-cent weight in the portfolio, the units cost $11.50 each and have recently traded at $16.80. Distributions for 2003 should rise to $1.80 per unit from $1.68 a year earlier and continue to grow at 5 per cent to 10 per cent per year with unit prices growing proportionately, he said.

KCP Income Trust is North America’s largest private-label maker of bleach. Based in Concord, Ont., the company makes a simple product without significant capital cost, Mr. Fenton said. With a 75-per-cent share of the private-label market in North America, the company competes against costly brand-name products. The units have a 2.8-per-cent weight in the portfolio. They were purchased at an average cost of $10.06, have recently traded at $11.50, and should provide distributions of $1.30 for 2003, compared with $1.10 for 2002, Mr. Fenton noted. KCP unit values should rise in line with distributions and should provide a 20-per-cent return per year, he predicted.

Magna International Inc. is a global auto-parts maker headquartered in Aurora, Ont. Its shares take up a 1.3-per-cent weight in the portfolio at an average cost of $92.20. They have recently traded at $92 and pay an annual 2.3-per-cent dividend. Magna has the highest growth rate of any auto-parts supplier in North America and net cash of $10 a share, Mr. Fenton said. Though the car and truck market is regarded as oversold, Magna remains attractive because its price is just eight times earnings, at the low end of its historical range of six to 20, he said. He expects earnings to grow at 18 to 20 per cent a year after a slower rate of growth in 2003. Within 24 months, Magna Class A shares should rise to $150, he said.