

## The Stock Pickers Conservative Acuity fund beats benchmarks

David Stonehouse is staying the course and likes RIM, Centamin and Petrobank

*Andrew Allentuck*

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David Stonehouse is sustaining the strong performance of his blended fund of yield assets and growth stocks.

His Acuity Pooled Conservative Asset Allocation Fund generated a 10.5-per-cent average annual compound gain for the 10-years ended May 31, 2009, more than twice the 4.0-per-cent gain of the Globe Equity Balanced Peer Index on the same basis for the period. The fund did not escape damage in the downturn that began in 2008. It dropped 9.5-per cent for the 12 months ended May 31, 2009, yet that was significantly less than the 16.1-per-cent drop of the benchmark for the year. The pooled fund has a \$150,000 minimum investment requirement, though a mutual fund version is available with a \$500 minimum investment requirement.

Mr. Stonehouse, director of fixed income products at Acuity Funds Ltd. in Toronto, co-manages the \$65.7-million portfolio, established in March 1993, along with lead manager Hugh McCauley, equities director Warren Fenton and co-manager Martin Grosskopf. The mutual fund version was established in July 2005.

The fund's mandate is to be relatively conservative, so we tend to run 50 per cent bond and 50 per cent stock," Mr. Stonehouse said. "The stocks vary from small to large caps and the bonds are all investment grade. We avoided a lot of carnage in the market downturn by maintaining a 60 per cent bond weight until early March this year, when we began to add equity exposure. The recent gain in equity values reflects improving economic news or, if you like, less bad news. But we are in a secular bear market that recognizes that macroeconomic growth going forward will be less than it was earlier in the decade."

Research in Motion Ltd. is the Waterloo, Ontario-based maker of portable communication devices that has set new standards for e-mail portability. Shares purchased at an average cost of \$51.00 have recently traded at \$90.90. RIM is one of the few stocks in the world that is still generating earnings growth even in the face of global recession. As well, it acts as a great diversifier for Canadian portfolios that tend to be concentrated in financials, materials and energy. Growth is being driven by consumer adoption of smart phones, Mr. Stonehouse said. Earnings per share for the

year ended Feb. 28, 2011 should rise over \$5.00 (U.S.), from over \$4.00 a year earlier and \$3.35 for 2009, he suggested.

Centamin Egypt Ltd. is a Toronto-based gold exploration company active in its namesake country. Shares purchased at an average cost of 96 cents have recently traded at \$1.42. The company is about to go into production with a deposit in Egypt that promises to produce gold at \$300 (U.S.) per ounce. Centamin is well capitalized with over \$100-million (U.S.) in cash. It should not need to go to investors for more money that will dilute the stock or to borrow in credit markets, Mr. Stonehouse said. Centamin should produce 250,000 ounces in its first year ramping up to 500,000 ounces within two more years. Assuming that gold holds at \$900 (U.S.) per ounce, Centamin should have cash flow of \$100-million (U.S.) in its first year, rising to \$200-million per year by the third year, he explained.

Petrobank Energy and Resources Ltd. is a Calgary-based upstream oil and gas exploration and production company. Shares purchased at an average cost of \$24.50 have recently traded at \$36.57. Petrobank is focused on the Bakken formation in Saskatchewan, which is its main Canadian asset, Mr. Stonehouse said. It is a low cost source energy in a politically friendly jurisdiction, he noted. Petrobank also has significant assets in Colombia with medium sweet oil that is slightly larger in production than the Saskatchewan deposits. Both have a good deal of upside potential. Petrobank also has a proprietary, environmentally-friendly technology to extract bitumen from oil sands which works better than conventional steam extraction, Mr. Stonehouse noted. Cash flow per share should rise to \$14.50 for the year ended Dec. 31, 2011 from \$11.00 per share a year earlier and \$8 a year earlier for 2009, assuming oil holds at \$55. (U.S.), he said.

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