IE INVESTMENT EXECUTIVE

Lee-Chin launches new dealerships

Former Berkshire head is looking for advisors for Mandeville firms

By Jade Hemeon | August 2013

ONE YEAR AFTER MICHAEL LEE-CHIN reappeared on the public stage with ambitious plans to build a new financial empire, he is firing on all cylinders. The chairman of Mandeville Holdings Inc. of Burlington, Ont., is assembling the various pieces of a diversified wealth-management machine that will include a distribution arm, private-equity investments for high net-worth retail clients and a new family of mutual funds.

The comeback of Lee-Chin, formerly the head of Burlington, Ont.-based fund company AIC Ltd., is designed to cover all the financial bases, from sales to product development. On the sales and distribution side, the 62-year-old wealth-management entrepreneur is actively recruiting for two new advisory firms - Mandeville Private Client Inc., an Investment Industry Regulatory Organization of Canada (IIROC) firm; and sister company Mandeville Wealth Services Inc., a mutual fund dealer.

Lee-Chin's new venture is taking a page from the book of successful pension fund investing.

On the investment side, Lee-Chin is holding firmly to his philosophy of buying shares in superior companies and holding them for the long term, a strategy he espoused as head of AIC.

"If you believe in the status quo, I'm a heretic," says Lee-Chin, as he enthusiastically describes his multi-pronged plan to "democratize" investing by offering retail clients the same mix of public and private opportunities that have made Lee-Chin a multibillionaire and helped to ease volatility in his portfolio during the past several turbulent years.

Lee-Chin is recruiting financial advisors who share his philosophy but shunning growth through acquisition, as he doesn't want to inherit a "hodgepodge of philosophies."

"We are not building a sales force any which way," Lee-Chin says. "We don't need just another IIROC dealership or mutual fund dealer. We are building a business that stands for the way of the future."

Lee-Chin's new enterprise also includes Mandeville Insurance Services Inc., a life insurance agency providing insurance products and support to Mandeville advisors; and Portland Investment Counsel Inc., which provides investment-management services.

Under the Portland brand, Lee-Chin recently introduced a variety of financial products, including four new mutual funds, one alternative-strategies limited partnership and two private-equity pools - an income fund investing in mortgages and commercial loans, and a private-equity limited partnership that invests in non-publicly traded businesses. The mutual funds have been available since last October, with other products making their début earlier this year. Portland's retail products currently have about $70 million in assets under management (AUM).

This is the second time around for Lee-Chin in building an advisory channel as well as a product-manufacturing business. In 1987, he launched AIC, modelling his investment strategy on Warren Buffett's "buy and hold" approach and leaning heavily on investments in the financial services business.

By 2002, AIC's AUM had soared to $15.4 billion, but its fund performance subsequently began to lag as market trends shifted to resources stocks and income trusts - securities that were absent from AIC portfolios. Dissatisfied AIC clients began redeeming their units, but Lee-Chin held fast to his investment philosophy. By 2009, AIC's AUM had shrivelled to $3.8 billion and the firm's retail fund business was sold to Manulife Financial Corp. of Toronto. Lee-Chin now must regain the confidence of advisors and their clients, who suffered through several years of poor performance with AIC.

"Lee-Chin is a charismatic and talented entrepreneur who has experience as a builder in the financial industry," says Rudy Luukko, investment funds and personal finance editor at Morningstar Canada in Toronto. "To focus on both product and distribution is consistent with Lee-Chin's strategy in the past. He has the skill set to do it again, and it seems to be in his blood. A comeback is entirely feasible."

On the business-management side, Lee Chin has installed Frank Laferriere as senior vice president and chief operating officer at Mandeville Private Client and Mandeville Wealth Services. Laferriere previously held senior positions with investment dealer Manulife Securities Inc. of Toronto and its predecessor company, former AIC affiliate Berkshire-TWC Financial Croup Inc. Prior to selling AIC to Manulife in 2009, Lee-Chin sold Berkshire and the books of its 700 advisors to Manulife; Berkshire subsequently became Manulife Securities. In consideration for Berkshire and AIC, Lee-Chin received shares in Manulife. Originally these were valued at $39 each, but they plummeted to $9 during the 2008 financial crisis and now trade at around $18.

Despite the decline, Lee-Chin has seen a significant increase in his overall wealth due to the rising value of his private business holdings, including the majority interest in National Commercial Bank Jamaica Ltd. and a piece of Columbus International Inc., which provides cable and broadband services in Latin America and the Caribbean.

"I came through the financial crisis less scathed due to the ownership of private businesses whose value has no correlation to the stock market," Lee-Chin says. "My clients' experience was different than mine because they didn't have the buffer I had."

Lee-Chin has examined the practices of various pension funds and found they have achieved their returns through owning a combination of public and private enterprises. He says that the average retail investor, like a pension fund, needs to protect capital, achieve growth and produce income. But most advisors sell only publicly traded securities - and therein lies what Lee-Chin calls a "dysfunctionality" in the world of investment advice.

"The advisor community is a subset of the securities industry, which generates revenue by taking companies public and building an ecosystem around that," Lee-

Chin says. "Advisors sell publicly traded securities or [units in] funds that hold them. But if the average client has the same goals and needs as a pension fund, why should their portfolio profile be any different? We have all the component parts needed to put together a portfolio that is equal in quality and quantity to what the pension funds are doing."

The Portland family of four mutual funds focuses on concentrated portfolios of superior businesses, similar to the strategy employed at Lee-Chin's former AIC fund family. Although units in Portland mutual funds can be purchased (with a minimum initial investment of $250) and redeemed on a daily basis, the private-equity vehicles have limited liquidity and are targeted toward high net-worth clients.

Depending on the client's need for cash, Lee-Chin says, the mix of private-equity and liquid vehicles, such as mutual funds and individual securities, can be determined on an individual basis.

Adds Lee-Chin: "The first conversation advisors should have with their clients should be about what percentage of their portfolio needs to be liquid, based on their need for income. Investments should then be allocated to silos, depending on whether they need to be cashed out in three years, five years or 10 years."

At a time when regulation is focusing increasingly on fees, Lee-Chin says, advisors are facing pressure to prove their value to clients, so offering access to private-equity investments gives advisors an edge. The ability to protect some of a client's assets from the volatility of public markets will help to keep clients on course and increase long-term returns.

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