

WP

WEALTH PROFESSION

WWW.WEALTHPROFESSIONAL.CA

ISSUE 2.1 | \$6.95

EXCLUSIVE
INTERVIEW

THE RETURN OF MICHAEL LEE-CHIN

Building wealth for retail clients the alternative way

CLIENT CONNECTION
WHO'S MOST LIKELY
TO LEAVE/STAY

PASSING THE TORCH
FINDING THE RIGHT
BUYER FOR YOUR BOOK

GAME-CHANGER
INSIDE SCOOP ON
RICHARDSON ACQUISITION



'WEALTH CAN BE CREATED'

But the question is how? asks WP's **Sophie Nicholls**. Michael Lee-Chin's answers increasingly centre on the private capital market.

Renowned billionaire Michael Lee-Chin has a vision.

It's a vision tied to a philosophy, he says, and has always been at the heart of his many businesses and at the root of his prosperity.

The philosophy? Buy, Hold and Prosper: an investment strategy from fellow-billionaire Warren Buffett and one Lee-Chin proudly embraces.

The vision? Cultivate wealth for every Canadian investor – not just those with highest net worth, but retail clients as well.

The reason? Coming out of the 2008-09 financial crisis relatively unscathed (and figuring out why), Lee-Chin decided his new mission would be to ensure investors from varying demographics are also able to ride the economic waves.

The action item? Push to open up the private capital market (exempt market), so that every investor – regardless of personal wealth – can have a piece of the pie.

WP's Sophie Nicholls sat down with Michael Lee-Chin to find out how exactly he plans to do that through his new endeavour, Mandeville Holdings, Inc.

"Coming out of the 2008-09 financial crisis relatively unscathed (and figuring out why), Lee-Chin decided his new mission would be to ensure investors from varying demographics are also able to ride the economic waves."

THE RETURN



WP: Mandeville has been described by the industry as a comeback, of sorts, for you. From your vantage

point, what does this endeavour mean to you?

MLC: Mandeville was started because when you look at the landscape of how advice is given in the marketplace and you look at what clients expect – in terms of the portfolio that they end up with – it is very dysfunctional.

What every client says to an advisor implicitly is: 'Advisor, I want you to do four things for me: I want you to protect my capital, don't lose my principal; I want you give me growth; I want you to give me some income when I need it; and, I want for you to minimize my taxes.'

If the advisor does a good job at optimizing those four needs, the net effect is that wealth is created for the client.

CREATING WEALTH



WP: In your opinion and through your experience, how exactly is wealth created?

MLC: If you were to do a survey of any wealthy person, anywhere in the world, invariably they do five things: Number one, they own a few high quality businesses – not too many; number two, they make sure they really understand those few businesses; number three, they make sure those few businesses are domiciled in strong, long-term growth industries; number four, they make sure they leverage people's money prudently; and, number five, every single wealthy person in the world created his own wealth by simply holding those businesses for the long run.

That's not only unique to how individuals have

created wealth. The pension funds, Ontario Teachers, CPP, OMERS ... their behaviour also is such that the portfolios that they construct are a combination of public securities and private assets.

So, with wealthy individuals, their portfolios invariably end up with public exposure and private exposure.

THE PRIVATE CAPITAL MARKET



WP: There seems to be a stigma against the exempt market in Canada. How do you feel about the perception that the private capital market is more risky than the public markets?

MLC: The perception is wrong because the hallmark of an investor is to understand what you own. When you buy a private business, you have the opportunity to get every piece of information available from that business. You can go and look at the assets, the liabilities, you can look at email trails, you can go to the HR department and look at compensation packages etcetera, etcetera.

Conversely, when you buy a stock, the information you have access to is what the investor relations department gives you, which is a fraction of the information you can get from a private business.

So, if you conclude that having more information will make you understand the asset better, you'd have to conclude that owning a private business, from an investor's perspective, can help you make better decisions because you have more information.



WP: Why are retail investors typically discouraged, even

THE TIMELINE

Billionaire Michael Lee-Chin's Life in a Nutshell

1951: Michael Lee-Chin is born in Port Antonio, northeast Jamaica (eldest of 9 children)

1970: Comes to Canada on a scholarship to

study civil engineering at McMaster University in Hamilton, Ont.

1974: Graduates from McMaster and returns to Jamaica to work for the Jamaican government on the Nelson Mandela Highway as a civil engineer.

1976: Returns to Canada.

1977: Becomes a financial advisor

1979: Employed at the Investors Group in Hamilton and after two years moves to Regal Capital Planners, where he was regional manager.

1983: Invests \$500,000 to purchase Mackenzie Financial Group stock.

1987: Acquires a group of companies comprising of an investment planning arm, a securities dealership and an insurance services operation.



prevented, from investing in the private capital market?

MLC: The securities industry was not designed to create wealth for clients. The securities industry was designed to take businesses from being private, make them public and build an ecosystem around that, trading stocks, funds, etcetera, etcetera. It didn't start off saying let us see what the clients' needs are and build an industry that is going to facilitate those needs – so, there is the disconnect.

As a consequence, the securities industry, the advisors who are employed by the securities industry, the universe of products and the tools that they have are invariably publicly-traded securities. So, clients invariably end up with a portfolio of only publicly traded securities, which is not how wealth is created.



WP: Do you see the private capital market opening up to the average investor, or will it be left accessible solely to the accredited investor?

MLC: If you're in Alberta or B.C., as an average investor, you would have access to private investments in bit-sized denominations. In Ontario, you have to be accredited. So, you have to qualify. But gravity is against that format continuing and we will over time have a model in Ontario that is similar to B.C. or Alberta, whereby up to a certain limit, anyone can buy into private assets.



WP: How do you convince a retail investor that investing in private equity will work?

MLC: I think investors implicitly know how wealth is created because they just look around and ask: 'Who do I know who is wealthy and what does

"When you buy a private business, you have the opportunity to get every piece of information available from that business."

their portfolio look like?' It's not as difficult to convince clients that this is the right thing to do.

The most successful investor in the world is Warren Buffet and the majority of his portfolio is invested in private businesses. Buffet himself is a disciple of owning both public and private. But, that's not being done today. Hence, there is a fantastic opportunity to correct that dysfunction.



WP: How does an advisor determine whether a client is suited to buy an alternative private market investment?

MLC: Well, firstly, the client has to be accredited. Secondly, I cannot see a reason why a client would not be suited to buy an alternative investment once the size, or liquidity analysis, is done with the client.



WP: Some of the largest institutions in the world have altered their mix to include public and private alternative investments. How can an advisor in Canada follow these investment strategies for their high-net worth clients?

MLC: It's very difficult being with a traditional firm because in your traditional firm, that is not their business. Their business is not to offer

2002: Michael Lee-Chin's international conglomerate, Portland Holdings Inc., acquires 75 per cent in National Commercial Bank Jamaica Ltd. (NCB)

2003: Pledges \$30 million to Royal Ontario Museum's Renaissance ROM campaign.

2007: Assets of the Berkshire Group – acquired by Lee-Chin in 1987 – exceed \$12 billion. Berkshire Group of Companies is sold to Manulife Financial.

2009: Under Lee-Chin's stewardship, Portland Holdings, Inc., sells AIC's retail mutual fund business to Manulife

Financial. AIC Investment Services, Inc. officially changes its name to Portland Investment Counsel, Inc.

2011: Appointed Chancellor of Wilfrid Laurier University.

2012: Forms the Mandeville Group of financial companies.


2013: The Government of Ontario selects Lee-Chin to receive the Queen Elizabeth II Diamond Jubilee Medal.

2013: Wallenford Ltd., a subsidiary of Portland Holdings Inc., purchases the Wallenford Coffee Company.

"The financial crisis was an indelible moment for all of us. It happened in the fall of 2008 and a couple of years after, I started to take stock as to how I came through the crisis unbruised? "

alternative investments to clients with a broad enough diversity of offerings, so that the client can have a diverse portfolio. Nor do advisors have the requisite training needed to speak to clients intelligently about owning private assets. That's not a part of the training in your typical firm. One would have to go to a specialized firm.


RIISING FROM THE RUBBLE

 **WP: The financial crisis of 2008 had a plummeting impact industry-wide on several players, including yourself. How can one prepare for a similar turning of events in the future? What would you do differently today, that you didn't do back then?**

MLC: The financial crisis was an indelible moment for all of us. It happened in the fall of 2008 and a couple of years after, I started to take stock as to how I came through the crisis unbruised?

My conclusion was, if I didn't have private businesses, I would have come through the crisis a lot more bruised. It was my private businesses that gave me some sort of solace. It was a safe haven.

But, I felt awful because I've been an advisor since 1977 and all my clients' portfolios were 100 per cent public. I've always prided myself on leading by example. In this case I didn't. So, I thought I have two choices. I could have ignored it or I could do something about it. I chose to do something about it because it's not right.

 **WP: During the financial crisis, AIC Funds went through a period of redemptions, which would suggest a loss of confidence. How are you gaining the confidence of advisors and investors back as**

ICONS AND INVESTMENTS

Michael Lee-Chin touches on his ties to the ROM and his hometown, Port Antonio, Jamaica.

WP: Do Canadians associate you with the ROM and what is their response to your contribution, The Crystal?

MLC: People are generally nice. They say it's an interesting design. If someone is really thinking about it they will say 'it represents a forward-thinking Toronto.' The crystal exploding from a traditional building – it's differentiated, it's noticed, it's a conversation piece and it's iconic.

WP: How is your life as an investor in Canada linked with your life in your hometown, Port Antonio?

MLC: It's linked in the fact that we own a hotel in Port Antonio – The Trident Hotel. The hotel business is a difficult business. But, we did it and we did it right and the Trident has had phenomenal global reviews. I did it because Port Antonio is probably the most beautiful spot on earth and I'm not biased, although I'm from there.

Over the years (the area) has been neglected, but the beauty has not changed. There's an opportunity for me to use the podium that I have and some money to try to rejuvenate traffic to the area. I'm doing it mainly, not as an economic investment, but an investment into the long-term sustainability of the town where I am from.

you move through the recruitment process for Mandeville?

MLC: Our philosophy has not changed. Wealth is still being created. Wealth has always been created by buying a few great businesses ... in strong, long-term growth industries and holding them for the long run. In other words, wealth is created by buy, hold and prosper. Nothing has changed, whether it's in the public universe or the private universe.

The problem is that in the retail market, clients have to be tutored to think longer term than the impulsive behaviour that is prevalent. There is a

responsibility that we have as advisors to make sure that the client's timeframe matches the needs that they have.

INDUSTRY TURBULENCE



WP: How do you see the role of the financial advisor given the current state of the industry?

MLC: Today, advisors are facing headwinds of being commoditized. They are becoming more irrelevant, which is paradoxical because at a time when the world is most complex and advice is most needed, advisors are most irrelevant. Therein lies the paradox.

But the common need is that advice is still necessary more so now than ever before. We have to make sure that we are delivering the relevant products and (portfolio) construction to fit the needs of clients. That has not been the case to this point.

It's very difficult as an advisor to differentiate themselves from everybody else. And, whatever products your typical advisor sells, clients can buy the same product, less expensively. So, the value proposition that an advisor has today is becoming very imperceptible. Only if you can show complete differentiation in the marketplace will you be relevant.



WP: How do you see the democratization of the private market impacting the future of investing in Canada?

MLC: It is going to be more and more the way to go because already, in Alberta, for example, private investments are available to everybody up to a certain amount without being accredited. That will eventually come to investors (in Ontario). It is the way of the future.



WP: What changes need to take place in the finance industry to truly democratize private investments?

MLC: First, it's primarily regulatory. We need to have consistency.

Secondly, it's a matter of having access. Everybody has access whether they are accredited (investors) or not to private securities except in Ontario. But, that is going to break down and Ontario will eventually (give the access to) our citizens that is prevalent elsewhere, like Alberta and B.C.

Thirdly, the success of this is a function of bringing high-quality private assets to investors, which hither to now may not have been the case.

BEHIND THE VISION



WP: What is Mandeville's value proposition?

MLC: Mandeville's value proposition is to create wealth for clients, do it in such a way that is akin to how wealthy people in our society do it, and do it in such a way that is akin to how the institutions behave, which is differentiated from how your typical securities advisor advises clients today.

At Mandeville, we're creating portfolios for clients that are no different from how wealthy entities create their portfolio – a combination of public assets and private securities – while making sure that the private assets we are promoting are of the highest quality, such that the largest, most erudite, professional institution would salivate over them.



WP: How is Mandeville qualified to pursue this endeavour – the democratization of the private capital market?

MLC: What qualifies us is that, through our conglomerate, we own private businesses and we manage private businesses. We have taken over private businesses, dusted them off and created a lot of wealth. What qualifies us is that we manage a private equity fund also and our clients would include the Treasury of the United States, OPIC, Export Development Canada – a Treasury of the Canadian government – The European Investment Bank, Funds of Funds representing the State of New York – the city of New York pension fund. So, we have the main experience at managing private equity funds, at owning and managing private businesses, and also managing public portfolios. We have all the requisite ingredients to put this together. There are very few money managers or investors who would have all the domain experience necessary to put this together. Also, we have the experience of putting together a financial advisory network and dealing with retail clients. So, we are perfectly suited for this mission and a mission it is. **WP**