

Up to the job

Manager spotlight Hugh Cleland

Charles Davies

617 Words

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He has just turned 37, but he has the clear, unlined face of an adolescent, one who seems perpetually on the verge of grinning. Hugh Cleland has good reason to smile: His Northern Rivers Innovation Fund LP is No. 1 in Globefund's alternative strategies category over five years, with an average annual return of 32%.

The fund is a blend of small- and mid-cap North American stocks, with holdings spread among resources, health care and tech, and, lately, about 5% in cash. The fund is also small, with just \$65 million in assets under management, and has a steep, minimum first investment of \$100,000. Cleland says he looks for "companies with a sustainable competitive advantage," but his approach is a bit different than that of the typical fund manager.

Cleland starts by hitting the streets to get a feel for a company or industry--trawling trade shows, association meetings and sales conferences. He also does some quantitative analysis by looking at a prospect company's financial ratios. And he checks technical indicators from its stock market performance to see if the time is right to pounce. "I have my favourite entry points, which are long phases where a stock has become neglected and is going nowhere," he says.

Some favourites stay in Cleland's portfolio for years. In 2002, his method led him to Milton, Ontario-based SXC Health Solutions Inc., which supplies software that helps pharmacies, group benefit plans and other organizations manage their prescriptions. Cleland bought in at \$2.80 a share, and the price has climbed to more than \$16 recently. At one point, SXC comprised close to 15% of Northern Rivers Innovation Fund, and it remains one of the fund's largest single positions.

Not far behind are Western Goldfields Inc., a California and Nevada gold miner chaired by former Barrick Gold CEO Randall Oliphant, and Kodiak Oil & Gas Corp., which has promising plays in Wyoming and North Dakota. Of the 50 or so holdings in the fund, the 10 largest account for about 60% of the value.

The rest come and go. "I'm sampling things all the time," Cleland says. "I'll take a half-per-cent or one-per-cent position in a lot of different companies over time. But a lot of them will be [sold] as I go through a rolling due-diligence process." His biggest mistake was a software provider for nursing homes that Cleland declines to name.

Cleland's career path has been unorthodox. After his junior year at Harvard, he travelled to Western Canada, where he spent three years skiing and working for a sports marketing firm. Later, he was turned down for a marketing job at Whistler Blackcomb Ski Resort because he lacked a degree.

Before returning to Harvard, however, he spent a summer at Sceptre Investment Counsel in Toronto, where he became hooked on finance. After graduating in 1997, he worked briefly as a junior research analyst at Midland Walwyn, then helped manage investments for a family in Toronto. In 2001, he joined Northern Rivers Capital Management Inc., a start-up money management firm, as founding portfolio manager. Northern is still a lean operation, with just seven employees.

That doesn't leave a lot of time for Cleland's wife and two small children. When he can, he takes his kids skiing, and going on the bunny hills with them is just as rewarding as the big runs he once took at Whistler.

NORTHERN RIVERS INNOVATION FUND LP

Average annual compound returns

(to July 31, 2006)

1 year % 3 year % 5 year %

65.0 37.2 32.0

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(Globe Alternative Strategies Peer Index)

8.6 8.4 8.4



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