THE GLOBE AND MAIL

Why this Canadian fund manager of $5.5-billion is betting big on health care and tech stocks (and avoiding energy)

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David Arpin will pass on predicting what stock markets will do next. Investor sentiment certainly hasn't been a good predictor lately.

"I haven't seen a lot of evidence that it's easy to forecast where markets will head over a short period of time," says Mr. Arpin, a senior vice-president and portfolio manager with the Bluewater team at Mackenzie Investments.

He points out that investors were bullish a year ago, then the fourth-quarter correction happened. Investors were grim at the start of 2019, and markets have since surged.

"You get sideswiped when you try to guess where [the markets] will go in the next three to six months," says Mr. Arpin, who manages about $5.5-billion in assets. "Our view is that you're always better off if you invest in companies that should do well over time, and do that consistently."

His US Growth Class Fund has returned 21.8 per cent year-to-date and 16.1 per cent over the past year, as of June 30. The returns are after the management expense ratio of 1.07 per cent for the Series F, which is generally available for fee-based advisers. Some of the fund's major holdings include Accenture PLC, Visa Inc., Baxter International Inc., PepsiCo Inc., Stryker Corp., and Aon PLC.

The Globe and Mail recently spoke with Mr. Arpin about what he's been buying and selling.

Describe your investment style.

Our focus is conservative-growth investing. The kind of companies we are looking for tend to operate in areas that are a bit less competitive – in areas that are oligopolies, duopolies and even monopolies – and in industries that are steady and stable. We are looking for companies growing at above-average rates, but not extremely fast rates, and that consistently and steadily grow across the whole economic cycle. It generally means the funds hold up well during an expansion phase, during a bull market, and do better than their peers in a bear market. Also, my main focus is the U.S. market. I personally think the U.S. equity market is the best equity market in the world.

What concerns are you hearing from investors today?

The top-of-mind worry, and this started about nine months ago, is about a recession or a downturn. It's a very valid concern. The world economy has definitely been slowing over the last six months and has slowed three times across this [current] cycle. There is a big question mark about whether we are going to keep slowing down and move to a recession or if things are going to expand again. Interest rates are coming down again. Central banks are talking about becoming more accommodative. That is usually what allows things to pick up again, but it's hard to tell.

What have you been buying lately?

In our view, some of the big areas that will see growth over time are health care and technology. Those are big global growth drivers that are super important. Those are areas that generally do well over time in capital markets.

We have increased our weighting in health care [in the U.S.]. It's about 15 per cent of the U.S. market and there are some phenomenal, consistent, long-term, steady and stable growth business there. It's driven by aging populations – but is more than that. It's an oligopoly world and amenable to steady, consistent improvements to improve and sustain peoples' lives. That's what drives value in the sector. It has for a long time, and we don't see that changing.

It's the same with technology. The promise of technology has come through since the tech bubble in the late 1990s. You are now seeing huge changes that are significant and driving growth. There are a lot of new technologies coming at us right now – whether it's artificial intelligence or 5G communication – that will have a big effect. From an investment standpoint, if you can find areas where they're not too competitive or companies that can really benefit from technology in a consistent and predictable way, it will be good for shareholders.

What have you been selling?

I have been following oil for more than 20 years now. The oil story was always the same: You think a lot about supply and not demand because demand grew consistently over time. It's still growing. About three years ago we started to get worried about [the impact] of electric vehicles [on long-term oil demand]. The more time we spent looking at it and thinking about it, the more we realized there is a major shift that's about to happen. It wasn't so obvious three years ago when we started talking about it. Now, in looking at companies [in the automotive sector], it seems like an inevitability.

Automakers are talking about generating more of their sales from electric vehicles. Yes, the cars are more expensive now and the range isn't really there, but in the background, the price of [electric vehicle] batteries is decreasing year after year. That will lead to a changeover, to a transition period, maybe early- to mid-next decade when the price performance [of electric vehicles] is cheaper than internal-combustion vehicles.

What's a stock you wish you bought – or wish you didn't sell so soon?

One is Costco. It's a business I followed for over 20 years and we were able to buy it in 2009. We ended up selling it in [June of 2017] for valuation reasons. The stock has continued to go up and the business has continued to perform well. It's a very well-managed company.

This interview has been edited and condensed.

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