

Why this money manager is trimming U.S. tech stocks and adding more Canadian industrials

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PUBLISHED October 6, 2023



Vishal Patel of Scotia Global Asset Management. THE GLOBE AND MAIL

Vishal Patel isn't letting market volatility, driven in part by higher inflation and interest rates, keep him from staying fully invested in the markets. Instead, he's looking for companies that can manage the inflationary pressures while continuing to generate strong returns.

"There's always an opportunity to make money in the market, and I'm extremely bullish longer term," says Mr. Patel, vice-president and portfolio manager at Scotia Global Asset Management in Toronto. He oversees more than \$5-billion in assets across different North American strategies, including Canadian small-caps and separate U.S. and Canadian equity funds.

Mr. Patel's Dynamic Power Canadian Growth Fund – Series F has returned 16.8 per cent over the past 12 months and has seen an annualized return of 9.2 per cent over the past three years. Its five-year annualized return is 8.2 per cent. The performance is based on total returns and is net of fees as of Sept. 30.

Currently, the fund includes about 52 per cent Canadian stocks and 48 per cent U.S. stocks. In recent months, Mr. Patel has shifted the holdings steadily toward industrials while trimming technology names.

The top three sectors in the fund include financials, at about 23 per cent; information technology, at 22 per cent; and industrials, at 18 per cent. Some of its current top holdings include Nvidia Corp. NVDA-Q +1.23% increase, TFI International Inc. TFII-T +1.63% increase, Alphabet Inc. GOOG-Q +1.21% increase, Microsoft Corp. MSFT-Q +1.68% increase and Canadian Pacific Kansas City Ltd. CP-T -0.19% decrease.

The Globe spoke with Mr. Patel recently about his investment style and what he's been buying and selling.

Describe your investment style.

Our style can be best summarized as quality growth. We focus on profitable, growing businesses. Management is one of the most important things we look at when analyzing a business – and it's not just the chief executive officer or chief financial officer. It's also the corporate culture. We visit companies and try to understand the management teams including the families and founders, and how they think and treat their employees. We also look at whether management has a disciplined approach to capital allocation. Is management a good steward of corporate and shareholder capital? We also look for teams with a competitive advantage. Can they manage the ups and downs of business economic cycles?

What have you been buying lately?

One company we've been adding to is transportation and logistics company TFI International, a business we've owned for a long time. We think its CEO, Alain Bedard, has done an amazing job of allocating capital. The company has grown through acquisitions in Canada. Recently, it was able to buy and turn around a U.S. business it bought – UPS Freight. It's also gaining market share after one of its biggest competitors, Yellow Corp. YELLQ +5.71% increase, recently declared bankruptcy.

We've also been adding to Canadian Pacific Kansas City. It's another example of a great management team. CEO Keith Creel studied under well-known railway executive Hunter Harrison. We are very excited about what the company can do after it purchased Kansas City in 2021, especially given its reach into Mexico. We see the connectivity between Canada, the U.S. and Mexico as a competitive advantage given the trend toward reshoring.

What have you been selling?

We've been trimming some of our U.S. technology stocks, particularly our weighting in semiconductors. These companies have done well, but we wanted to allocate the capital to other areas. Nvidia is one company we've been trimming, even though it remains the largest holding in the Canadian growth fund. It's a company we've owned for years and did well on. We also sold our holdings in Advanced Micro Devices Inc. AMD-Q +3.21% increase in the Canadian fund, but we own it in some U.S. funds.

Name a stock you wished you bought.

Novo Nordisk A/S ADR NVO-N +2.37% increase, the pharmaceutical company known for its blockbuster drug Ozempic, is a stock we wished we owned. I've met the management team many times. It has done an amazing job with a class of drugs called GLP-1 for diabetes and obesity. It has

a duopoly in this market with Eli Lilly and Co. LLY-N +2.89%increase, another company we missed. I underestimated the size of the obesity market and the recurring revenue. One thing that always kept me away was the cost of these drugs and trying to understand who would pay for them. Also, will another player come in and take market share? And how effective are these drugs long-term?

What advice do you have for new investors?

Take a long-term approach to investing. That's been our north star. A lot of investors are too short-term oriented. Also, don't think about stocks as a piece of paper in a brokerage account but as an ownership stake in an operating business.

This interview has been edited and condensed.

<https://www.theglobeandmail.com/investing/globe-advisor/advisor-funds/article-why-this-money-manager-is-trimming-us-tech-stocks-and-adding-more/>

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