



# GLOBE INVESTOR

## ‘Deep value’ investor seeks out unloved firms

Popularity and market cap are top of mind for some investors, creating an advantage for those looking beyond indexes, Tim McElvaine says

**BRENDA BOUW**  
GLOBE ADVISOR

### THE MOVER

**T**im McElvaine believes the next few years will be kind to “deep value” investors like him.

“The passive investing trend means investors are concerned with popularity and market cap rather than price, which I think creates a huge advantage for patient investors willing to look beyond the indexes,” says Mr. McElvaine, founder, president and portfolio manager at McElvaine Investment Management Ltd. in Victoria.

His \$35-million McElvaine Value Fund currently has 16 holdings, including a mix of small and large-cap stocks. The fund’s top five holdings, as of Dec. 31, 2023, include Maxim Power Corp. (at 18.2 per cent), privately held Wintai Holdings Ltd. (14 per cent), PrairieSky Royalty Ltd. (9.4 per cent), Onex Corp. (6.6 per cent) and Bausch + Lomb Corp. (6 per cent).

The fund typically holds about 10 to 20 per cent cash, which Mr. McElvaine uses for portfolio protection and when he needs to jump quickly on investment opportunities. The fund currently holds about 13 per cent cash.

“We go where the ideas are,” says Mr. McElvaine, who founded McElvaine Value Fund in 1996. Be-



ILLUSTRATION BY JOEL KIMMEL

fore that, he worked for 12 years at Cundill Funds, an investment firm founded by the late value investor Peter Cundill.

Mr. McElvaine’s value fund returned 3 per cent in 2023, which he describes as a “quiet year.”

“Most of our larger-cap names did well, but it wasn’t a great year for our small caps,” he says.

The fund’s two-year annualized return is 15.2 per cent, while its three-year annualized return is 12 per cent. The annualized performance is based on total returns, net of fees, as of Dec. 31.

The Globe spoke with Mr. McElvaine recently about what he’s been buying and selling:

#### **Describe your investing style.**

I’m a deep-value investor. I look for cheap, safe businesses that are

out of favour. When someone is selling shares for a reason other than price, such as tax-loss selling or dislike for a sector, it gives us a competitive advantage on the purchase. We also like stocks with a decent amount of insider ownership. It gives us comfort knowing the board and operators of the business have large personal investments in the company. Insiders often think carefully about capital allocation and risk as it’s their money, too.

#### **What’s your take on the current market environment?**

I’m not a market forecaster. I don’t spend a lot of time trying to figure out what’s happening. Instead, I think about risks and, more importantly, the opportunity to buy stocks at prices we’re in-

terested in. There were some good ideas in the fall, but then stocks rebounded, so there haven’t been as many in recent months. As a value investor, you need to be patient.

#### **What have you been buying?**

Fairfax India Holdings Corp. is a stock we bought in November. It’s a division of Prem Watsa’s Fairfax Financial Holdings Ltd. that invests in public and private securities in India. We like the economic prospects for India and the company’s holdings – including its growing stake in Bangalore International Airport Ltd. We also like that it’s thinking about shareholders. The company buys back stock regularly. I also have respect for Mr. Watsa, as many investors do. He’s often called the ‘Cana-

dian Warren Buffett.’ Still, if the stock hadn’t been cheap, I wouldn’t have purchased it when I did.

TH International Ltd., better known as Tims China, is a stock we bought in 2022 and added to in the past month. I like that it has the rights for Tim Hortons and Popeyes restaurants in China. I don’t worry about the economic risks in China, as some people do. I think the bigger risks are the competitive environment and expansion execution, but management has done this before developing and expanding the Burger King network in China. The stock is also heavily owned by insiders and has a good balance sheet.

#### **What have you been selling?**

We haven’t sold much lately. Usually, we exit a stock if something goes wrong with a company or if it gets taken over. We trimmed some of our holdings in Bausch + Lomb and Onex last fall. In each case, the stock appreciated and we wanted to use the cash for cheaper ideas, so we took some profits. But we still have good-sized positions in both.

#### **Name a stock or two that you wish you didn’t sell.**

We sold Tourmaline Oil Corp. in the summer of 2022 when it was trading close to its high of \$80. We also sold Jefferies Financial Group Inc. in the spring of 2023. We did well with those stocks, but I miss owning them because they are good companies, and I like the level of insider ownership. There were just better things to do. If the prices got interesting again, I would buy them back.

This interview has been edited and condensed.