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THE WALL STREET TRANSCRIPT
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DF/AMR/AMB/MGM

TWST: Could you please begin with an overview of the firm, and tell us about your mission and the portfolios that you oversee?

Mr. Wiseman: Our mission is to make some very good returns for our clients. We are value managers with three strategies, Canadian equity, Global diversified, and Global small cap. The one where we have the most money is Canadian equity. We emphasize more of a quantitative approach with fundamental overlay to confirm. The second strategy that we initiated right when we started the firm was a global diversified strategy, which is concentrated. Currently we hold 36 names, and it holds larger cap stocks, throughout the world. The third strategy is small cap. This I would call the jewel in the crown. Even though it's a small amount, it's now catching on. When I started it with the firm, there were very few people in the world running global small cap equity. Even today, there are not that many people doing it.

TWST: In the world, not just Canada?

Mr. Wiseman: Yes absolutely. In fact, in Canada, there are probably more institutions picking up on it, because Canada is less than 3% of the world capitalization. So Canadian investors have long been taking a more global approach. But back then, when we started it, they didn't know what to do with this. Some databases put us under US small cap or Canadian small cap. So we have had to explain to the databases to understand global is not the same. Its late in the cycle, we are taking on more diversification, and are up to 45 names, which is the most we've ever held. We'll invest anywhere in the world, but we will emphasize the more regulated markets. We currently have some very strong biases in terms of the regions where we want to invest. We use a quantitative approach, as all three of our strategies do, but here in the small cap, we spend much more time scrutinizing financial statements, probably more than most people. The small caps are the best asset class going back any time in history. I published some papers on it, and I've spoken about it. If you go back to my website, you can see some articles were published; also interviews, conferences that I’ve s spoken in New York about it So it’s not only been the best asset class and will continue to be a tremendous market inefficiency, and the reason being that the brokers are not covering these names anymore, they cannot afford to.

TWST: What ainspired you to found Wise Capital? What was the niche that you sought to serve?

Mr. Wiseman: Well, the niche is, in Canada, there are very few boutique firms that are doing anything really special in order to optimize returns particular with a small cap bias. I wanted to incorporate my best ideas without working for a large bureaucracy that would unduly slow down ideas and lose potential value. There are far less boutique firms, very few, in fact, in Canada. Global Small cap is only now being recognized as an important asset class and getting more allocations. Of course it shouldn't matter where we are located. We happen to be in Toronto, but only an hour-or-so flight away from most cities.

TWST: Could you please share a profile of the typical client you serve?

Mr. Wiseman: So far, the institutions that have come to us were really looking for Canadian performance.given our long-term focus, we’ll occasionally be running them some great numbers, as maybe the top or second-top manager in the country here in Canada in some years. Now we are getting attention on global small cap. On the private side, when I started Wise Capital I was in my 40s and related well to entrepreneurs, who had made a small or a large fortune and were starting to diversify, to get away from whatever business that they had all their assets and wealth tied up in, which in very many cases, was real estate.

TWST: What is your decision making process? Who makes the important final decisions?

Mr. Wiseman: We have an investment committee, which is normally three of us. I don't like to go against any three of us; if somebody has an objection not to buy something or not to sell something. It's usually three of us. I have Chavdar, who has worked closely with me for 12 years. We have a more junior analyst who is involved in the quantitative process. But the decisions usually fall out by themselves. Our quantitative proprietary process gives us our home-based model, which models the world markets and says this stock is worth X. We'll price every single stock in the world that's eligible for a strategy, say, 4,500 names. After we immerse in the fundamentals, it's good when we have that confirmation that both the quantitative and the fundamentals seem to match. So we'll take a look at the highest undervalued names, the top two deciles, and we'll basically glean a portfolio from those.

TWST: Can you share your overall outlook for the global macroeconomic scenario – and what, if anything is different about this investment xycle?

Mr. Wiseman: This cycle is unlike all other cycles, in the sense that it's been so long, and we foresaw that would happen. Normally, I'm the one that brings in these macro calls and will say, 'okay, let's emphasize a little bit more this sector than that sector.' But with this whole long cycle, I've kind of stayed away, and let the fundamentals carry the day. Now pure stock plays rule even though PE ratios, or measures of fundamentals, are relatively high, they're not at the level that we have to worry about, because the profitability will keep those ratios from going over the top. So that's just a backdrop that we're not having to shift to something very defensive over the next few quarters.

TWST: Give us a closer look at why your global small cap strategy is the jewel in the crown? What's so different there compared to other markets?

Mr. Wiseman: That area has expanded across the world. When I started in the 1990s investing in small cap, there was only a small cap effect, which means small caps would outperform the rest of the market in three markets, in the three Anglo-Saxon markets: United States, Canada, and the United Kingdom. Now it is a worldwide effect. However, when I say worldwide, let's exclude Asia. So, in fact, we almost always exclude Asia, for different reasons for every country, but including geopolitical risk in some areas. So now what we find worldwide, as markets have become more mature and there's been more regulation. Small cap has been the highest performing asset class. It has shown historical outperformance of 2% to 3% over general equities and it will continue to do so over five year periods, because the inefficiency is in fact getting greater, not less, as most other inefficiencies.

TWST: Where are your heaviest weightings are geographically; which countries are currently home to the best performers?

Mr. Wiseman: The United States is about half, it is a bit more than half of the world market capitalization, when we say United States, it also includes a lot of countries that come and list on the United States, just like proportionally more companies from outside of North America would list on the Canadian exchange, although that's primarily for commodities. So when we look at where the shares are registered, they would be registered primarily on the United States market. But then we have a very large weighting for United Kingdom, which is structurally doing very well and it uses technology, in some cases like the financial sector, even more than the United States and Canada, much more. The Governor of the Central Bank of England is Canadian and he was the Central Bank Governor here before. By the way, I personally had worked with the Bank of Canada for three years. And then we have a number of other countries. Of course, we do include a small weighting in Canada, because we'll have some pretty good world-class unique names, but only when that fits in.

TWST: Can you give us a closer look at one or two of the names that have been your best performers recently? And where you see most opportunity going forward in the US, the UK, and in Canada?

Mr. Wiseman: What's performed very well has been the financials and so it's done pretty well for very conservative names, and that could be reflecting less risk being perceived on the credit cycle as well as the expectation that with rising interest rates, banks tend to do very well because they can add to their loan spreads. The energy sector, we're very light in energy right now, but of course, we've benefited from the rise in energy prices over the recent while. We're fairly heavy in consumer and in industrials. And the reason we've done very well in the industrials is because the whole market expansion has been undervalued by the market. So people did not price-in the continuous and large profits that the companies were experiencing. And on the consumer side, we have a number of consumer names where we've found beautiful names in Europe of a company that might be the next Walmart or that might be the next Lowe's, whereas here it's pretty mature. And we have zero in IT.

TWST: What would you say is most unique about your approach? Tell us a little about your quantitative approach and your use of linear programming?

Mr. Wiseman: In our quantitative process, we model the entire world. We model large cap stocks, small cap stocks separately because more factors apply differently because market inefficiencies work so well, and periodically we will model a region or country. We use approximately 20 factors that are statistically significant. If I find something in a journal article that says this is an inefficiency, we'll test it and see if it is working. For example, price to cash is very important outside of North America. So, the more it's working, the more points we'll assign to it and then when we weigh up all the points and put it in a statistical distribution, it'll tell us how undervalued every single eligible stock is in a single number Then we concentrate our checking the fundamentals there. So it'll show us for example, a sector that will be out of favor, let's say, healthcare. or consumer stocks, which are very much out of favor as a theme, but then we'll purposely go to those stocks and closely examine to find names that were thrown out, that is 'a baby thrown out with the bathwater' type of thing. So that people are rotating out of the sector but there's still some stocks that are gems there, which might get misclassified. And we'll find some excellent underpriced stocks. We are fully invested at all times. We rarely have more than 1% or 2% cash and that's only residual. So we'll look to top 'up' names, and similarly, there we'll look to decrease names using what we can a broadly linear program. What we are using is full scale optimization. When people optimize, they tend to do mean variance which weighs up and down markets the same. So we'll use something that was developed a number of years ago that we built in-house based on this journal article that looks at how each stock is performing in 'up' markets and down markets. And that'll help not only in stock selection but in assigning small trades. And I invest quite a bit of my own money alongside all my investors, and that also helps in the gut decision because in the end, it's not just the brain, but it's how you feel about it. So if I'm going to buy a name and I feel it's correct for myself, then my investors are going to invest the way I am. Similarly, if I don't feel comfortable with something, I'm not a mercenary; my own money is being laid alongside. So I'm an important client as well.

TWST: When you look at the current market trends and conditions what worries you most? Are you concerned about current volatility?

Mr. Wiseman: Well, to survive in this business, you cannot be a worrier and you have to be an optimist. And studies have shown it if you are an optimist, better things happen to you. So, I'm always an optimist and even before 2008 happened, I wrote a bulletin to my clients saying, we're going to have a big correction here, I don't know when it's going to start, but if we were going to come back big time and quickly and continue to climb. In 2009, we had a 60% return in Canadian market and we were the number one manager. The VIX in the States shows that the volatility is in fact right now closer to the bottom of the market looking at 25 years, then the top of the volatility range. So volatility is not high. In Canada, volatility is bound to be higher because we have two big industries dominating the market, we have an energy industry and bigger than that, we have the financial industry and that's already two-thirds of your portfolio. So inherently there will be more volatility. And if you want to buy long term stocks, the best names, then you have to buy into the volatility, which most managers here do not do. However, I think that Canadian experience helps us in the global because we always had a global outlook and having the global outlook helps us on the Canadian side. So we don't see any volatility there, and we see clear sailing for the next 2 years. Now if there's a large terrorist attack, I guess that would be the biggest worry.

TWST: Before we conclude, is there anything else you would like our readers, investors to know about Wise Capital, any topics we missed?

Mr. Wiseman: Well, the team is all owners and diversity is very important to us, nobody here is a yes person. So, we have pretty lively discussions and I think that kind of dissension and diversity, men, women coming and people from different countries results in more views being laid out on the table. And more value adds to choose amongst. We're small enough that we can buy just about any name across the world, even names that the larger firms cannot buy. When you go into the micro-cap area, which we believe will be the next theme, we see even more inefficiencies there.

TWST: Thank you.

Mr. Wiseman: Thank you.