



## DAVID PICTON

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David Picton launched his investment firm in 2004 to focus on authentic hedge fund strategies to help protect investors' money, rather than swing for the fences. The firm, co-founded with Michael Mahoney, has grown to nearly \$9 billion in hedge fund and other alternative investments, as well as pension vehicles and long-only mutual funds. Among Picton's own portfolios, his \$181-million Picton Mahoney Long Short Equity hedge fund has outpaced the S&P/TSX Composite Total Return Index over the long haul. We asked the 55-year-old growth manager why he's bullish on copper stocks and owns bitcoin, too.

### When picking stocks, why do you favour a momentum strategy?

Positive fundamental change is the most powerful driver of stocks and tends to generate stronger returns. It can mean a company is improving because of rising revenue or profits, or changing for the better in other ways. If our quantitative or computer-driven signals overlap with our fundamental research, which includes company meetings, we get higher conviction on a name.

### What is your outlook for Canadian stocks given that COVID-19 vaccines are now rolling out?

I think the Canadian market can do better than the U.S. this year. We'll probably have the strongest GDP growth rate in decades, on top of massive fiscal and monetary stimulus. That tends to benefit cyclical stocks and bodes well for the domestic market given its financial and materials exposure. We've transitioned our portfolio, in which we had more technology-oriented stocks last year, to more cyclicals such as banks, energy and metals.

### Why are the Canadian banks attractive?

Loan loss provisions are falling, credit is growing as the economy gets better, and banks' net interest margins will improve as the yield curve steepens. We also like specialty financial companies, such as Element Fleet Management and Trisura Group.

### Given the renewable energy trend, why do you like oil and gas stocks?

Traditional energy companies will face incredible demand in an economic recovery. Because access to capital to grow their businesses has tightened due to environmental concerns, demand will outpace supply. Oil could hit US\$100 per barrel again, but not for long because of the move toward green energy and environmental, social and governance investing. We like Suncor Energy in this sector.

### Why are you upbeat on copper among metals stocks?

The last commodity boom peaked around 2011, when China's demand began to decelerate, but

many companies committed huge amounts of capital to new mines. It takes about 10 years to work through the oversupply. Demand is now potentially accelerating, but there will be a point when supply can't keep up with demand. We see a good opportunity, particularly in copper, that cannot get displaced or disrupted. It might even have more demand growth from electric vehicles, the electrical grid and rebuilding infrastructure.

### First Quantum Minerals is a top copper play for you. Why?

First Quantum has gone from building mines to harvesting cash flow from them, which is a positive change. It operates the Cobre Panama mine, has assets in Zambia and now has significant leverage to higher copper prices. China's Jiangxi Copper acquired about an 18% stake in First Quantum in 2019 and had a standstill agreement prohibiting a takeover that expired last month. We don't know yet what Jiangxi's intentions are.

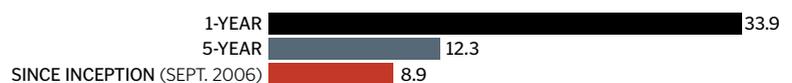
### You also own some bitcoin. What's the attraction?

I have a small position through a closed-end fund. I started buying bitcoin after [payments processor] PayPal announced in October that it would let its customers buy and sell the cryptocurrency. That was a significant positive change, which added more legitimacy to bitcoin, as well as more potential buyers. We thought this would increase the likelihood of further price gains.

### What sectors are you bearish on?

We think office and retail real estate investment trusts could be challenged, with more employees working full or part time from home. Other sectors include high-multiple traditional electric utilities and technology companies, which are sensitive to rising interest rates, while some firms acquired by special purpose acquisition companies have high valuations and can be vulnerable. /Shirley Won

#### PICTON MAHONEY LONG SHORT EQUITY FUND (CLASS F) ANNUALIZED % TOTAL RETURN\*



#### S&P/TSX COMPOSITE TOTAL RETURN INDEX



\* RETURNS TO FEB. 26, 2021.