

Pembroke: a Long-Term Horizon

Humility and alignment of interests for 56 years.

By: Richard Cloutier, May 29, 2024



Nicolas Chevalier - courtesy Pembroke.

Last January, Pembroke Management appointed Nicolas Chevalier as Managing Partner. Although he is now more involved in the firm's day-to-day operations, he continues to act as co-manager of the Canadian growth and all-cap strategies, as well as being responsible for research in the consumer and industrial sectors.

Nicolas Chevalier takes over from Ian Aitken, who held the position for 23 years. He remains with the organization as Partner, Vice-Chairman and Portfolio Manager. The

new leader becomes the firm's fourth managing partner since it was founded in Montreal in 1968, and the first francophone to assume this responsibility.

Nicolas Chevalier holds an MBA from the University of Illinois and a bachelor's degree from HEC Montréal, as well as CFA and ICD.D designations. He joined Pembroke in 1997, after working for the Caisse de dépôt et placement du Québec (CDPQ). "I had the opportunity to become an analyst for the Canadian stock markets, and I loved it. That's when I really realized that what I loved was investing," he explains.

Having joined CDPQ in 1994, Nicolas Chevalier particularly appreciated the unique opportunity to meet industry leaders, both locally and in the United States, and to follow their progress over the years, which his position afforded him. "It's one of the benefits of our job to be able to do that. That's why I define myself as an investor, and it's also part of the culture of Pembroke, which started out as an investment firm," he says.

Gestion Pembroke occupies a unique position in the Quebec financial community. The independent portfolio manager was originally created to manage the portfolios of the Great Britain and Canada Investment Company, listed on the Montreal and London stock exchanges under the acronym GBC.

Since its founding 56 years ago, Pembroke has also offered investment and wealth management solutions to individuals, families, foundations and institutions. Pembroke specializes in managing portfolios of small to medium-sized Canadian and U.S. public companies offering high and sustainable growth rates.

In 1988, the firm created Pembroke Private Investment Counsel, an independent subsidiary offering a range of investment solutions to family businesses and high-net-worth clients across Canada. Its offering consists of mutual and pooled funds, as well as fixed-income securities. Sub-advisors for these funds are Pembroke Management, William Blair Investment Management, LLC, an independent Chicago-based firm, and Canso Investment Counsel, an Ontario-based portfolio management firm founded in 1997.

Today, Pembroke serves its clients from offices in Montreal and Toronto, although over 90% of its research and management team are based in Quebec. The firm is registered

with the regulators of most Canadian provinces as a portfolio manager. It is also registered in the United States with the Securities and Exchange Commission as an investment advisor, as well as with the Danish Financial Supervisory Authority and the Central Bank of Ireland.

Pembroke's investment and corporate philosophy has remained unchanged since the company was founded. It is "rooted in the concepts of growth, ownership and alignment of interests. We believe that owners act in the long-term interests of their stakeholders," states the manager on his website.

Pembroke seeks to invest in North American companies according to an investment philosophy centered on a bottom-up fundamental vision, based on the selection of quality growth companies. "We pay particular attention to their sustainable competitive advantages, growth in cash flow per share, as well as environmental, social and governance factors."

This determination to remain true to its approach to wealth management and client relationships may explain the longevity of the firm's client relationships. In fact, 44% of Pembroke's private clients have had their accounts open for more than ten years, and 24% for more than 20 years. Pembroke's clients' assets under management are divided 60/40 between private and institutional clients.

This stability is also reflected in Pembroke's partners and employees. The firm is 100% owned by the partners, in a structure designed to discourage sales to third parties. Shareholding is transferred from one generation to the next, at book value. Nicolas Chevalier sees this as a distinctive feature.

"It's interesting for a young person to become a shareholder, and to do so at a relatively attractive entry price. It's a tool for attracting talent, and also for retention. Staff turnover is very low.

Similarly, employees "also have a large part of their personal assets invested in funds managed for our customers. So, when we buy a security, we're buying it for our clients, but also for ourselves," adds Nicolas Chevalier. Employees and their families are thus

the largest non-institutional owners of the company's mutual and collective investment funds, with over CAD 100 million invested.

A difficult environment for industry

Nicolas Chevalier takes up his post at a time when Pembroke is in the midst of a major transition. This process began five or six years ago, and involves the launch of new products and broader solutions.

"While historically a portfolio manager focused on small to mid-cap growth, the firm has begun a pivot to establish itself not just as a small-cap portfolio manager, but also as a multi-strategy portfolio manager, and wealth manager," reports the executive.

This means that the focus is no longer solely on portfolio management, but on providing customers with a more comprehensive solution," explains Nicolas Chevalier. To achieve this, Pembroke has added the services of a financial planner. The firm is also investing in its research and business development team, as well as in technology to automate certain processes for greater efficiency.

While the pandemic, which took hold during this period, led to a slowdown in new business development, Pembroke's ambition is "to establish itself as the leading independent investment management firm in Quebec for institutions, foundations, family offices and high net worth clients".

Nicolas Chevalier believes that the firm's attractive positioning, including an enviable track record of relative returns, puts Pembroke in a good position, despite the difficult context in which the financial industry finds itself, marked in particular by consolidation.

Major managers are in transition," he observes. This creates uncertainty about succession, and is often accompanied by the departure of leaders and talent.

Many firms are also suffering financial difficulties following the loss of institutional assets, observes Nicolas Chevalier. "One solution for these managers would be to make the leap into the retail market, but that requires a major investment, not least because of the regulations and systems involved. So, it's not easy to do. We've been fortunate enough

to operate in this sector for several years, so that today, most of our assets are in this market segment.

"It's certainly a very solid base on which to grow," adds Nicolas Chevalier.