

## COMMENT Off The Record

## New kid on mut fund block

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*Financial Post*

Don't tell newly formed Galileo Funds that the local \$600-billion mutual fund industry is overcrowded and that retail investing clients are well served.

The firm, which is part of money manager Galileo Equity Management, is now the country's newest mutual fund management company. It was given the nod this week by the regulators and will soon start marketing its seven funds to retail brokers.

But Galileo — which started the process of entering the mutual fund world during the summer when it hired industry veteran, Dan Hall — has been careful in the way it has structured the products it has decided to offer.

"We saw an opportunity to bring some new products which we believe are better suited to retail clients," said Michael Waring, president of Galileo Equity Management, a firm that manages about \$600-million of mostly institutional assets. "We have tried to pay attention to what some of the complaints [from retail investors] have been and have tried to address some of those concerns."

"The country needs another mutual fund company but only if clients are given something different," said Hall, a marketer who has worked for a number of firms, including CI and Mavrix.

Specifically, the firm is offering products that combine elements of passive and active management — a combination that is rarely, if ever, seen in other available mutual funds. Two such products are the Canadian Active/Passive Fund and a Global Active/Passive Fund.

In the former fund, 60% of the assets will be invested in the country's 50 largest companies. But rather than invest on a marketweight basis — which would make that part of the fund an index product — Galileo has decided to opt for an equal weight. Accordingly, each of the 50 stocks will receive 1.2% of the funds. (Calgarybased Shaunessy & Co. will subadvise on that decision and also do the rebalancing.)

The other 40% of the assets will be invested using an actively managed approach. The stocks that will be selected will come from the small- to mid-cap area of the market. None of the 50 stocks will be included in the 40% of the fund that is given over to active management. (Galileo Equity Management will pick the small and mid-cap stocks.)

While this approach is novel in the world of mutual funds, it has been used, sort of, in the world of closed-end funds. Income & Equity Index Participation Fund raised \$152-million via the sale of units in February, 2004.

The fund used those proceeds to invest, on an equal-weight basis, in income trusts with a market cap of at least \$200-million and in a five-year capped call option on the S&P/TSX 60 index. That option allows unitholders to share in the market gains of the country's 60 largest companies. On that deal, Shaunessy & Co. was the rebalancing advisor.

In Galileo's global fund, half of the assets will be invested in the top 50 U.S. stocks by market cap and the top 50 non-U.S. stocks. With 100 names in the portfolio, each stock will have a 1% weight.

Three of Galileo's seven mutual funds were created when three existing pools were converted. Previously, those three — Galileo Fund, Absolute Return and Small/Mid Cap — were sold via an offering memorandum. Those three were homes to about \$12-million in assets. Aside from combining passive and active management styles, Galileo is also offering lower fees — certainly lower than on regular mutual funds.

"When somebody starts a fund in this country, it's an automatic that you start at 2% for a Canadian fund and 2.25% to 2.50% for a global fund," said Hall, an executive vice-president, who notes that Galileo's two active/passive funds come with a 1.85% fee (or 0.85% for a wrap account.) That fee also includes a service fee paid to the brokers. "If you charge an active fee,

you deserve active management and not just a closet index," said Hall, who says Galileo is offering "a good meal at a fair price."

GE's \$1-billion How strong is the debt market? Consider this: GE Capital Canada raised \$1-billion via a two-tranche offering this week. Originally, GE planned to raise \$300-million via an offering of medium-term notes. GE (which is rated AAA) borrowed \$450-million over seven-plus years and \$550-million over 10-plus years.

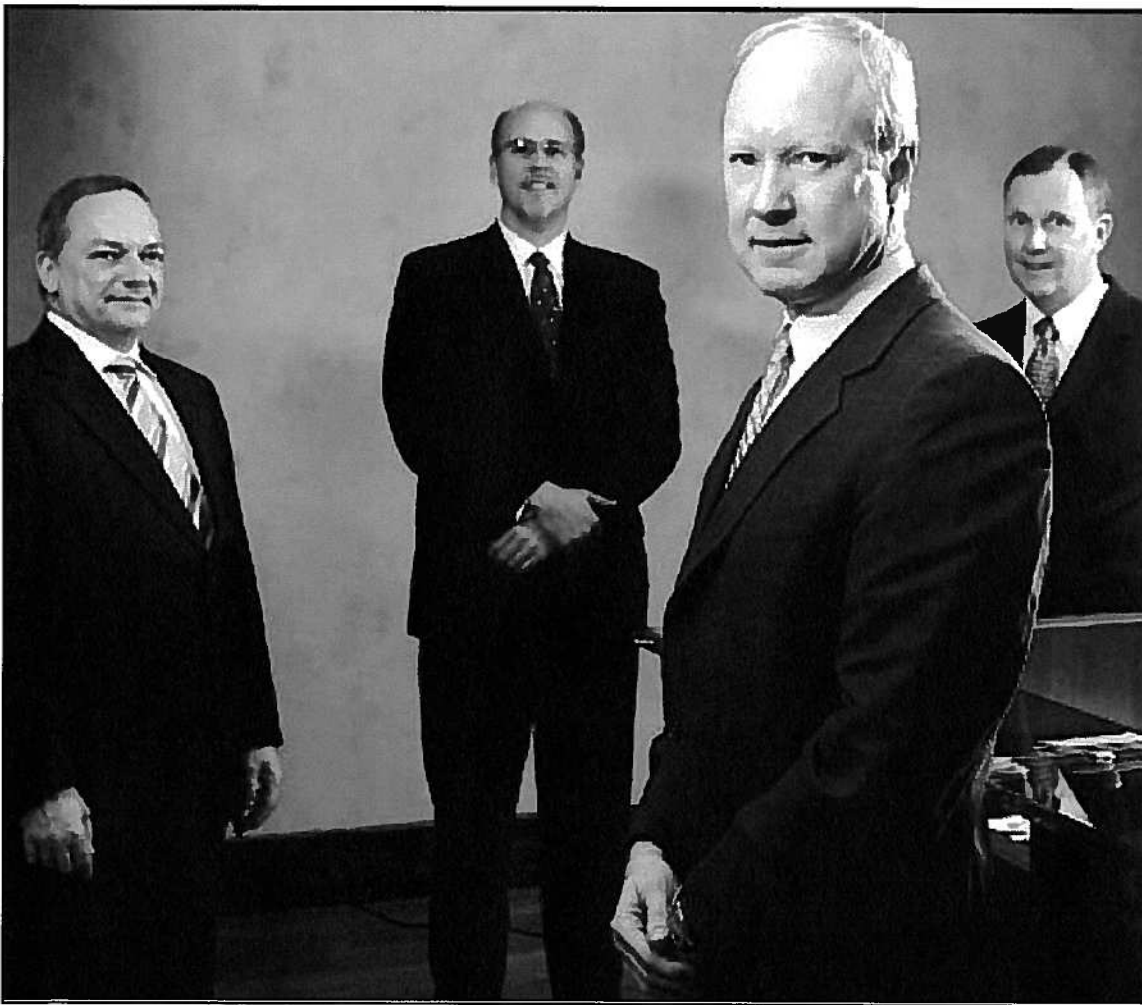
Uranium heat CNQ-listed Canadian Resources House Ltd. has followed the example of Energy Fuels Ltd. and raised more capital than it originally intended.

The two issuers, both of which are in the uranium business, both did two private placements at the same time.

In the case of Canadian Resources, the first placement was for \$6.3-million via the sale of seven million units at 90¢ per unit. (Haywood Securities and PowerOne Capital Markets gave the issuer an underwritten deal.) In its second private placement, 3.5 million units at \$1.60 apiece are for grabs. If investors are in both deals, they will pay a blended price of \$1.19. The shares closed yesterday at \$2.

TSX Venture-listed Energy Fuels raised \$30-million — or three times its original plan via two simultaneous private placements, one at \$1.40 and the other at \$2. The shares closed yesterday at \$3.86.

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KAZ EHARA FOR NATIONAL POST

Galileo Funds' Michael Waring, front; Peter Hanley, back left; Dan Hall, back centre; and Leighton McCarthy, back right: The company will soon start marketing its seven new funds to retail brokers.