

Mackenzie veteran returns with NexGen:

NEW FUND OFFERINGS STRUCTURED TO LIGHTEN TAX BURDEN

By Barry Critchley

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After a one-year sabbatical from running Mackenzie Financial, Jim Hunter, one of the veterans of the mutual fund world, has returned to the business.

This time around, Hunter is leading his own firm, NexGen Financial, which plans to offer 13 core funds to retail investors.

But unlike the slew of seemingly similar mutual funds that are offered to investors, NexGen's offerings come with a major wrinkle: The funds have been designed to alleviate the annual tax burden associated with traditional mutual funds that are held in taxable accounts.

And the wrinkle is so significant that last December NexGen filed a patent application with federal authorities. "No one has a structure quite like ours," said Hunter, who in his time at Mackenzie regularly structured financings that made the annual Financial Post's list of innovative deals.

Hunter, who called the products "tax-centric," said NexGen's structure is a major breakthrough because the funds have been organized "more like a public company" and not as the usual trust or corporation.

"With the structure we try to minimize and optimize taxes. There is a tax-planning process that applies to the whole structure that can't be done with a conventional mutual fund."

Hunter said the "tax preferences" attached to the different funds "allow the advisor to match the unit with the individual investor's taxable situation. Accordingly, investors can move between funds on a tax-deferred basis," said Hunter.

"At the end of the year, we try and minimize or eliminate the high-rate category of income [interest] and pay to the unitholder what's best for their tax situation," added Hunter. "We can do some planning because it's part of a corporate structure," he said, noting that an investor in a money market fund "could end up with capital gains" while an investor in a North American equity fund could receive Canadian taxable dividends.

A so-called founder's benefit is another wrinkle that will be included in the funds. Hunter said investors will also receive a "notional option" that allows them to participate alongside the success of the manager.

"If the investors stay with us for seven years and if the manager does well, the option will give them additional units at the end," he said, noting that the benefit will be shared between the investor, the advisor and the fund management company.

Given his outlook, Hunter was not impressed with the argument that the end is nigh for mutual funds. He said the local market is more than \$500-billion strong, it is still the investment vehicle of choice for Canadian retail investors and the business continues to grow.

“There are a lot of benefits to them. They are professionally managed [and] they have common administration but, until we came along, there wasn’t mutual benefits on the tax side.”

Hunter said the 13 core products will feature, for example, a Canadian equity fund, a Canadian balanced fund and a North American equity fund. “We want to cover the core. We want to be an alternative for every Canadian’s portfolios,” said Hunter, who added that the portfolios will be managed externally by sub-advisors – including Selective Asset Management and J. Zechner Associates – as well as a group of internal managers led by Jeffrey Young.

To get the business up and running, NexGen raised \$24-million in a private placement. Most startups start with way less.

And a number of well-known names participated in that financing, including a private equity fund managed by Newport Partners, the merchant banking arm of Bank of Nova Scotia, and an offshore money manager, Cidel Bank and Trust Inc. Other investors were HO Financial Ltd., Financial Industries Opportunities Fund Inc. and PFDL Investments Ltd. Hunter is also a significant investor.

VentureLink Financial Services Innovation Fund, a labour-sponsored venture-capital firm, also participated. It contributed \$3-million and invested by way of convertible debt.

John Varghese, VentureLink’s managing partner, said, “NexGen brings together a team that has demonstrated a long history of providing superior returns to both corporate investors and to fund investors.”

Varghese said VentureLink backed NexGen because they have “an experienced management team that have proven themselves as innovative as well as possessing strong operating and marketing skills.”

Over the years, VentureLink has invested in other new or relatively new financial services firms including Orion Securities, Coventree Capital, VFC, xCeed Mortgage and Rockwater Capital.

Aside from Hunter, the NexGen team includes Pat Lincoln, a lawyer who was one of the founders of Cartier Partners; Laurie Munro, an industry veteran who spent 15 years at Mackenzie; Moira Saganski, who helped develop limited partnerships at Mackenzie; John Stacey, a veteran tax specialist; Jeffrey Young, who has been in the business for 10 years, and Patti Doolan, also a Mackenzie veteran.

HUNTER IS BACK

Jim Hunter is former chief executive of Mackenzie Financial Corp.

- replaced by Charles Sims on March 1, 2005, and became chairman of Mackenzie’s board of directors.
- spent 17 years at accounting firm Deloitte Haskins & Sells in Toronto and London, England.
- joined Mackenzie as chief financial officer and chairman of the executive committee in September, 1992.
- sits on the Advisory Board of The Richard Ivey School of Business
- director of The Trillium Foundation-director and executive committee member of the Investment Funds Institute of Canada.
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