

Donville Kent's Deep Affinity for Finding Champs

With the Capital Ideas Fund refresh, DKAM looks for winners through the North American lens



No one hands you a win. You get there by making the right choices. And you make the right choices by putting in impossible hours beforehand, by running through the strategy over and over again until it's second nature, until you know it so well you can apply it to any situation and still make it work. Winning is work. Any athlete will tell you that. And any good hedge fund manager will tell you the same.

“In sports, when a guy wins an award for being the hardest working on the team, you can go 15 or 20 years later and know those people are going to do well in life,” says Jason Donville, founder, president and CEO of Donville Kent Asset Management. If the line between the two worlds – sports and finance – is thin, it's barely visible in DKAM's office.

You feel it the second you step in the hedge fund's boardroom on the 9th floor of Citigroup Place. Of all the rows of awards along the back wall of the room, top honours from Morningstar and AI Hedge and the Canadian Hedge Fund Awards, it's the carved Hawaiian Statuette that stands out. You don't need to guess at its meaning, it's etched into the plaque on its base – winner of the Hawaii International Lacrosse Tournament. The team was handpicked and sponsored by Donville. In addition to guiding DKAM's Capital Ideas Fund to significantly outperform the TSX over the past 11 years (as of November 2019), the fund manager is also the director of high performance for the Canadian Lacrosse Association.

Jesse Gamble, DKAM's senior vice president and co-manager played lacrosse professionally.

"I retired a few years ago," says Gamble.

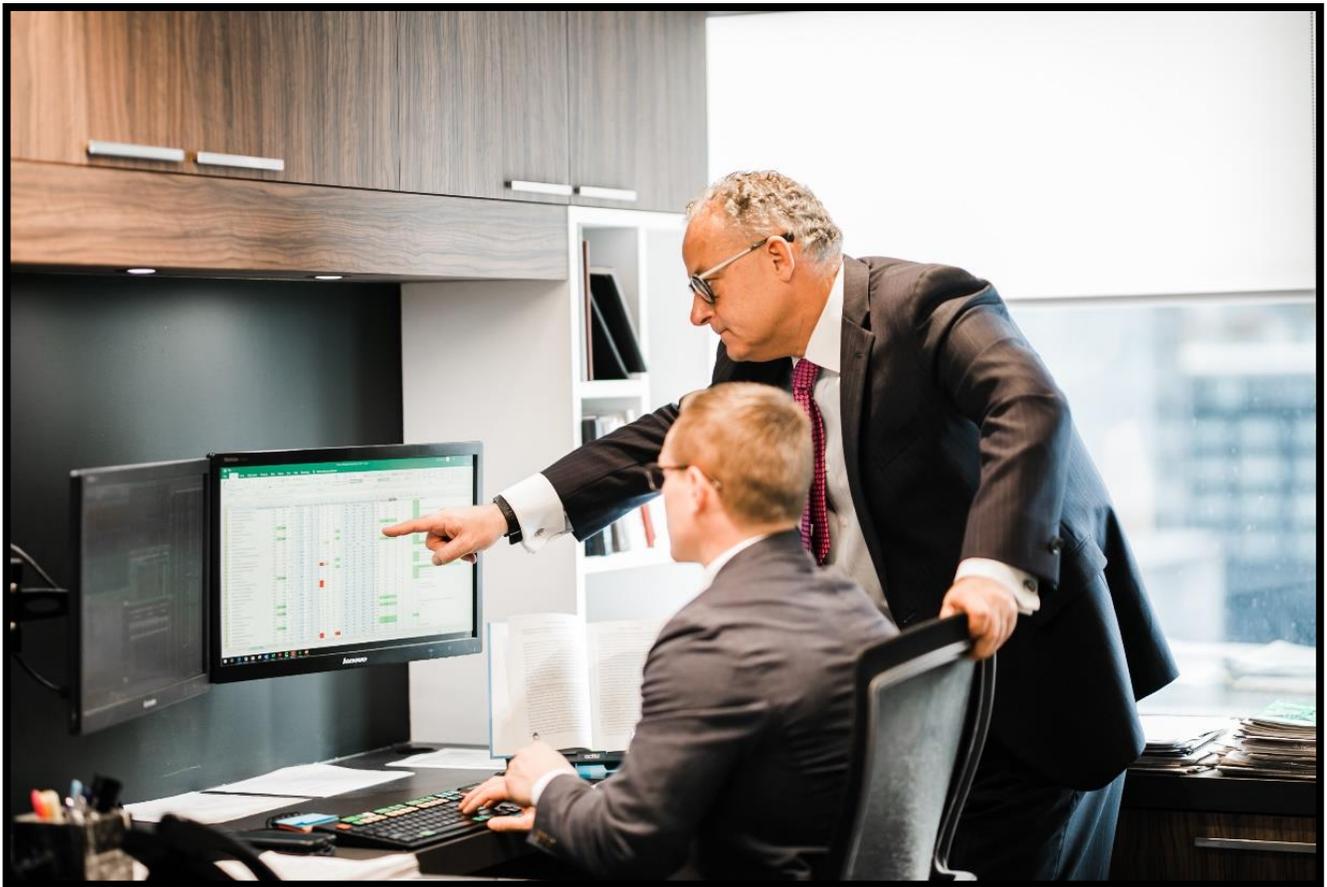
"He's being modest," says Donville. Gamble is. Up until 2017, DKAM's senior VP was a veteran defender for the Toronto Rock and, in 2014, he was part of the Team Canada that won the World Field Lacrosse Championship.

An athletic discipline is inherent in the fund managers. But it's a personality

trait too, something you either have or you don't. Both Gamble and Donville share this discipline and credit it as a key to their success in finding growth stocks—they remain committed to their strategy and their metrics and are ruthless about which companies could be added to the portfolio. This commitment and dedication may be partly due to their competitive natures or to their intellectual bench strength – most likely, it's both.

"Jason and I can't be value investors, that's just not how we operate – we're not activists and we're not quants... we like the idea of being dynamic and reacting and just showing up every day," says Gamble. Investing is all about committing to a strategy that fits your personality, one that's sustainable.

"Jason and I talk about this all the time, that even if this wasn't our job, we would still be doing it... finding time to look for compounders," says Gamble. He's talking about that endless search for companies that consistently earn high returns on equity (ROE). More specifically, DKAM looks for companies with ROE greater or equal to 20 percent that have products with a sustainable competitive edge and a



management team adept at allocating the business' capital.

As of March 2019, the DKAM Capital Ideas Fund has been re-opened to accept new investments. The refresh takes them from a Canadian growth fund to a North American growth fund, explains Donville, giving them an opportunity to invest in U.S. equities and add new investors.

But the mandate remains the same: stay small and nimble, performance is key. The fund is agnostic to market capitalization or sector, they're only after companies with the highest profitability. It's a philosophy that pushes them into small-cap stocks in the technology and consumer sectors that are not part of any index. "You get a rush when you think you are onto something," adds Gamble.

Donville launched DKAM in 2008. By then he was recognized as one of Canada's top analysts. But it's underpinned by an unconventional

narrative: Scarborough born, Alberta-raised, eight years in the navy (including a stint as a speechwriter for the admiral), an MBA at Ivey Business School, followed by a post as head of equity research at Credit Lyonnais Securities Asia (CLSA) in Indonesia, research director at Credit Suisse First Boston in Singapore, and five years at Sprott Securities as a top-ranked analyst covering Canadian financial services.



Donville met Gamble in 2011 – blame it on the LinkedIn algorithm. “Jesse's profile kept coming up,” says Donville. He saw Gamble had done a research project on ROE and DuPont analysis as part of his senior year at Cornell University. “He was also a lacrosse player, I asked around and people said he was smart and probably the hardest working guy on the team,” says Donville.

Gamble had ended up at Cornell by accident. Raised on a farm in Eramosa,

Gamble had committed to the nearby University of Guelph but recruiters from Cornell saw him and had different ideas about his future. They poached him and he moved stateside, pursuing pre-med with a focus on biochemistry and biology. He veered on to a new path when he set foot in Professor Richard Curtis’ introductory finance class. “I fell in love with ideas like the present value of money, compound growth, and went down that rabbit hole,” he says. “Then one day Jason reached out.”



Gamble was young, but it didn’t take long for him to pick up the nuances of the ROE strategy for investing. Today, they make every significant decision in the DKAM portfolio together.

“The perfect size of an investment team is two – if you get too many voices in there, you end up with mediocrity because everybody’s ideas cancel each other out,” says Donville. “Without trying to sound like

we're the same, Buffet runs his ideas off Munger and vice versa and that's it... if it passes the test that both of them are looking for, then it's probably a pretty good idea."

Gamble and Donville take the same approach, doing their own primary research and connecting directly with companies. "We're not reading a research report from [one of the banks] and buying x,y, and z, – we do it from scratch, we want to build our own models," says Donville. "We have a lot of companies in the portfolio that don't have research analysts covering them."

Part of that is panning for gold, says Donville, his writer's instinct with analogies at the ready (he admits a deep disdain for financial jargon and doublespeak). "We're looking at the bottom 500 smallest companies on a fairly regular basis and looking for the four or five gems amongst those," he says. "A lot of investors who buy microcaps or invest in that area don't

seem to be able to discern between the lottery tickets and the stocks that are going to make it."

One of the hedge fund's biggest wins to date was Constellation Software. "We started buying at \$20... today it's \$1,400 and we still own that, we've owned it through that whole time period," says Donville. That's DKAM, that's what gets Gamble and Donville up and through the doors every day, the same instincts that drive champions – winning is work, it's commitment and time and discipline and devotion. The pay-off comes next.

That's the plan with the Capital Ideas Fund refresh – adding the U.S. to the mandate means more work. But it also means a deeper pool of high ROE businesses and more opportunities. "We're looking for those kinds of stocks like Constellation – **you're only going to get a few of those in a lifetime, but you only need a few in a lifetime to make a difference.**"

Written by Andrew Seale with photos by Emily Anya Photography.