



Why this \$6.5-billion money manager is buying Element Fleet and Brookfield Renewables

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Craig Jerusalem, senior portfolio manager at CIBC Asset Management in Toronto.

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While some investors are analyzing economic data and the U.S. presidential race to determine which stocks to buy and sell right now, money manager Craig Jerusalem remains focused on longer-term corporate performance.

“We don’t try to make big macroeconomic calls or time the market. We stay focused and allow for the compounding effect that comes with owning businesses for the long term,” says the senior portfolio manager at CIBC Asset Management Inc. in Toronto. He co-manages about \$6.5-billion in assets across two strategies: Canadian growth at a reasonable price (GARP) and Canadian dividend growth.

Mr. Jerusalem looks for high-quality, growing companies with strong margins and “prudent” balance sheets, recurring revenue and solid management teams. His Canadian GARP strategies are up 11.6 per cent year to date and 14.9 per cent over the past 12 months. His five-year annualized return is 12.7 per cent. The performance is based on total returns, before fees, as of July 23.

The Globe and Mail spoke with Mr. Jerusalem recently about three stocks he likes – one trading near its all-time high, one at a multiyear low and one suffering a temporary setback that he believes is “an interesting opportunity” – as well as a recent sell:

What are your three stock picks?

Element Fleet Management Corp. is the stock trading close to its all-time high. It’s the world’s largest fleet management and service company, operating across North America, Australia and New Zealand. The company benefits from the network effect: the bigger it gets, the stronger its moat (or barriers to entry) and the more profitable it becomes. Its value proposition for customers is compelling: It helps them lower costs and improve services. The company has high margins of about 55 per cent, while its valuation is relatively inexpensive at 17 times earnings. We’ve held the company’s stock since 2020 and started building a much larger position in 2021. We bought more in 2023 and earlier this year.

Brookfield Renewable Corp. is the stock we like that’s trading at a multiyear low. We see it as a generative artificial intelligence trade – one of Canada’s few AI trades. With AI, there’s a huge demand for power and data centres, and Brookfield Renewables is positioned uniquely to provide the green options and expertise to deliver renewable power at scale. This success was recently exemplified by the company’s \$10-billion partnership with Microsoft Corp. to deliver 10.5 gigawatts of renewable power through to 2030. We think it’s one of the first of many such deals for Brookfield Renewables.

We also like the stock’s attractive 6-per-cent dividend yield and double-digit funds from operations growth. Also, its contracts are inflation-linked, which means it has the potential to outperform regardless of the interest-rate environment. We think the stock is down partly because of the market’s perception of high-yielding stocks during times of high inflation. We’ve owned the stock since 2019, starting with Brookfield Renewable

Partners LP, and then started buying the corporation in 2022, a year after it was available to buy. We've been adding to our position in the past year.

DRI Healthcare Trust is a company that has suffered what we believe is a temporary setback after its chief executive officer was let go following an investigation into his expense claims. He was accused of overcharging the firm on certain fees. The company was paid back, so shareholders weren't affected, but it caused the stock to pull back by close to 40 per cent. It has only recovered partially, which we see as an opportunity.

DRI is a royalty business for select pharmaceuticals. It has recurring, predictable revenue that's not tied to the economic environment. The company trades at about a 10-per-cent discount to its book value [the net value of a firm's balance sheet assets]. We think its book value will substantially increase as the company closes its current deal pipeline with funds it currently has available. We think this company will keep growing with its new CEO and existing investment team, who are all highly qualified. We've owned the stock since its initial public offering in 2021 and increased our position last year. We're comfortable in our large position in the company (IPO) today and are looking to acquire more in the future.

Name one stock that you've sold recently.

Dye and Durham Ltd. is a stock we sold earlier this year for a few reasons. One was the board's infighting and lack of clarity on the overall vision for the company. It also didn't help that real estate activity is depressed in Canada and the company had a lot of debt on their balance sheet. There were just too many uncertainties and the investment no longer fit our investment criteria. We had owned it since the IPO because we liked its business model of mission-critical software in the legal, real estate and payments industries. We would consider buying it back if the company clears up some of its board and management issues.

This interview has been edited and condensed.

<https://www.theglobeandmail.com/investing/globe-advisor/advisor-funds/article-why-this-65-billion-money-manager-is-buying-element-fleet-and/>

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