50 YEARS ON
Looking back, looking forward: A reflection on PH&N’s golden anniversary

Art Phillips decided Vancouver was the perfect place for a money management firm. After all, Vancouver was midway between New York and Maui. Brilliant! After cobbling together money from friends, family and his savings to seed an investment pool, Art went on to hire two “crackerjacks” from the University of British Columbia, Rudy North and Bob Hager, who rolled in their own personal savings. It was 1964, and with a small but sufficient pool of capital, Phillips, Hager & North (PH&N) was launched.

Art, Bob and Rudy set out to create a different kind of investment firm. In those days, investment management was primarily the domain of insurance companies and brokerage firms. The former offered limited investment options and with the latter, clients could face high commission costs generated through portfolio turnover. PH&N offered a somewhat different approach: active investment management, transparency, and modest fees based on portfolio assets, so clients knew what they were paying for in their portfolio.

Marketing wasn’t the strength of the firm in those early days and was never a focus throughout the years, as the company grew by word of mouth. From day one, Art, Bob and Rudy were self-professed “stock nerds,” and it was not long after that they came to the realization that clients would be a necessary distraction from doing what they loved. And so, in 1965 they hired the relatively green, yet ever ambitious, Dick Bradshaw (the same day they met him!) to be the face of the firm. With the company logo chosen – a unicorn plucked from the back of an office curtain – the firm’s founders never looked back. In fact, one could argue that they always looked forward.

Putting B.C. on the map of Canadian investment management
Art and the founding partners were pioneers. PH&N is thought to be Western Canada’s first independent investment management firm and one of the first in Canada. When it came to investing on its clients’ behalf, PH&N favoured growth companies when value investing was the accepted norm among the investment elite. Indeed, PH&N was an early adopter of utilizing earnings momentum, earnings surprise and relative strength in uncovering successful companies that would also become successful investments. A focus on using cutting-edge technology was also prevalent. In fact, in the 1980s, PH&N was one of the first money managers in Canada to employ desktop or personal computers (powered by Intel 186 chips – state of the art at the time) to screen for emerging investment opportunities. When the tools didn’t exist, PH&N
built them in-house. Employing distinctive investment techniques became a hallmark of the firm and ensured that PH&N’s clients would have investment portfolios that differed from the rest of the herd.

Also in the 1980s, PH&N took a giant step into the fixed income market with the addition of Tony Gage – the firm’s pioneer of fixed income management. With the further addition of Scott Lamont and Dan Russell, among many others, PH&N redefined fixed income investing through the use of the latest academic research to identify relatively undervalued bonds among a massive universe of seemingly generic fixed income securities. The firm didn’t stop there; the addition of Hanif Mamdani propelled PH&N into the world of corporate bonds, with Hanif almost single-handedly demonstrating to Canadian investors that much was to be gained from understanding and redefining “risk” in the world of high-yield bonds and other forms of non-traditional investments. From 1980 through to the year 2000, bond markets enjoyed a marvellous period of returns, more often than not outperforming the returns on equities, and challenging all money managers to convince investors why investing in equities made any sense at all.

**The firm’s vision**

While building its investment reputation, PH&N also became known for its ethics and transparency. With below-average fees and above-average performance, the firm grew at an enviable pace. Protecting itself from hubris was something that was rooted deep within the culture established by the founding partners, which was based on humility and a focus on operating in the best interest of clients. This meant not launching funds that were sure to be financially lucrative to the firm, but not necessarily to investors over the long term – which sometimes frustrated clients who felt the firm was not being responsive or adaptive to “the market’s needs.” Bob Hager had many sayings that would guide the firm’s moral compass along the way, including this gem: “If we can’t understand it or explain it, then we won’t sell it.”

When PH&N’s investment performance was stellar, humility meant that clients might be advised not to extrapolate such success into the future, and should even consider diversifying from PH&N’s funds to protect their gains. Bob Hager, in particular, was remarkably adept when it came to apologizing for good performance!

Of course, there were challenging times as well. PH&N went through a lot of soul-searching during the period that is now referred to as the dot-com bubble of the late 1990s. Many clients left during that time, as PH&N refused to pay the price of entry for the high-flying technology darlings of the day. At the time, the investment professionals at PH&N were called “dinosaurs” for not being heavily invested in tech stocks; looking back, it’s arguably equally fair to have called us “cautious.”

Transparency – a hallmark of the firm – meant understanding and explaining why and how things went wrong. PH&N was among the first managers in Canada to invest heavily on investment performance attribution analysis – computerized systems that clearly attributed sources of successes and failures in investment portfolios and whether such successes
or failures were random or generated by specific manager behaviours. In the mid-2000s, such systems unequivocally conveyed PH&N’s unfortunate inability to manage global equities in-house, ultimately leading the firm’s management to seek out a well-capitalized partner in RBC to assist PH&N in building world-class global investment capabilities. These investment skills were deemed necessary to continue to operate in the best interest of PH&N’s clients in an increasingly global investment world.

Putting clients first
Even in retirement, Art Phillips and Bob Hager would take great interest in PH&N. Until their passing, I would have lunch with them at least two or three times a year to talk about the markets and the firm. Art and Bob were impressed by how sophisticated capital markets had become, specifically by how technology transformed the markets, as evidenced by such things as high-frequency trading and the generally accepted use of derivative securities for risk management. They were genuinely excited the business they founded was truly going global; they too believed that Canadians needed to broaden the exposure of their portfolios to access a wider range of high-quality companies around the world, beyond what the resource-rich S&P/TSX Composite Index offers.

As I reflect on my time with Art, Bob, Rudy and Dick, it strikes me that for all of the wonderful discussions we have had (and that I continue to have with Rudy and Dick), each would inevitably get around to asking the same two questions about PH&N: “How well are we currently doing for our clients?” and “How is what we plan to do in the best interest of our clients?” Those are two questions to live by for the next 50 years.

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