

i-Watch Rating System:

Date 8/16/2024
Fund Manager CC&L Investment Management
i-Watch Status ● **In Good Standing**

- No concern(s)
- Moderate concern(s) requiring frequent and close monitoring
- Serious concern(s) that require a full review and may lead to removal from the fund platform

Product(s) Impacted:

CC&L Group Fundamental Canadian Equity Fund
CC&L Equity Income and Growth Fund

Summary

- Multiple departures from the CC&L Fundamental Equity Team ('the Team') in conjunction with a team leadership transition announcement
- The departures of long-tenured sector portfolio managers ('PMs') Samba Chunduri and Ryan Elliott are significant, elevating our existing concerns regarding the Team's stability given two previous sector PM departures. Michael McPhillips' appointment as the Team's future Chief Investment Officer ('CIO') also leads to further uncertainty.
- The Funds remains In Good Standing, but the rating is currently under review as significant concerns exist.

Commentary

On August 13, CC&L announced that Michael McPhillips, who joined the Team in 2012 as an analyst and became a sector PM in 2019 and a Director of Research in October 2023, has been identified to become the Team's future CIO. He will work closely with the Team's long-time Head and Lead PM Gary Baker to transition into this new role over the coming years.

Concurrently, the Team also announced the immediate departure of sector PM Samba Chunduri and upcoming departure of sector PM Ryan Elliott effective in December 2024. Mr. Chunduri and Mr. Elliott had 19 and 12 years of team tenures, and as sector PMs, they led the fundamental research and security selection activities for the Materials sector and the Technology & Health Care sectors respectively. As senior members of the Team, they also participated in the Team's top-down macro forecast discussions to support Mr. Baker's portfolio construction decisions.

Prior to this announcement, the Team had already lost two senior members. Steve Verte, PM for the Team's Equity Income and Growth Fund, retired from the firm in 2022. Mark Bridges, sector PM for the Energy sector and Director of Research, departed from the Team in December 2023. This consecutive loss of two mid-career, long-tenured members has raised questions about the Team's ability to retain senior members amid their succession planning for Mr. Baker.

Impact

GMR has been closely monitoring the Team's resources since Mr. Bridges' departure given our concerns about its potential impact on the Team's stability and succession planning. While Mr. McPhillips' appointment as the Team's future CIO has clarified their succession plan for Mr. Baker,

we will need to closely monitor the transition process given Mr. McPhillips' limited PM experience to assess whether he will be able to fully assume Mr. Baker's multiple responsibilities in the Team's decision-making process.

The Team had historically maintained deep resources with a sector specialist structure to cover the entire Canadian market cap spectrum. The departures of 3 sector PMs within one year represent a significant loss of valuable experiences and will inevitably impact the Team's overall fundamental research capabilities. Going forward, GMR will closely monitor the transition of the Team's research responsibilities among the remaining investment resources, including Mr. Baker, Mr. McPhillips, sector PM John Novak, and 3 research analysts. They are supported by Co-Team Leader Andrew Zimcik, 1 product specialist, 1 trader and 3 operations analysts.

Closing Remarks

GMR will meet with the Team in the near future to discuss their transition plan and overall team resources. The rating of the funds is currently under review, and significant concerns exist.



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