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Buoyant returns
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SPOTLIGHT: HOWARD SUTTON

For Howard Sutton, the absolute low of the high-tech crash came in October, 2002. The manager of Tera Capital Global Technology had among his holdings a small, private software maker, TrueArc Corp., that wasn't drawing flies, let alone investors. Sutton, who was also acting as

TrueArc's chairman, believed strongly in the company's future, but he couldn't attract needed new investment and felt he had to sell. By that December, he'd managed to unload the company at a 50% loss to the fund's unitholders to a U.S.-based information management firm, Documentum, Inc.

Sutton jokes that TrueArc turned him grey he has a few discreet flecks in his thick black hair, the only evidence that he's a 45-year-old money manager and not a clean-cut graduate student—and that he sometimes feels like the last sourdough in the Yukon. Firms that specialize in high tech have had a rough ride over the past four or five years, and many have moved on, he says. We've stuck to it.

Occasionally with spectacular results. Eighteen months ago, the fund bought into Icron Technologies, a TSX Venture company that holds wireless USB patents. In addition to investing, Sutton joined Icron's management advisory committee and helped hire new talent. The return thus far: 600%. Losers, on the other hand, aren't allowed to linger. While our hits have been going up 400%, 500%, 600%, even over 1,000%, our duds are going down 40% and we're getting out, Sutton says. Because the fund has only \$5 million in total assets, this imbalanced win-loss performance has exaggerated total returns, making Tera the best overall performer among Globefund's science and technology funds.

In July of this year, Sutton also started managing the more substantial Dynamic Canadian Technology Fund (total assets, \$50 million), and he hopes to attract enough high-net-worth individuals to build Tera to more than \$25 million within a year.

To reel them in, he'll continue to use his opportunistic combination of hedge fund tactics (primarily by taking long and short positions) and venture capitalist style involvement in the management of tech companies with market caps of \$100 million or less. The fund currently invests in 15 companies, which Sutton considers a manageable number in that he may have an active VC involvement with three or four of them at a given time.

The design of Tera is also unusual. Its not a mutual fund, but a limited partnership that uses a hedge fund structure," Sutton says. This explains why, in addition to a 2.5% MER, the fund charges a hedge fund-style performance fee of 20% of profits. Sutton uses an elaborate method to scrutinize new investments, but in the end it usually boils down to the potential of a company's intellectual property. That's why the fund holds VIQ Solutions, which makes hardware and software used to digitize courtroom proceedings.

Like his fund, Sutton is something of a hybrid. After graduating as an engineer from Queen's University in 1983, he spent a decade working for technology companies like IBM before shifting into the investment business as a money manager research analyst with Goldman & Co. In 1996, he left to form Tera Capital with partner Duncan Stewart, a former pension fund manager with Royal Trust.

This duality also extends to his appearance. Benign looking in chinos, scuffed oxfords and a dark Raymond James promotional fleece top, he is nevertheless a serious student of karate. Given his progress on the mat, he reckons that by the time his fund touches \$30 million or so, he should have his black belt.

Tera capital global technology

1-year % 5-year %

Average annual compound returns (to Sept. 30, 2005) 119.3 -9.7

Index (Globe Science and Technology Peer Index) 10.5 -19.4