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Why CIBC's fund arm has just tripled its stake in Home Capital

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Canadian Imperial Bank of Commerce's asset manager more than tripled its holdings in Home Capital Group Inc. to become one of the largest shareholders after several other funds unloaded the stock of the struggling mortgage lender.

CIBC Asset Management and its funds now own 15 per cent of Home Capital, with its position rising to 9.69 million shares as of April 30, from 2.46 million at the end of the first quarter, according to data compiled by Bloomberg. CIBC is the largest shareholder as of the latest filings.

“We like to take advantage of market volatility,” said Colum McKinley, a portfolio manager with CIBC Asset Management, which oversees $124-billion (U.S.). “If there's an asset that we think the stock price is overreacting to the news that's an opportunity for us to add to our position.”

CIBC and its funds surpass Toronto-based Turtle Creek Asset Management Inc., which increased its position in late April, based on the filings. QV Investors and Mawer Investment Management Ltd. had also been major shareholders in the Toronto-based firm, but have exited their positions. Ian Cooke, a portfolio manager at QV Investors, said the money manager had “made an investing mistake in Home Capital.”

Home Capital fell 4 per cent to $8.49 at 2:30 p.m. in Toronto, and has plunged 62 per cent since April 19, when the Ontario Securities Commission accused the company and its executives of misleading investors over fraudulent mortgage loan applications.

Preserve Wealth

“When a stock is going through this type of dramatic change in the marketplace, we double or triple or quadruple our efforts to ensure that we're doing everything we can to preserve wealth but also to take advantage of the situation,” McKinley said in an interview.

McKinley is responsible for the CIBC Monthly Income Fund and the CIBC Canadian Equity Value Fund at Canada's fifth-biggest bank. He's a value investor, so he looks for stocks that are trading for less than their intrinsic values. He's been with the firm since 2010, and also worked as a portfolio manager at Sionna Investment Managers and TD Asset Management.

“We're disappointed in the outcome to date, but we think that there is an asset here where the quoted value in the market doesn't represent the underlying value of the company, and ultimately what will be recognized for shareholders,” he said.

Home Capital's struggles have taken their toll on Canada's biggest financial institutions, which haven fallen along with it on concern about contagion to the broader real estate market. CIBC is down 2.6 per cent since April 19, while mortgage lender Equitable Group Inc. is down 25 per cent.

Home Capital said it agreed to sell up to $1.5-billion in mortgage renewals to an unidentified buyer on Tuesday, sparking a 26 per cent rally in the stock. MCAP Corp. is the buyer of the loans, the Globe and Mail reported, citing people familiar with the sale. Messages left with the Toronto-based mortgage financing firm weren't immediately returned, and Home Capital external spokesman Boyd Erman declined to comment.

MCAP is one of Canada's largest independent mortgage financing companies, with more than C$61-billion in assets under administration. MCAP originates, securitizes, trades and services residential and commercial mortgages and development financing loans, according to its web site.

The big banks are not seen as potential suitors for the alternative lender's equity unless pushed to do so by regulatory authorities, according to some analysts. "They wouldn't buy this business," said ***Mike Rizvanovic***, an analyst at ***Veritas Investment Research Corp.***, who has a sell rating on Home Capital. "The banks don't participate in the non-prime market and don't adjudicate credit in the same way."

None of the major Canadian banks are so far involved in the syndicate led by the Healthcare of Ontario Pension Plan that provided a $2-billion credit facility to Home Capital, according to the company's May 9 press release. The banks involve included Credit Suisse Group AG and Goldman Sachs Group Inc.

All six Canadian banks participated in a syndicate that provided the same amount of funds to Equitable Group, a competitor in the space, at much less onerous terms. The move was seen as quelling fears of a broader run on deposits across the Canadian financial system.