Q&A with Norman MacDonald
Invesco Energy Fund and Invesco Gold & Precious Metals Fund

Portfolio manager Norman MacDonald uses his many years of experience in the resource sector seeking to ensure the funds he manages have got optimal exposure to this multi-faceted space. Backstopped by a highly rigorous due-diligence process that prioritizes on-the-ground site visits, he uses a disciplined, systematic approach in an effort to discount market “noise” and uncover those first-rate opportunities that have often been overlooked.

We spoke with Norman to learn more about his investment approach and, as an added bonus, we had the opportunity to gain insight into his investment process from some of the company CEOs he’s worked with over the years.

Tell us about your background as an investment manager.

Norman: I started off in the investment management business back in 1995 at the Ontario Teachers’ Pension Plan Board (“Teachers”) where I gained a solid understanding of the portfolio management process and really developed the tools to become a disciplined value manager. It was there I was given the opportunity to manage money after honing my stock-picking skills in the energy and mining areas. After Teachers’ I spent seven years as a vice president and partner at Beutel, Goodman & Co. Ltd. where I was part of a three-member portfolio management team that helped implement a systematic process of value investing that still resonates with me today. We placed a great emphasis on margin of safety and downside risk. One of the perks at Beutel, Goodman was having the opportunity to talk stocks and investing with Seymour Schulich, widely considered to be one of Canada’s greatest natural resource investors. After Beutel, Goodman, I spent three years managing an energy fund at Salida Capital Corp. The partners I worked with at Salida had a strong background in the natural resources sector, and I gained some invaluable experience in early-stage exploration ideas during my time there.

What brought you to Invesco?

Norman: What attracted me to the Invesco team was the familiarity I had with the investment professionals here, not to mention their history of disciplined investment management. Heather Hunter, who had already made the move over to Invesco, originally hired me at Teachers’, where she impressed upon me the importance of long-term value investing. After discussing the opportunity with existing Invesco portfolio managers, I realized that the Invesco team was a very good fit for me. I have always subscribed to bottom-up fundamental analysis when seeking to generate long-term investment performance.

— Norman MacDonald
Describe your investment process.

Norman: My process for selecting stocks and building a portfolio really hasn't changed very much over the past 10 years; I am a stock picker in a very volatile commodity environment. The first step is to isolate the commodity itself so I can focus on the value of the company's assets. This starts by determining a normalized price that focuses on the cost of marginal supply plus a host of other factors, depending on the commodity in question. I then use this price in my model to analyze a company's net asset value and its cash-flow generating capabilities. I cannot stress how important it is to do this because it cancels out a lot of the “noise” in the investment decision process. From there it is all about focusing on the quality of the company’s assets and its management.

Given the extreme volatility of natural resource companies, in my opinion it is this methodical approach that really brings the value discipline to the fore. You are essentially buying commodity stocks when the prices of the commodities themselves are under downward pressure, and then you wind up selling them when the commodities are very lofty. If you were constantly changing your normalized commodity prices to the flavor of the day, you could end up selling the stocks on the way down and buying them as their prices increased.

Why is conducting extensive due diligence and on-the-ground fieldwork such a high priority for you?

Norman: Due diligence involving site visits is an extremely important aspect of my job. The reason is simple and has to do with the diverse nature of the resource space. No two copper deposits are the same, and no two unconventional oil properties are the same. The geographic location of the deposits also presents a whole other level of investigation that must be completed before you decide to invest in a company. For instance, doing business in Western Canada is very different from doing business in Yemen. Throughout my investment career I have always used rigorous due diligence to help give me an edge when endeavoring to make portfolio investment decisions or to avoid investments where the assets are subpar or the geographic landscape is just too challenging.

For example, I was performing an on-site due diligence for a potential investment in a copper deposit that was going through a major expansion, and the timeline for the project was taking a little longer than the market had anticipated. After visiting the mine, high in the Chilean Andes, I realized the logistical challenges involved in bringing this new production on stream. It involved increased sources of power for the project as well as increased water-handling capacity for the mine site. These were things that you simply could not appreciate by listening to the company management present at a conference or by going through their slide presentations. You had to physically see the mine itself, which at the time was extra difficult for me since I was recovering from a broken leg and had to navigate the challenging landscape while using a cane.

Despite the extreme volatility in the resource space of late, you've mentioned you've been able to sleep very well at night. Why is that?

Norman: The reason I’m not an insomniac is simply due to the margin of safety we believe are built into the companies we invest in, whether it’s their assets or the structure of their balance sheets. I have visited all of the companies and know that they have good-quality assets and good-quality balance sheets, so they should be able to weather whatever storm the financial markets whip up and send their way.

In the short term, the market can grossly underestimate the long-term value of a business – something we have been seeing recently – and it has given me the opportunity to buy some high-quality businesses at great prices.

– Norman MacDonald

Is now a good time to invest in the resource space?

Norman: It seems everyone is always asking whether it is too late to invest in the resource space. There is so much diversification across the various sectors within the commodity market that I really don't think it's too late to invest in this space. That said, segments of any sector tend to get overplayed at times. Gold is a recent example. If gold is at a frothy level and the multiples of cash flow for gold stocks are at similar levels, chances are I would reduce my exposure in gold stocks to use the cash proceeds to invest where I see a better risk/return scenario playing out.
# CEO Testimonials

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<td>John Richels</td>
<td>President and Chief Executive Officer</td>
<td>Devon Energy Corp.</td>
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<td>Norman MacDonald has a very deep and thorough knowledge and understanding of the E&amp;P (oil and gas exploration and production) sector. Norman always does his due diligence. In my 15 years of meeting with Norman, I have always found him to be totally prepared and ready to ask the right questions. As a result, we spend less time catching up on what we are doing and more time discussing why our strategies and operational decisions should add value over the longer term. Norman is a consummate value investor. Today, so many investors have a very short-term focus. Norman, on the other hand, strives to thoroughly understand our corporate strategy, the nature and quality of our asset base, the financial stability of our company and the management philosophies that we apply in running our company. Norman asks the tough questions on how we run our business and how we think about value creation so that he can assess our ability to add shareholder value over time.</td>
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<td>Aaron Regent</td>
<td>President and Chief Executive Officer</td>
<td>Barrick Gold Corp.</td>
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<td>My colleagues and I interact regularly with Norman as part of his due-diligence process. We discuss and debate the mining industry landscape, the performance of Barrick's assets and its management, as well as our plans for the future. It is always a pleasure to meet with someone like Norman who possesses an in-depth knowledge of the resource space, is invariably well-prepared and up to date, and takes a longer-term investment approach. From my perspective, we also learn a lot from these meetings, which helps us in executing our business plans and in refining our strategy. His collegial approach lends itself to an open and frank conversation.</td>
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<td>Brian Ferguson</td>
<td>President and Chief Executive Officer</td>
<td>Cenovus Energy Inc.</td>
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<td>In my opinion, Norman MacDonald is a true value investor; he is never distracted by short-term market volatility. Over the 15 years that I have known him he has demonstrated a diligence to getting the facts right. I respect that. When I meet with Norman I know that I need to be prepared to answer questions that cover my company strategy, industry fundamentals and competitive positioning.</td>
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