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Mr. Right

Aristocrat, scholar and former spy, Stephen Jarislowsky now applies his genius to investment – more than $8 billion worth – and fearless attacks on business titans. His strength, some say, is that he never thinks he's wrong

By Mark Abley

You could easily mistake the urbane, silver-haired gentleman, glancing over his half-spectacles in a Montreal high-rise office filled with plants and paintings, for a European professor of philosophy. References to Aristotle, Kierkegaard and Luther stud his conversation; the English he speaks with a light Germanic accent is only one of his six languages, and his voice cuts like a razor through any imprecise remark. But intellectuals are notorious for their habit of seeing both sides of every question, whereas Stephen Jarislowsky has never been accused of seeing things any way except his own. Both his rivals and his clients are a little in awe of his intellect—and his arrogance.

Jarislowsky has every right to be arrogant: the company he created 32 years ago now invests more than $8 billion of Canadians' pension fund money. No one in the country invests more; few, if any, invest better. In the past five years, his Montreal-based investment counseling firm, Jarislowsky, Fraser & Co. Ltd., has tripled its number of institutional clients to 190, most of them pension funds. Customers are drawn to the 61-year-old Jarislowsky because of his extraordinary success at long-term investing. "He has a phenomenal track record," says Ian McKinnon, director of pensions and risk management at McGill University. "He can operate under very different economic conditions. As far as I'm concerned, nobody can hold a candle to him." McKinnon points out that the McGill assets managed by Jarislowsky have ranked among the top 5% of investment funds over the past decade—outperforming the market in every single year.

Beyond investment counseling, Jarislowsky has been the president of five companies, the chairman of two and a director of more than 20 others. He enjoys authority—and he also enjoys questioning the authority of others. He has tangled with Paul Desmarais, Conrad Black and a host of lesser-known figures, and he may lead all Canadian business people in the realm of public scornfulness. In 1979 he informed the readers of the trade magazine *Benefits Canada* that "there are next to no managements who really understand the basic assumptions of their fund," coldly adding: "It is time that managements learned the simple ABCs of pension fund investing." In 1981, after Dome Petroleum Ltd.'s ill-judged takeover of Hudson Bay Oil and Gas Co. Ltd., he insisted that those of his clients holding Hudson Bay shares be paid in cash rather than stock, a demand that nearly forced Dome into bankruptcy. Last December he proved again that he was unafraid to make enemies, calmly announcing that henceforth he would refuse to do business with the large brokerage houses of Gordon Capital Corp. and Merrill Lynch Canada Inc.

Their crime, in his eyes, was to act on behalf of Canadian Tire Corp. Ltd.'s major voting shareholders and its dealership chain when the dealers made a bid to take over the firm. Jarislowsky, whose clients owned 6% of CTC's nonvoting stock, was outraged that the interests of nonvoting shareholders were being flouted by CTC's control of its own voting shares. That control enabled CTC to attempt a deal that devalued the firm's nonvoting shares; by January, 1987, their price had fallen to a mere 17% of the value of voting stock. Jarislowsky made his outrage very public: he called the dealers' offer "crap." He also threatened to ask Ontario's courts to confiscate CTC shares unless the Ontario Securities Commission acted to block the takeover. (The OSC did rule against the deal and its decision was upheld by the Supreme Court of Ontario. Throughout Jarislowsky's attacks, Merrill Lynch has maintained a studied silence: "Jarislowsky is well within his rights," company spokesman Jim Coutts says ingenuously. "Nobody here would ever dream of arguing with him.")

Jarislowsky insists that the principle of nonvoting shares is wrong, and neatly describes it as "corporate apartheid." Yet he continues to sit on the board of the Montreal engineering firm SNC Group Inc., which issues class A shares to the public, each entitling its owner to one vote, and class B shares to its own employees, each entitling its owner to 15 votes. A *Financial Post* report pointed out that "though the class-A

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shareholders more than doubled the capital of the company, they ended up with almost no clout." Justifying his apparent hypocrisy, Jarislowsky replied: "An interim period is necessary, and as a director I feel I have a role to bring about one share, one vote, in due course." The vagueness of that phrase "in due course" may not appease those whom Jarislowsky has savaged in the battle for Canadian Tire.

The investment community, however, was generally delighted by his stand against nonvoting shares: in the words of Milton Wong, president of M.K. Wong & Associates Ltd. of Vancouver, "he has shown really good leadership." But even his admirers are quick to point out that his leadership often involves a forthrightness that's hard to distinguish from arrogance. "Steve is outstanding, because he has no humility at all," says G. Mitchell Bourke, chairman of the investment counseling firm Bolton, Tremblay Inc. "In our business you're never dealing with absolute truths—but you have to think you're doing the right thing all the time, even if you're not. You can't waver or hesitate. And Steve never believes he's wrong." "He has lots of humor," adds Tullio Cedraschi, president of Canadian National Railways' investment division, for which Jarislowsky acts as an adviser, "and somehow can be self-deprecating even while saying 'I'm the best! I'm the best!'"

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Jarislowsky comes by his arrogance honestly. He was born in Berlin in 1925, the son of an industrialist and merchant banker whose ancestors had left Russia for Prussia; German is his first language. (Today, if he wanted to, he could call himself by his inherited title of "baron.") In 1931, after his father's death, he was sent to school in Holland; later, after his mother had married a French bureaucrat and engineer, he attended private school in France. "Steve's European background is very effective in operating on the Canadian scene," suggests McKinnon. "It enables him to see Canada from a detached perspective, the way people in other countries do." Jarislowsky left Europe for good in 1941, when his stepfather was posted to the offices of Vichy France in New York; by his own account, he traveled from Marseilles to Algeria, Casablanca and the Caribbean on a ship infested with atomic scientists and spies, before going on to New York.

A year at a private Episcopal school in North Carolina proved a welcome contrast to wartime Europe. "At my boarding school in southern France," he recalls, "whether you got enough to eat for dinner depended on whether you happened to be sitting at the right end of the table." Jarislowsky was admitted to Cornell University in the fall of 1942; just after his nineteenth birthday, he graduated from the accelerated program with a bachelor of science in mechanical engineering. "And then," he says with a characteristic inversion, "the US army joined me."

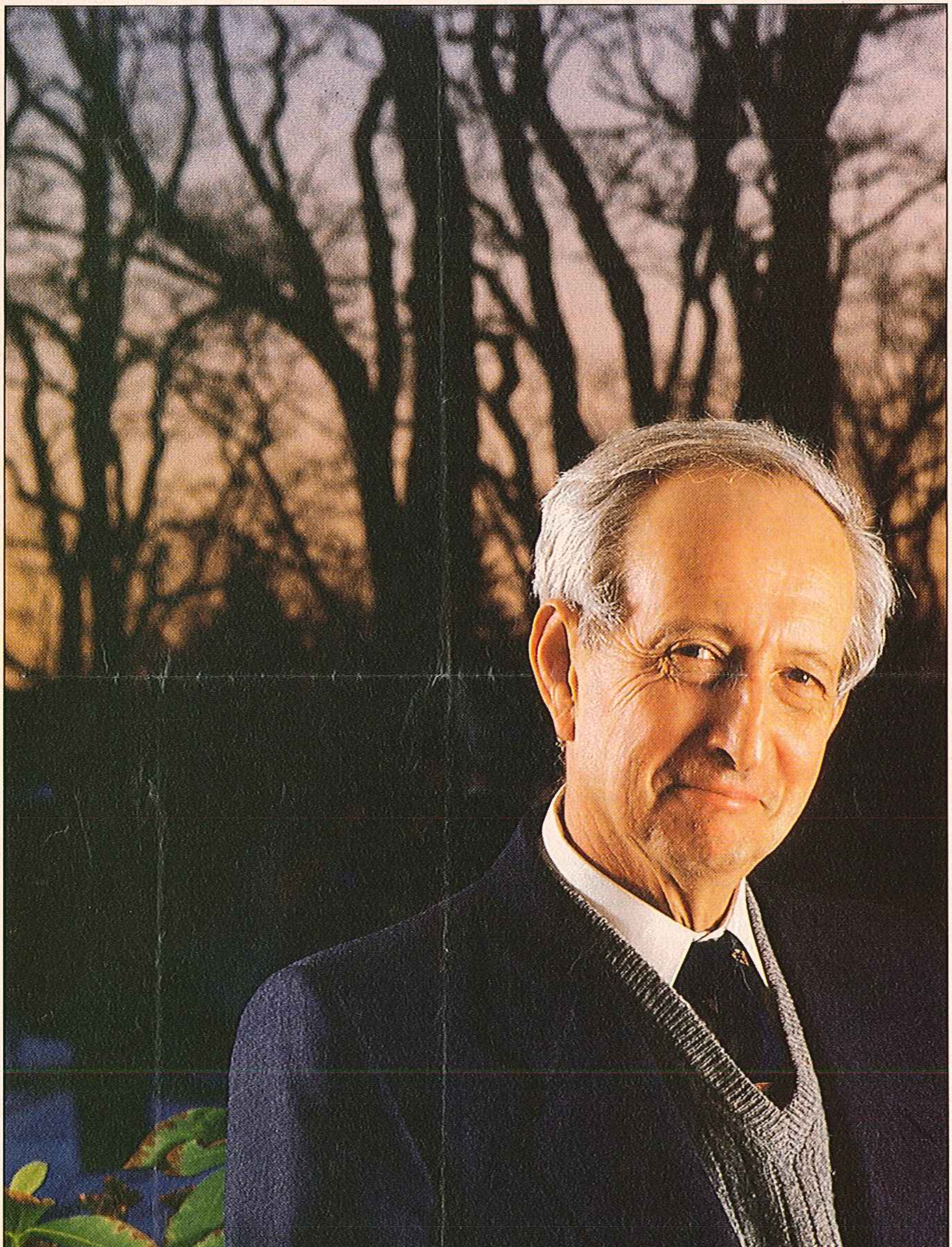
He learned the principles of jungle warfare in Florida before transferring from the infantry to intelligence. Nine months of studying Japanese at the University of Chicago were followed by courses in decoding and civil censorship; as the war ended, he flew to the Philippines and to occupied Japan, working in counterintelligence. Tokyo had been virtually obliterated: "You could go for miles and see nothing but rubble. That's where I learned to drive; in the middle of Tokyo, there was no other car but mine."

At one point during his nine months in Tokyo he even became a minor hero, the winner of the Order of the Chrysanthemum (fifth class) for arresting two of the Korean ringleaders in one of Tokyo's vicious black-market wars. "After that," Jarislowsky says wryly, "I needed a year to relax. So I took a master's degree in comparative Far Eastern culture at the University of Chicago." He taught an undergraduate course there in comparative Asiatic religion; nowadays his Westmount home reflects that experience in an exquisite collection of art that includes a Taoist screen. "I had the aim back then of becoming a professor," he confides. "I like the contemplative life. But I was too active for it—and I wanted to make some money." Rather than immerse himself further in the faiths of the East, he took an MBA at Harvard Business School.

Ambitious, newly married and barely 24 years old, Jarislowsky arrived in Canada in 1949. He had considered offers from an oil company in Saudi Arabia and a bank in Manhattan. But when Alcan Aluminium Ltd. knocked on his door, he saw it as a logical step into international business. Drawing on his training at Cornell, he worked as a sheet-metal engineer at Alcan's plant in Kingston, Ont., then joined the sales administration and finance departments at the head office in Montreal. Three years were more than enough for him: "I didn't think the company was very dynamic, and I found that I wasted 80% of my time twiddling my thumbs or worrying about company politics." He then spent a year in New York City, where he became president of the Twin Edition, an art-publishing house. When he returned to Montreal in 1953, he was unsure exactly what to do.

With hindsight, it's possible to see that Jarislowsky's diverse activities in the early and mid-1950s provided the ideal preparation for his later career as an investment counselor. He started a mutual fund, Growth Oil and Gas; he founded General Impact Extrusions Ltd. (later merged into the company now known as Consumers Packaging Inc.); he helped Ian Fraser, one of his few close friends, to reorganize the auctioneering firm of Fraser Bros. On June 6, 1955, he and Jack Brown established a company called Jarislowsky, Brown and Co. on St. James Street in old Montreal. It published statistical leaflets called *Investment Values Tables* and provided investment-fund field research for businesses in New York, Chicago and London. During that time Jarislowsky also taught investment analysis at McGill University. In 1958, after purchasing Brown's share of the company, Jarislowsky was joined by A. Scott Fraser, and the firm assumed its present name. (Fraser departed in 1978 and is now a vice-president of Jones Heward Investment Management Inc.: "Anyone as individualistic as Jarislowsky," he says tersely, "may or may not be easy to work with.") Gradually Jarislowsky was switching from researching for other people to investing for clients of his own. It was, nonetheless, a modest start for a man who would, by 1987, manage or advise on one-eighth of Canada's trusteed pension assets.

"Everything enters into investment counseling," Jarislowsky suggests as an expla-



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nation for his own success. "You have to stay on top of economic and political trends; you have to know a great deal about human psychology; you have to be able to manage a corporation; you have to be able to analyze and predict." He points, too, to the cohesiveness of the team he has built (Jarislowsky owns the entire stock of his firm, but he shares its profits with five partners in Montreal and Toronto and employs three other investment analysts) and to the fact that his company does extensive private research instead of relying on information provided by brokers. "He's terribly bright," adds his former partner, Scott Fraser. "And he's the best I've ever seen at reading financial statements. He can read beyond the nonsense you find in annual reports. The so-called pillars of industry can't fool him."

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Jarislowsky is not a day-to-day investor. Emerging from his private office at the end of a work day, he passes a room humming with computers and says with an elegant shrug, "I don't even know what the market has done today." He tends to buy heavily into companies whose stock he thinks is undervalued and to stay with them for years. "He's not an active bond trader," says his client Bob Wilson, investment manager for the University of Toronto, "because he prefers to get that extra percent of return through corporate bonds that don't trade as actively. His rate of turnover may be lower, for both stocks and bonds, than the rate of our other managers. It's possible that in a rapidly rising market, his returns won't always show up in the top quarter—but in a down market, they'll show up extremely well. And for a pension fund, you don't want too much volatility."

Jarislowsky's own word for his investing style is "counter-emotional." According to one of its own private bulletins, Jarislowsky, Fraser & Co. employs cash reserves "according to market levels—when markets are high we begin to build up cash reserves in order to recommit when markets are low. This approach incorporates an element of counter-emotion and contrary opinion." In other words, Jarislowsky has turned his single-mindedness into a declared policy: he's permanently skeptical about the market's prevailing trends. As long ago as January, 1986, he wrote that "the Canadian stock market is overpriced." By Dec. 31, 1986, the pension funds managed by his company held, on average, at least 10% of their assets in cash—nearly 2% higher than the national average for investment counselors, and more than 4% higher than the average for trust companies. To sell when the market is bullish demands ice-cold nerves; one of Jarislowsky's favorite words is "disciplined."

He knows companies the way a falconer knows his hawks, and claims that since its foundation, his own firm has enjoyed an average compound growth in net earnings of 35% a year. Such expansion bears witness to a major trend among institutional investors: away from their former reliance on trust companies and insurance firms and toward the use of specialist counselors. As recently as 1981, investment counselors handled less than a third of independently managed pension assets in Canada; by 1986, according to *Benefits Canada*, their share had risen to 76.4%. Investment counselors usually charge more than their big competitors—but as Jarislowsky is the first to say, they also tend to produce better results.

Regardless of who manages them, pension funds are doing a lot of work in our economy. According to Statistics Canada, the value of their assets by June 30, 1986, had grown to $118 billion—an increase of 15.2% in a year and about 371% over the past decade. The Association of Canadian Pension Management puts the current figure at closer to $130 billion. In the US the pension assets of several large companies, including General Dynamics Corp., exceed the companies' net worth. Asked if such a financial condition can give rise to difficulties, Jarislowsky adroitly changes the subject: "The real problem is that the total assets of pension funds in Canada are less than the equivalent of four years' worth of the combined deficits of the federal and provincial governments. Either the deficits must be too big or else the pension funds must be too small!" (Of course, one way to reduce the deficit would be to tax the assets of pension funds.)

Jarislowsky has a low opinion of members of Parliament, most of whom he cheerfully dismisses as "a bunch of idiots, failed lawyers and gutless do-gooders." One government policy that particularly draws his ire is Canada's Pension Benefits Standards Act rule, which effectively prohibits pension funds from investing more than 10% of their assets in non-Canadian securities. "This world is too small for narrow nationalism," Jarislowsky says with the air of a philosopher explaining an obvious proof to a peculiarly obtuse student. "How can you do a real job of investing when you have to own 90% of your assets in a single country? It's like a man in Trois-Rivières only being allowed to own Trois-Rivières stocks."

Aside from disliking advocates of "narrow nationalism," Jarislowsky also has no patience for those who think pension funds, or any other investment funds, should practise "social responsibility." While he's often been a stern critic of bad business ethics, his own business, he contends, is simply to make money for his clients—without worrying about South African investment or other political causes. So far, he says, McGill's board of governors (which includes Rowland Frazee, former chairman of the Royal Bank of Canada) is his only customer to have insisted that its endowment fund divest itself of assets from companies that do business in South Africa.

Jarislowsky's vehement criticisms do not extend to the Quebec government of Robert Bourassa; he thinks it's done an excellent job so far. Even during the 1970s, when most of the city's financial community scampered to Toronto, Montreal retained Jarislowsky's loyalty. In return, many of his Quebec clients are fiercely loyal to him. Jarislowsky sits on the Régie des rentes (Quebec's pension board) and on the Quebec executive committee of the C.D. Howe Research Institute; he has been a director of the Chambre de commerce de Montréal and president of the Quebec MBA Association; he served as treasurer of the Montreal Museum of Fine Arts, not only because of his taste for painting but also because of the museum's status as a cosmopolitan institution where the city's cul-

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tures mingle freely. His own office functions bilingually.

"I'm amazed," he says, "at the progress of Quebec's businessmen. They're leapfrogging the parochial attitudes of English Canadians." He praises the younger members of the Quebec business community for showing the drive and resourcefulness of "a bunch of new immigrants!" On this point, Jarislowsky speaks with an insider's understanding. Like so many prominent traders and money managers—the futures trader Albert Friedberg, the investment banker and publisher Christopher Ondaatje and the investment counselor Milton Wong, to name a few—he has shown an immigrant's cool disregard for the financial cliques of the past.

"Lately," observes Ian McKinnon, "he seems to be motivated less and less by money, and more and more by sheer pride." Pride wrestles with discretion when Jarislowsky is asked how much money he made last year; finally he smiles and replies: "Lots. Lots and lots. An obscene amount, really." But he hastily adds: "I'm in the process of endowing a chair at the University of Alberta for the study of investment. I guarantee that it will be one of the best-endowed in the country." Jarislowsky has made similar offers to Queen's and McGill—a fitting valediction, perhaps, from a scholar manqué. The boy who wanted to become an intellectual and the young man who taught university have gained their vindication at last: many of Canada's future business people will learn their art from a "Jarislowsky Professor." $