



Urbana Corp

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Urbana Corp sees potential big win from CSE investment amid challenging regulatory landscape

Urbana Corp (TSE:URB) (CSE:URB), an investment holding company run by Tom Caldwell, is attempting to do its part to help assuage the regulatory burden on companies looking to list on Canadian markets by investing its cash into the recently rebranded Canadian Securities Exchange (CSE), culminating in a listing on the trading platform last month.

The closed-end investment firm with interests across a variety of financial services businesses from exchanges to broker dealers previously owned 49% of the CSE until Ned Goodman, chief executive of Dundee Corp, gave the Canadian exchange a boost last September by acquiring a third of the company.

Urbana, which is also listed on the TSX, now holds a third of the CSE itself, with the remainder held by a mix of individual shareholders, dealers and institutions.

"If we're telling other people to get listed on this dynamic, customer-friendly exchange, the least we can do is have our company there as well," says the chairman of Urbana Corp and Caldwell Securities in a recent phone interview with Proactiveinvestors.

"We put our mouth where our money is, so to speak."

Indeed, Caldwell's mouth has been quite vocal lately on the difficult regulatory environment in Canada, with his opinions on the cost of compliance made evident in an editorial piece written in The Financial Post titled "Nanny-state regulators and lobby groups are sidelining investment experts". The article highlights the expansion of the provincial securities commissions' reach far beyond "investor protection into procedural audits", which has led to the decimation of independent brokerage firms and deprived investors of choices beyond bank-controlled mutual funds.

"Regulations are too hard at the moment. It's incumbent on us to make it easier to raise capital to fund innovation, and give people an opportunity," says Caldwell.

"Stock markets are the ultimate democratic tool in the capital world and it is important to preserve this environment where everyone can buy a little bit of someone else's dream."

The idea behind the CSE is quite simple. As a way to encourage this environment, and "ease the burden a bit from [the exchange] side", the trading platform operates on continuous disclosure requirements, rather than a heavy upfront burden at the exchange level, believing that the broader investment community is better suited to value a given company. The CSE requires a monthly update from each issuer, which is not required on other exchanges, making up

Price: C\$1.81

Market Cap: C\$18M

1 Year Share Price Graph



Share Information

Code: URB

Listing: TSX, CSE

Sector: Financial

Website: www.urbanacorp.com

Company Synopsis:

Urbana Corporation is a closed-end investment company with current interests across the financial services sector from exchanges to banks to broker dealers and investment managers.

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for the fact that upfront business diligence is not conducted by the CSE, dramatically reducing the time frame from application to listing as well as advisory and legal fees.

"If [the company] is a reporting issuer of good standing, then there's no reason to have to do it all over again at the exchange level and delay the process by six months. [The CSE] accepts the government filings and works with that."

The effects are already noticeable. The exchange estimates that it accounted for 17% of the new issuers entering the Canadian public markets last year, up from 11% in 2012.

The CSE is just one of Urbana's investments, with the firm also having interests in large U.S. banks like Morgan Stanley (NYSE:MS) and Citigroup (NYSE:C), as well as in exchanges around the world from Bombay to the Chicago Board Options Exchange and the NYSE Euronext.

The investment firm has a broad mandate, allowing it to put its money in a myriad of both public and private companies as well as sectors. Caldwell reckons that about 80% of Urbana's holdings are publicly-listed securities, with the remainder being private companies.

The company, which focuses on long-term growth, has seen its asset value increase from \$112 million in December 2012 to \$178 million at the end of January, while its share price has risen more than 90% over the same time frame.

"Our investor group has changed over the last five or six years. It was originally shareholders that owned penny stocks, but now it's generally more sophisticated investors, such as high net worth individuals and investment management firms across Canada, the U.S. and Europe."

Caldwell also highlights that Urbana has a 1.5% overall management fee, compared to 2% for most money managers, and allots no performance bonus for management, resulting in a "very efficient mechanism for managing money."

Efficient indeed. The company's performance metric, based on net asset value per share, at year-end 2013 came in at 56.45% for the year, with an annual compounded return of 15.96% since inception in October 2002, compared with an annualized return of 5.6% for the S&P/TSX Composite over the same period.

He says Urbana's closed-end model will be seen increasingly over the next few years, as mutual funds lose their investment appeal.

"Mutual funds lose at market bottoms and gain at the top. We have money always. If you want to get out, you sell the stock."

Caldwell, who owns about 6 million shares of Urbana on his own, calls himself a "garbage man" in that he looks for investments that have "just been massacred". "We're long only there's no real leverage, no shorting or anything else."

"We pick strategically. That's the advantage of being a closed end vehicle as we have the freedom of time horizon and don't have to worry about redemptions." He gives the example of Barrick Gold (TSE:ABX), the world's largest producer of the metal, whose shares took a serious tumble last year, and are down over 36% in the past 12 months.

That doesn't faze Caldwell, however, who picked up 675,000 Barrick shares through Urbana, equating to some 8% of



the firm's portfolio market value. Despite the gold company being "massacred pretty badly", he says he is leaning toward resources, especially given the current U.S./Canadian dollar exchange rate.

This view is also reflected in Urbana's investments in major U.S. banks like Citigroup, Bank of America (NYSE:BAC) and Morgan Stanley, which were all trading at discounts from net tangible asset value per share and had all passed stress tests.

"We don't have to worry about quarterly performance to the same degree. The time horizon allows us to be a little bit more aggressive," says the chairman, explaining that one of the most important questions he asks before making a distressed investment is whether the company is suffering from a "fatal wound" or if the problem is fixable.

Depending on the sector, Urbana typically invests half of a million for a start-up, and anywhere up to \$50 million for an intermediate company.

"We have \$175 million. It's not a large pool of capital, but it's the kind of fund that you can do unique things with," says Caldwell, who is slowly handing the reigns over at his investment management firm Caldwell Securities to the "younger team", giving him time to focus on building up Urbana.

Back to his investment philosophies, Caldwell calls himself an "incurable optimist", and says that the U.S. economy is slowly picking up, coming through the crisis in "ripple effects", with optimism beginning to squeeze its way back into the picture.

"The challenge to growth is regulating the economy to death, and unfortunately, the U.S. is leading the way there. It's harder to fund businesses in America and we're reaching a tipping point where innovation America's strong suit --- is getting increasingly stifled."

He says that while not as bad as in the U.S., the regulatory environment in Canada is also under pressure, particularly in Ontario, where it is "becoming very difficult for companies to raise money at a reasonable cost."

That is why the CSE is Urbana's most exciting investment, according to Caldwell, in light of weakening commodity prices and regulatory overkill causing huge headaches for junior companies in Canada.

"[The CSE] is trying to make the net, net burden not as bad," says Caldwell, referring to the total burden of exchange requirements, plus regulatory oversight.

"There is massive upside potential if we do it right. It could be a very large win for us even though the investment itself is small," he asserts, noting his past experience with exchanges, having at one point been the largest owner of the NYSE and the governor of the Toronto Stock Exchange.

Urbana holds 10.3 million shares in the CSE, taking up just under 3.4% of the firm's portfolio market value.

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