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Why Ira Gluskin has a beef with Newton Glassman

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Ira Gluskin has been unhappy with Newton Glassman for some time. A few folks on Bay Street have known about it.

Mr. Gluskin is believed to have held his tongue about the matter in public settings. That changed earlier this summer, when Mr. Gluskin told an investment conference that he was "an unhappy investor who's waiting to get my money back" from Mr. Glassman's funds. That was one of a number of choice comments he made about the situation, bringing the dispute between the two men into the open.

Some background is in order. Mr. Gluskin is something of a Bay Street legend, the co-founder of money manager Gluskin Sheff + Associates Inc. Though he long ago retired as the firm's chief investment officer, he retains his reputation as a man with pointed thoughts and the sharp tongue to deliver them.

Mr. Glassman is a private-equity fund manager behind Catalyst Capital Group Inc. and its majority-owned public company, Callidus Capital Corp. Like Mr. Gluskin, he is known to have a pugnacious side.

The Glassman operation has raised billions over the years from investors, but it has seen better days. Callidus, a lending company that went public in 2014 at $14 a share, has suffered a meltdown. It has posted 10 consecutive quarters of net losses, totalling $485-million. Callidus shares closed at 44 cents last week on the Toronto Stock Exchange. A number of its portfolio companies, acquired by the company after initial loans went unpaid, are struggling, Callidus said at its July 2 annual meeting.

Catalyst's private funds are tied up with Callidus. The funds own more than 70 per cent of the equity and have lent Callidus money, too. Earlier this year, Callidus said "certain investment funds" run by Catalyst granted an extension to a US$250-million bridge loan and would advance $35-million more if Callidus continued to struggle.

Meanwhile, Catalyst and Mr. Glassman have come under scrutiny for a number of reasons beyond the performance of Callidus. One is their aggressive use of litigation. In one example, Catalyst engaged in a protracted round of lawsuits in an attempt to prove the firm was unfairly treated in the auction of Canadian wireless company Wind Mobile (which is now Freedom Mobile). The judge in the first case ruled against Catalyst, stating: "I had considerable difficulty accepting as reliable much of the evidence of Mr. Newton Glassman." The firm lost its appeal of the decision as well as a second related lawsuit, and the saga dragged on, at some cost, for years.

Another issue – one that may be more relevant to investors who have handed their money to him – is Mr. Glassman's record of discussing future deals that have failed to come to fruition. In 2016, he publicly mooted privatizing Callidus and commissioned an investment bank to provide a valuation estimate that came in at $18 to $22 a share. But the deal never happened.

In March, 2018, Mr. Glassman wrote to assure partners in Catalyst funds that the firm was close to cashing in on multimillion-dollar initial public offerings for two of its holdings – Therapure Biopharma Inc. and Gateway Casinos & Entertainment Inc. (Catalyst went to court to try to prevent The Globe and Mail from publishing a story about the letter, but lost.) Neither IPO has happened, though Gateway did file some paperwork for going public last November. A deal to sell part of Therapure to a Chinese partnership also fell apart in 2018.

Catalyst's investors include major institutions such as the University of Toronto, where Mr. Gluskin chaired the board of its asset-management corporation, and McGill University, where Mr. Gluskin's former partner, Gerald Sheff, sits on the board of governors' investment committee.

Anyway, back to Mr. Gluskin and his comments. They came in June at "Veritas Day," a gathering for the clients and friends of Veritas Investment Research Corp., a Toronto firm whose work often includes accounting-focused analysis. (Veritas itself has been a target of Mr. Glassman's legal team, for a negative research report it published in 2015 about Callidus back when the stock was worth almost $17.) Mr. Gluskin was the luncheon speaker, but rather than deliver a prepared speech, he leaned on the podium, offered a few thoughts on modern Bay Street, then took questions.

His comments on Mr. Glassman started out with an expression of disappointment in what he saw as the failures of major Canadian pension funds to take more of an activist role on behalf of investors. One example, he said, was the decision by the Ontario Teachers' Pension Plan to sell a stake in Hudson's Bay Co. to Mr. Glassman's Catalyst funds. HBC’s executive chairman, U.S. investor Richard Baker, is trying to take the retailer private at a price many investors have balked at.

“Somehow I assumed that [Canada Pension Plan Investment Board] or Teachers would sort of take care of me. … They would substitute for the Ontario Securities Commission. And unfortunately, there’s absolutely no evidence that this is true,” Mr. Gluskin said. “And what brings it home is Teachers had, I don’t know, a 10-per-cent block in Hudson’s Bay. Hudson’s Bay has what you’d call an unimpressive privatization of its company.

“So you might expect Teachers, well, there’s somebody who’d stand up to those evil Americans. But instead Teachers sold their block” to Catalyst.

Teachers said in an e-mailed statement it sold its stake into a broker’s offer from TD Securities in June, and had “absolutely no knowledge of who the buyer/s were. Following his public remarks, Mr. Gluskin confirmed to us that he now understands Ontario Teachers’ did not know who the buyer was, and that he is a big fan of Teachers’."

Attendees of the event thought Mr. Gluskin might, in true Canadian fashion, describe the transaction more circumspectly. But he then used Mr. Glassman’s name and offered some pointed characterizations of Mr. Glassman’s approach to investor relations. (I witnessed it and have a recording of it.)

We contacted Mr. Glassman with a series of questions, sharing Mr. Gluskin’s comments, and received a response from Howard W. Winkler of the law firm Winkler Dispute Resolution.

“These statements of and concerning Mr. Glassman are on their face, outrageous, false and defamatory. The categorical nature of the statements is clearly indefensible, and they do not call for a response,” he wrote. “Given the nature of the statements, and the fact that you know or ought to know that they are false and defamatory, publication of them would be highly irresponsible and reflect malice on your part and on the part of The Globe and Mail. There is absolutely no public interest in the statements of Mr. Gluskin. At best the statements reflect malicious gossip.”

The use of litigation against critics has been a continuing effort for Mr. Glassman. His companies have filed suit against a group of investors who engage in the short-selling of stocks and journalists who published articles on Callidus and Catalyst. They are “wolfpack conspirators,” Mr. Glassman’s companies argue. The claims are without merit, the defendants have argued.

Mr. Gluskin, who was not eager to follow up on his comments in subsequent conversations with me, said at the Veritas conference: “Newton’s funds were primarily sold to high-class institutions, major institutions … I stood back and waited and waited for people to rise up.”

Mr. Winkler’s response to my questions may give some evidence of why there has been such silence.