

Steering clear of resources helped fund families in 2008

Fund companies that performed relatively well in a dismal year also had hefty cash positions

■ BY CATHERINE HARRIS

LAST YEAR WAS PUNISHING for many Canadian mutual fund families as the slumping global economy pounded their performance. Only 552 of 3,760 funds tracked by Toronto-based Morningstar Canada had positive returns in 2008, of which 190 were fixed-income funds and 146 were money market funds.

But some fund families fared better than others. Exchange-traded fund provider **Barclays Global Investors Canada Ltd.** had the largest proportion of long-term assets under management — 83.6% — in funds that were in the first or second quartile of performance for the year ended Dec. 31, 2008, according to Morningstar data. (All fund companies are Toronto-based unless otherwise noted.)

Among actively managed fund families, those that performed relatively well tended to have funds that were underweighted in resources stocks and, in some cases, financial services stocks, and overweighted in defensive sectors. These funds also tended to have more AUM in cash than usual.

CIBC Asset Management Inc. and **CIBC Securities Inc.** together had 80.7% of their long-term AUM in funds in the first or second quartiles. **Invesco Trimark Ltd.**, **BMO Investments Inc.** and Ottawa-based **MD Funds Management Inc.** each had between 70% and 80% of long-term AUM in the top two performance quartiles. **Mackenzie Financial Corp.**, **Acuity Funds Ltd.**,

Montreal-based **National Bank Securities Inc.**, **CI Investments Inc.** and **Dynamic Funds Ltd.** also performed relatively well, each having more than 50% of long-term AUM in the first and second performance quartiles.

At the bottom of the heap was **Scotia Securities Inc.**, with just 10.5% of long-term AUM in funds in the first or second quartiles. This is the result of a decision to load up on corporate bonds late last year in anticipation of the big bounce-back in prices expected this year. Vancouver-based **Phillips Hager & North Investment Management Ltd.** made similar moves into investment-grade bonds this past year and, as a result, had a relatively low proportion (18.6%) of long-term AUM in the top quartiles.

At CIBC, fund managers made the right moves to keep performance strong, says Steve Geist, president of CIBC Asset Management. For example, the equities weighting in CIBC Monthly Income Fund was substantially reduced in the latter part of last summer to around 30% from 60%. “The managers were concerned about the marketplace,” Geist says, “and it proved to be an astute move.”

CIBC Monthly Income Fund was a first-quartile performer in 2008, down 15.1% for the year vs an average 20.1% drop for all Canadian equity balanced mutual funds.

At both Mackenzie and National Bank Securities, fund managers tend to trail in hot markets but out-

How fund families fared last year

	Assets in first & second quartiles		Total long-term assets ¹	
	2008 (%)	2007 (%)	2008 (\$bil.)	2007 (\$bil.)
Barclays Global Investors Canada	83.6	85.4	16.4	16.5
CIBC Asset Mgmt./CIBC Securities	80.7	52.9	20.4	28.3
MD Funds Management	78.7	28.3	9.3	12.6
Invesco Trimark	78.6	9.6	21.9	34.6
BMO Investments²	71.5	55.2	19.6	27.0
Mackenzie Financial	65.8	53.6	29.3	40.2
Acuity Funds	62.9	30.9	3.3	5.1
National Bank Securities³	62.5	28.9	7.5	11.0
CI Investments	58.4	60.2	45.4	57.3
Dynamic Funds	52.5	80.4	13.9	19.5
AIC	49.5	12.5	3.0	6.2
Brandes Inv. Partners	43.4	0.0	4.0	6.1
Investors Group	41.0	42.2	51.1	66.1
IA Clarington Investments⁴	36.7	60.0	4.6	6.6
Standard Life Mutual Funds	36.2	86.5	3.1	4.3
Fidelity Investments Canada	36.2	85.0	23.5	30.8
RBC Asset Management	35.6	87.5	59.0	74.0
Manulife Mutual Funds	28.4	55.3	21.1	3.7
AGF Funds	26.2	59.3	17.3	25.9
TD Mutual Funds	22.2	28.0	46.6	59.8
Phillips Hager & North Inv. Mgmt.	18.6	40.0	6.5	9.2
Fed. des caisses Desjardins du Québec	15.8	13.8	8.9	11.7
Franklin Templeton Investments	12.7	42.0	12.7	35.3
Scotia Securities	10.5	56.2	11.6	14.1

1. ASSETS FOR FUNDS FOR WHICH MORNINGSTAR CANADA PRODUCED DATA. WHEN ONLY ONE FIGURE IS PROVIDED FOR FUNDS WITH DIFFERENT VERSIONS, THE ASSETS ARE DIVIDED EQUALLY AMONG THE VERSIONS

2. MOST GGOF FUNDS ARE NOW PART OF THE BMO FAMILY

3. INCLUDES FUNDS SPONSORED BY INDUSTRIAL ALLIANCE INSURANCE & FIN'L SERV. INC.

4. INCLUDES ALTAMIRA FUNDS AND FUNDS SPONSORED BY NBF EMISSARY TURNKEY SOLUTION LP

SOURCE: MORNINGSTAR CANADA

INVESTMENT EXECUTIVE CHART

perform in weak, volatile and uncertain markets because of their emphasis on capital preservation and minimizing downside risk.

“There was an appetite for risk

in the past few years that our managers didn't think investors were being paid enough to run,” says Patrick Loranger, product manager for mutual funds with National

Bank Securities, “and the managers avoided it.”

Now, he adds, the managers are looking for opportunities, especially in Canada, to use the cash in their funds to pick up good companies at low valuations.

“This is a time when active management can really help,” says David Feather, president of **Mackenzie Financial Services Inc.** Mackenzie funds were underweighted in resources and financial services stocks and overweighted in the consumer staples, consumer discretionary and health-care sectors in 2008. This mix is not expected to change this year.

Invesco Trimark fund managers remain bottom-up stock-pickers, although the company's chief investment officer, Graham Anderson, notes that the firm's funds are underweighted in resources stocks, which helped performance in 2008. Invesco Trimark is looking for companies with attractive long-term prospects, strong balance sheets and good cash-flow generation. “It's the quality of earnings that matters,” Anderson says.

Scotia Securities president Glen Gowland says that there will probably be as much as a 200- to 500-basis-point shrinking of spreads between corporate bonds and Canada bonds this year. Had Scotia Securities waited until January to buy bonds, its fund family's performance would have been much better, but the firm didn't want to fine-tune the timing of the move.

“We knew that the worst news might not be over,” he says, “and we might take a bit of a hit in the short term. But we also knew that over the longer term, our investors will be paid back.”

Like most fund companies, Scotia Securities’ focus is on the longer term; its fund managers maintain that three- and five-year

returns are more indicative of how mutual funds are performing.

At **RBC Asset Management Inc.**, its Canadian balanced funds were overweighted in equities in 2008. RBCAM fund managers also don’t invest in foreign equities — unlike some of their peers, who benefited from the drop in the Canadian dollar. This caused the performance of

some of RBCAM’s biggest funds to dip into the third quartile. But Chris Dotson, vice president RBC global asset management in Vancouver, says the hefty equities position, combined with significant amounts of cash, puts the funds in an excellent position to do well this year.

One company that might have been expected to do poorly in 2008

is Burlington, Ont.-based **AIC Ltd.**, given its focus on hard-hit financial services stocks. But almost 50% of its funds’ long-term AUM was in outperforming funds.

AIC CEO and chief investment officer Jonathan Wellum says the drop in financial services shares was offset by AIC’s funds being underweighted in resources, whose

share prices fell even more. In addition, AIC focused on companies whose products are in steady demand and that have cost structures that can respond to demand changes. These include consumer staples, health care, infrastructure and insurance distributors. **IE**



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