

Four mutual funds worth a look

It's easy to pass over some quality products run by people smarter than the average manager, ROB CARRICK writes

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There's so much clutter in the mutual fund business that even the most thorough of investors can easily miss an interesting product such as FrontierAlt All Terrain Bond.

This fund is barely six months old, it has just \$10-million in assets and the company behind it, FrontierAlt Funds Management is a newcomer that recently took over the obscure Orbit fund family. Why would the thorough investor bother with All Terrain Bond? Because it's managed by Robert Marcus, who made a lot of money for investors in the 11 years he ran the pack-leading Altamira Bond Fund.

Hartford Global Leaders is a somewhat similar story. Once a plodding also-ran, this fund was recently taken over by Bill Kanko, who managed funds in the Trimark family with conspicuous success for many years. It's an obvious candidate for the shortlist of anyone making the smart move to add some global diversification right now.

This edition of the Portfolio Strategy presents focuses on four funds you might just overlook

in a world of 7,000 different mutual funds and fund variations. They may be not be familiar names, but they're worth a look because they're run by people who are smarter than the average manager.

FrontierAlt All Terrain Bond Fund

Management expense ratio: 1.6 per cent (estimated)

Minimum investment: \$500

Manager: Robert Marcus

Why you should care: As the near-legendary manager of the Altamira Bond Fund from 1992 through 2002, Mr. Marcus routinely beat his peers. He says the fund's average annual return during his tenure was 9.7 per cent, compared with 9 per cent for the Scotia Capital Universe Bond Index and 7.2 per cent for the average fund.

Quote: "My background is actuarial -- I used to work for Manulife -- so I'm very aware of risk."

Due diligence: Conventional bond funds often strike a balance between long-term bonds and short-term bonds, and between safer, lower-yielding government bonds and riskier, high-yielding corporate debt. All Terrain Bond is different in that it currently avoids corporate bonds while putting an emphasis on long-term bonds. "It's not managed like a typical bond fund," Mr. Marcus said.

His guiding view right now is that North American economic growth will deteriorate, and that both inflation and interest rates are headed lower. Corporate bonds aren't attractive in this environment because they're likely to underperform government bonds, while long bonds offer the potential for higher returns than short-term bonds. Long bonds will be more vulnerable when rates rise, but Mr. Marcus said he has the latitude with this fund to go defensive by putting 100 per cent of the assets in treasury bills.

Mutual fund managers have their own ideas about how to run a portfolio, but they often have to conform to the policies of the companies they're working for. By

contrast, All Terrain Bond is Mr. Marcus's show entirely. "That's why I love this fund," he said. "FrontierAlt is the owner of the fund, but I created it."

Performance:

3 MONTH 2.1%; 6 MONTH NA; 1 YEAR NA; 3 YEAR NA; 5 YEAR NA

Goodwood Capital Fund

Management expense ratio: 1.9 per cent, plus a performance fee of 20 per cent of any gains above a set benchmark.

Minimum investment: \$5,000

Manager: Peter Puccetti

Why you should care: Goodwood Capital is the closest that many investors will ever get to the Goodwood Fund, a hedge fund with a minimum \$150,000 investment and a 10-year compound average annual return of 21 per cent. Not a single Canadian, U.S. or global equity fund did better than that.

Quote: "This has really been a word-of-mouth fund." -- Cam MacDonald, president and CEO of Goodwood Inc.

Due diligence: As a hedge fund, the Goodwood Fund can take both long and short positions on stocks, which means it can make money on both up and down moves. Goodwood Capital is tamer in that it doesn't do any short selling, but it does closely follow the long positions held by the Goodwood Fund.

Goodwood Capital is a fund that identifies promising businesses and then invests in them while working with management to improve returns, said Cam MacDonald, president of Goodwood. "In many ways, it's corporate coaching," he said. "Our approach is to come in in a friendly way, letting our spreadsheets make our point."

Among the fund's top holdings are grocer Great Atlantic & Pacific Tea Inc., the printing company Cenveo Inc. and ATS Automation Tooling Systems, which makes automated manufacturing systems. The fund has zero commodity exposure, Mr. MacDonald said. "We're not really saying we're anti-commodity. It's just that when

there's so much capital being focused on the area in the past few years, we question whether we're going to find anything undiscovered."

Performance:

3 MONTH 3.79%; 6 MONTH 5.09%; 1 YEAR 11.58%; 3 YEAR 19.82%; 5 YEAR 11.03%

Hartford Global Leaders

Management expense ratio: 1.75 per cent (D class) to 2.60 per cent (B class)

Minimum investment: \$500

Manager: Bill Kanko

Why you should care: Mr. Kanko is a widely admired global equity fund manager whose experience running the giant Trimark Fund included a great run during the difficult market years of 2000-2002.

Quote: "This fund is not your typical global pie-chart fund, where you've got a little coloured slice for each country. The idea is to find 20 or so good investment ideas using the same approach I've always used." -- Bill Kanko

Due diligence: If you're wondering what Mr. Kanko's approach is, it's a classic value strategy that prizes undervalued companies with strong underlying fundamentals. "It tends to be contrarian at times," Mr. Kanko said of his investing style. "It's really saying, this company is going to be bigger and more profitable in the future, to the surprise of other investors."

U.S.-based Hartford Financial Services Group has been a marginal player since it arrived in Canada in 2000, but bringing Mr. Kanko in to run Global Leaders suggests it has ambitions to be much larger. To give Mr. Kanko some elbow room, the previous Global Leaders portfolio was liquidated before he arrived.

Cash is flying into this fund at a rate of half-a-million dollars a day and Mr. Kanko has already accumulated 17 stocks, including American Express Co., Oracle Corp. and Canon Inc. Performance in the six months or so since Mr. Kanko took over has

been a bit below average, but his history shows that patient investors will be well rewarded.

Performance:

3 MONTH 7.43%; 6 MONTH 9.37%; 1 YEAR 9.94%; 3 YEAR 6.42%; 5 YEAR 0.18%

CI Value Trust Corporate Class

Management expense ratio: 2.61 per cent

Minimum investment: \$500

Manager: Bill Miller

Why you should care: Mr. Miller is celebrated in the United States for having beat the S&P 500 index for 15 consecutive calendar years as manager of the giant Legg Mason Value Trust. CI Value Trust is a clone of this fund.

Quote: "Bill Miller is considered by many to be one of the top money managers in the U.S. industry." -- A fund analyst at Morningstar Canada in a research report on CI Value Trust.

Due diligence: With assets of \$1.2-billion, CI Value Trust can hardly be described as overlooked. Still, it deserves some attention because it offers a buy-low opportunity to hook up with a genuine star manager. Yes, Mr. Miller's 15-year streak of beating the index is all but over as a result of a subpar 2006. The good news: Even with this setback, the parent fund's 12.6-per-cent compound average annual return over the 10 years to Sept. 30 beats the S&P 500 by more than four percentage points.

Mr. Miller is a value manager who strives to buy large companies at prices that are less than what he figures the company is worth. His portfolio included such disparate names as Eastman Kodak, Amazon.com, Pulte Homes and Citigroup as of Sept. 30. Mr. Miller is another manager who has taken a pass on energy stocks.

Morningstar raises a couple of provisos about CI Value Trust, one of them being that it does not use currency hedging and thus will underperform Legg Mason Value Trust if the Canadian dollar rises (and vice versa if the loonie falls). Another is that Mr.

Miller is now running about \$45-billion (U.S.) in assets, which may limit his ability to buy the small- and medium-sized stocks he has held in the past.

Performance:

3 MONTH 14.42%; 6 MONTH 14.31%; 1 YEAR 1.06%; 3 YEAR 2.97%; 5 YEAR NA



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