

CIBC Dividend

Morningstar Quicktakes™ Report

Mark Chow
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Management's conservative nature offers investors relatively decent downside protection.

Lead manager Stephen Gerring has only had his hands on CIBC Dividend since February 2003, but he has built up a longer track record on another well-regarded fund, CIBC Monthly Income. While not one of our top Canadian Equity category picks, this fund's strong management team and conservative nature make it a viable option for investors wanting Canadian equity exposure with some downside protection.

Gerring is responsible for the fund's asset mix, which includes stocks, trusts, limited levels of preferred shares and even some bonds, should he choose. Gerring has done an excellent job of allocating assets to optimize performance on CIBC Monthly Income. Joining Gerring in 2003 was Domenic Monteferrante (equities) and the well-respected Gaelen Morphet (income trusts) earlier this year.

Under Gerring, overall volatility has been at the lower end of the peer group. We expect this to persist due to the team's conservative nature and the continued inclusion of preferreds and cash, which are currently 6% and 13% respectively. Preferreds often act similarly to bonds, depending on the issuer's credit rating. But even excluding preferreds, we feel that volatility would still be quite moderate.

While performance has lagged that of the benchmark S&P/TSX Composite Index and the category median over the past three years, we believe that things could quickly turn around if the market went into a funk. The portfolio's downside deviation numbers stack up very well compared to other peer offerings. And although we have yet to see this fund's performance under this team during a prolonged market slump, we are confident that investors will see decent downside protection.

On the income trust component, Morphet runs a well-diversified and relatively conservative portfolio. Instead of over-reaching for yield, she takes a more moderate approach with companies that have a good record of stable distributions.

On the equity side, Monteferrante also runs a widely diversified Canadian-only portfolio. He invests in names from every sector, even small industries within Canada such as health care. We don't necessarily agree with having to invest in the smaller/riskier areas of the Canadian marketplace even if opportunities are weak. This approach may lower relative risk versus the index but could marginally increase the absolute risk for investors.

Of Note

- ▶ Trusts have traditionally accounted for approximately 15% of the fund.
- ▶ Renaissance Canadian Income Trust, a fund managed by Morphet, currently has only 25% of its assets invested in the energy trust sector, while this group accounts for approximately half of the S&P/TSX Income Trust Index. This cautious approach is reflected in her portion of CIBC Dividend.

Morningstar Rating ★★★

(as of 30 Sep 06)

Strategy

Using economic and financial market data, the lead manager assesses the growth prospects of the economy in general and of various industry sectors, as well as what's likely to happen to interest rates. He uses this research to determine his asset allocation. Equities comprise the bulk of the fund but preferreds and bonds can rise to 30% and 10% at a maximum. The manager of the equity component looks for mispriced stocks with a bias towards dividend-paying issues. He tries to stay widely diversified and targets a lower overall P/E ratio than that of the market. Top names can make up 5.5% of the fund. The income trust manager uses a relative value approach and prefers companies with long track records and lower valuation metrics. Both components are somewhat constrained to the sector weights of their benchmarks.

Management

Stephen Gerring, CFA, is a vice-president and portfolio manager at CIBC Global Asset Management Inc. (CIBC GAM) in Toronto. Before joining a predecessor firm in 1992, he served as director, corporate finance at Prudential Insurance Co. of America in Toronto for more than 10 years. His previous employers also include the Ontario government and Citicorp. He has

CIBC Dividend

- ▶ With an MER of 2%, the fund is less expensive than two-thirds of its peers in the Canadian Equity category. It would be even more competitive after stripping out index funds.
- ▶ Even though the fund has the word "dividend" in its name, distributions have been scant over the past several years.

About the Author

Mark Chow is a senior fund analyst with Morningstar Canada. He has 10 years of experience in the financial services industry. Prior to joining Morningstar in 2002, Mark held positions in corporate relations and as an investment advisor licensed in both equities and options. In addition to his CFA charter, Mark earned an undergraduate degree (biochemistry) from the University of British Columbia. Mark is frequently quoted in the media as an expert on the Canadian investment fund industry, and he is a regular guest on ROBTV.

an MBA from the University of Western Ontario. Domenic Monteferrante, MBA, CFA, is a first vice-president and portfolio manager at CIBC GAM. Prior to joining CIBC, he was a pension fund manager and equity analyst. Gaelen Morphet, CFA, is first vice-president at CIBC GAM and has over 22 years of experience managing Canadian equities. She also heads the value and income trust teams.

Kudos

- ▶ Risk-adjusted returns under Gerring's guidance have been top decile.
- ▶ This fund has been less volatile than over 90% of its peers over the past three years.

Question Marks

- ▶ We do not like the fact that the equity manager feels compelled to invest in every sector in Canada even if the opportunities are few and far between.