

CIBC Canadian Equity

Morningstar Quicktakes™ Report

Mark Chow
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Under new management, this chronic underperformer is now a decent option.

Unitholders of CIBC Canadian Equity have had to put up with chronic underperformance for some time. In August 2005, control of the fund was ceded to Domenic Monteferrante, who has done a relatively good job managing the equity portion of CIBC Dividend. Thus, while not a top choice, we see this as a decent option for investors seeking a broad-based core Canadian equity fund.

Although we would like to see a longer track record under the new manager before passing judgement on this fund, the performance of the other mandate that he co-manages, CIBC Dividend, has been strong over the past several years. While Monteferrante is not the only person managing that portfolio, he is responsible for picking Canadian equities, the largest portion of the fund. CIBC Dividend has displayed very good risk-adjusted results and relatively low volatility, especially on the downside.

The manager's investment style can be described as core with a value bias, but it is quite flexible. For example, banks stand shoulder to shoulder with high-flyers such as Research in Motion (RIM/TSX). And though most of the names in the portfolio are larger cap companies, the manager does troll the mid-cap waters looking for opportunities.

While looking for mispriced securities, Monteferrante focuses on trying to keep the fund's price-to-earnings multiple lower than that of the overall market. This should help the fund during prolonged negative markets when valuations compress.

Monteferrante also has sector diversification guidelines that mandate him to be within certain ranges versus the index. But these are wide enough for us to not consider them too restrictive. We have tended to have a negative view of sector-neutral offerings unless the manager has shown the ability to add considerable value through stock picking.

Whereas we like the flexibility of the strategy, we're not wild about the manager's need to own Canadian stocks from all sectors, however small. The fund will have positions in minor sectors such as health care and technology even though it can often be a challenge to find good bargains there without taking on substantial risk. This approach may lower relative risk versus the index but could marginally increase the absolute risk for investors. Instead, we feel that the manager should be more opportunistic in these areas.

Of Note

- ▶ The fund's year-to-date return of 7.2% beats both the S&P/TSX Composite Index and the category median. Prior to this, the fund had only beaten the median in one of the past six calendar years -- and not by much.

Morningstar Rating

★★

(as of 30 Sep 06)

Strategy

The manager starts his process by seeking out stocks that are either over- or undervalued. To do this, he and his team of analysts produce internal earnings estimates and valuations. He then compares the internal estimates with those of the market consensus and looks into any discrepancies. He puts together a cheaper-than-market portfolio that is very well diversified by sector. The fund will own 50 to 70 names, and top positions can make up roughly 5.5% of assets. Portfolio turnover will likely be low but the manager is not opposed to trading at the edges while holding on to the bulk of the position.

Management

Domenic Monteferrante joined CIBC Asset Management in February 1998. He is a first vice president and member of the Global Equity group, operating from within the firm's Investment Management Platform. He is responsible for the management of socially responsible and prudent investor rule portfolio mandates. Prior to joining CIBC, Monteferrante managed pension assets. He also spent some time as an analyst at Canadian Pacific Railway. He holds an MBA and a BA from Concordia University and is also a CFA charterholder.

CIBC Canadian Equity

- ▶ The portfolio currently has an underweight position in the energy sector and an overweight in financials.
- ▶ The fund's MER of 2.28% is lower than that of roughly 60% of its peers.

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.

Question Marks

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