

***WIDENING THE SEARCH FOR
OUT PERFORMANCE RETURNS
NOW THAT***

FOREIGN CONTENT LIMITS HAVE BEEN LIFTED



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PRODUCTS

“Maple” bonds

Foreign issuers in Canadian dollars

Global credit

Investment grade

High Yield

Emerging Markets

CDS

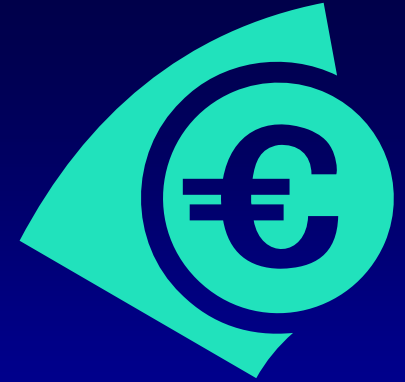
Structured Products

ABS/CDO

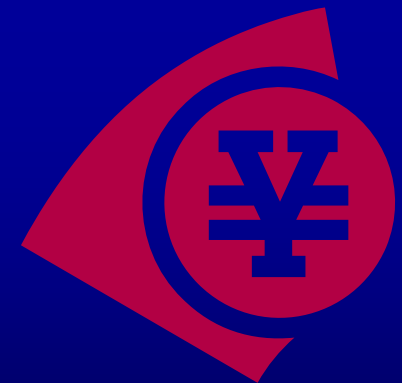
MBS

Real Return Bonds

Global government bonds

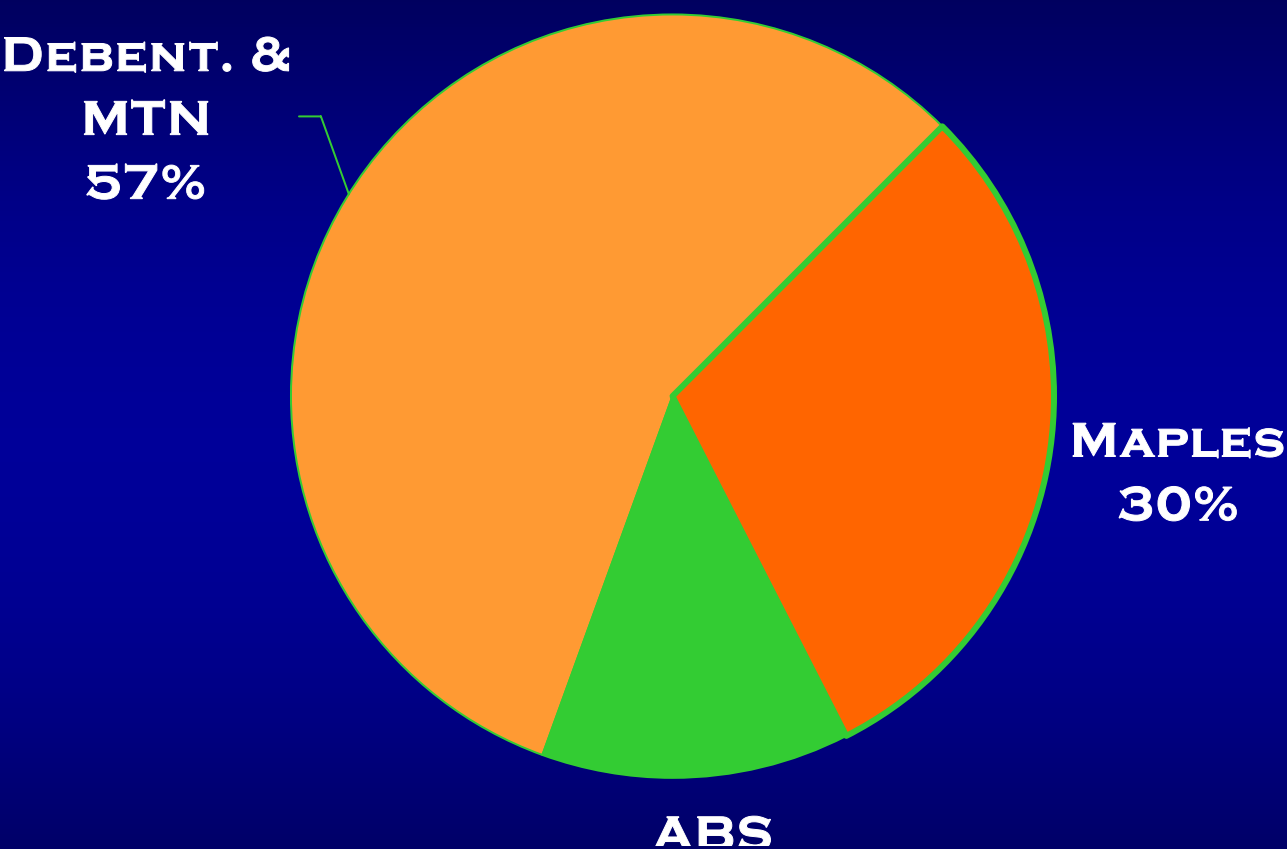


Derivatives



MAPLES – HEAVY ISSUANCE THIS YEAR

So far in 2006



> \$7 billion total
> \$3 billion corporate
Nearly half of corporate bonds
But will it continue?

Source: BMO Nesbitt Burns



MAPLES – IMPACT ON DOMESTIC MARKET?

- Some spread pressure as Maples are issued at wider spreads for higher quality credit vs. Canadian issuers
- Canadian spreads have been historically tight vs. global markets – normalising
- For large (especially lower quality) domestic issuers, still need to issue in foreign markets to access investor base
- More competition for investor dollars, but so far Maples mostly financial issuers
- Some investors starting to allow foreign credits plus asset swap for equivalent credit risk exposure, especially in pooled funds

IMPLICATIONS AND BARRIERS DIFFER

- Pension plans
 - Mega
 - Large
 - Medium
 - Small
- Insurance
- Mutual funds
- Hedge funds

Implications
for domestic
corporate
issuers and
portfolio
managers?

GLOBAL BONDS - HURDLES

General

- low yields, tight spreads
- view of bonds as low risk assets
- perception of low alpha potential
- confusion about alpha vs. beta from global bonds
- complex new instruments
- currency risks
- fear of derivatives

GLOBAL BONDS - HURDLES

Pension	Liability management. Mandate change. Board education and approval. Client communication.
Mutual Fund	Product design within client portfolio context. Executive education.
Insurance	Benchmark selection – global players. Client communication.
Hedge fund	Marketing.

DOMESTIC VS. GLOBAL - STRATEGIES

Domestic Managers	Global Managers
Mostly conservative domestic style, many with low alpha. Top quartile is just 30 bps.	Wide range of strategies and generally higher value added. Top quartile global and core plus managers add 100 bps or more.
Some new and established active strategies vs. Canadian benchmarks.	Wide range of styles and hedge funds, vs. Canadian benchmarks, as diversifiers or through alpha transport strategies.

DOMESTIC VS. GLOBAL - STRUCTURE

Domestic Managers

Small teams, but domestic experience applies to investment grade credit and global yield curve.

Local presence is an advantage for client service, many have global partners.

Global Managers

Access to wide range of specialists and large teams with broad expertise and various styles – important for lower grade credit, emerging markets, and MBS.

New players may lack experience with Cdn benchmark and credit, may not appreciate local preferences or need to hedge \$C.

HOW CAN DOMESTIC MANAGERS COMPETE?

- Client service!!!!
- Find your niche.
- Process must evolve to diversify sources of alpha – vanilla duration is dying!
- Find ways to demonstrate innovation and skill as you build a track record in newer strategies and clients adjust mandates.
- Technology, risk management, compliance are essential and can no longer be glossed over.
- Partner with a global player.

APPENDIX



GLOBAL BONDS – ALPHA OR BETA?

<i>Alpha</i>	<i>Beta</i>
"Core plus" vs. domestic benchmark	<ul style="list-style-type: none">• Global bond manager vs. global benchmark (currency can be a big source value)• Foreign "core plus" vs. foreign benchmark
"Alpha transport" of global or specialty managers vs. domestic benchmark or liabilities	Specialty managers vs. specialty benchmark e.g. high yield, emerging markets
Hedge funds (Global Macro)	

DERIVATIVES – ALPHA TRANSPORT

