

Yielding for Success

Sectors that were beat up by the financial crisis, such as global real estate and infrastructure, are now going to the debt and equity markets for support. Their yields are attractive compared to government bonds. Eric Bushell, chief investment officer of Signature Global Advisors, a division of CI Investments, is lead portfolio manager of Signature Diversified Yield Fund, which was launched to capture these and other opportunities.

With markets up significantly year-over-year, what's your strategy for guiding growth in 2010?

ERIC BUSHELL | At Signature, we manage around \$23 billion of assets, which is split evenly between income and equity. We have a central theme that runs through both sides of our book. That is, that there are certain areas that have been hard hit by the financial crisis and these sectors will need to refinance – the refinancing presents opportunity for investors such as Signature, who have the capital to invest.

Capital markets in 2009 were very unusual because equity offerings were happening in parallel with public bond offerings. The reason for this is that they are part of a broader package of refinancing for companies that have too much bank debt. The bank wants the company to shed some of that debt, but the bond market feels that there is too much leverage, so they're insisting that there's some equity. So, the equity market, the bond market and the bank have to come

to terms with each other. It's a partnership that means that capital providers are going to be in the driver's seat. At Signature, we want to be liquid and have cash on hand in order to be responsive to market opportunities and get a good return on our investment.

You recently launched Signature Diversified Yield Fund to take advantage of these opportunities. Can you explain more about the fund?

ERIC BUSHELL | Global real estate, infrastructure and high-yield bonds – all suffered badly during the credit crunch, because companies with stable cash flow assets, like property and infrastructure, tend to be more highly leveraged than other sectors. Excessive leverage crippled many companies in these sectors, which has led to reorganizations of their capital structures. As confidence and values recover, we feel these sectors represent a good opportunity and potential for growth.



What are the prospects for real estate?

ERIC BUSHELL | Real estate suffered mainly because of the extensive use of leverage. As well, nearly 80% of U.S. commercial mortgages originated by banks are for syndication into the commercial mortgage-backed securities market. Neither of these areas will come back for several years because the excesses of the previous cycle need to be sorted out. Public companies in this sector are looking good because they tap directly into the bond or equity markets for funding. We are in the early stages of this transition, one that will play out over the next several years or so. We expect to see blue chip companies with strong balance sheets and the ability to grow earnings take advantage of the distress.

Can you explain what type of infrastructure holdings will be in the portfolio and what investors can expect in the future?

ERIC BUSHELL | Infrastructure holdings will consist of assets such as toll roads, airport operators, ports and other government assets that are being sold to the public. Many of these operations saw 2009 volumes turn negative for the first time in many years. However, some firms, such as airport operators, showed gradual improvements with increased volumes in the second part of last year. This is expected to accelerate in 2010. Prices per passenger have remained positive, which has resulted in stable operating profits for these companies. Although traffic volumes were disappointing last year, the biggest variable to impact stock performance has been the significant debt levels this asset

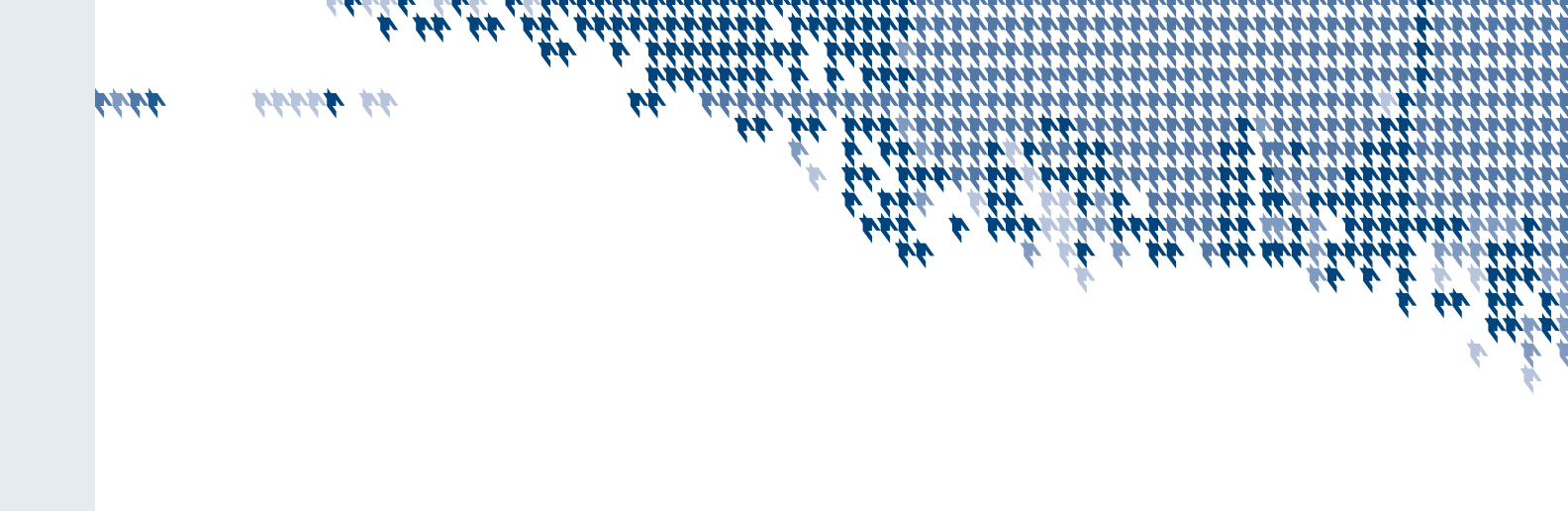
class carries. But, thanks to the combination of selective debt reduction and improvements in credit markets, these stocks have rebounded from their lows.

Corporate bonds, particularly high yield, make up one of the asset classes in the new fund. What is the outlook?

ERIC BUSHELL | The high-yield bond market is clearly thriving in its expanded role, stepping in where banks are reluctant and providing the mechanism for new lending and the refinancing of bank debt and short-term commercial paper. The market also faces a challenge, as banks shrink their lending commitments and US\$500 billion worth of leveraged loans held within structured credit vehicles will need to be refinanced in the high-yield bond market. Given this supply and our outlook for slow economic growth, we believe the high-yield market is going to remain cheaper for longer than it has in the past, but with more volatility. In this environment, credit markets can perform very well.

How will the fund's targeted asset classes perform in an inflationary environment?

ERIC BUSHELL | Since higher inflation is typically accompanied by economic growth and high-yield companies are levered to this growth, we expect it to translate into credit improvement for corporate bonds, with spreads tightening to partially mitigate the impact of rising interest rates. High-yield bonds, with high coupons and shorter maturities than investment-grade bonds, also tend to have a lower duration. Generally, commercial real estate is seen as an inflation



hedge because, over time, rents and cash flows grow at the rate of inflation. We expect to see rising cash flows and a corresponding rise in asset prices during inflationary periods. However, if inflation expectations cause abrupt increases in interest rates, this will have a short-term negative affect on the real estate valuations. Overall, these two dynamics offset one another over time, making commercial real estate better insulated than other fixed-income alternatives to rising inflation.

Infrastructure assets tend to outperform during inflationary periods, since tolls are indexed roughly to the rate of inflation. In addition, these assets have relatively low operating costs that rise more slowly during inflationary periods due to the low capital expenditures required to maintain the asset base after it has been built. This provides steady inflation-protected cash flow growth.

Within the portfolio, how much weight do you give to each sector?

ERIC BUSHELL | Signature Diversified Yield Fund will be approximately 50% high-yield bonds, with the rest split evenly between real estate and infrastructure. In total, there will be about 180 high-yield bonds, which are nearly all U.S., and 50 stocks. Real estate and infrastructure holdings will be truly global – based in Europe, Australia, the U.S. and the U.K.

How do you protect on the downside?

ERIC BUSHELL | The best way to do that is having income-generating assets, such as the high-yield debt market and REITs. On the equity side, we are orienting our portfolios to assets that are defensive with yield support. The more stable, defensive, dividend-paying stocks, such as U.S. health care, consumer staples and telecommunications, are just now beginning to perform. None of those sectors participated in the rebound in equity markets last year.

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