

## Mark Kanar

CIBC Global Asset Management Inc.

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### Manager Monitor

Michael Ryval

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### Manager believes high-yield bonds could surprise investors.

While the market consensus is that high-yield bonds will show coupon-like returns of 6% to 7% in 2007, Mark Kanar says that the asset class could surprise on the upside.

"I think we could command a little bit more than the consensus," says Kanar, manager of the \$115.5-million Renaissance Canadian High Yield Bond and vice-president, global fixed income at CIBC Global Asset Management Inc. in Toronto.

"First, the economy is good. Second, the ability to stay out of a default scenario is very high," says Kanar. He notes that distressed corporations generally have access to financing alternatives that are less drastic than filing for bankruptcy protection.

Kanar, who also runs the similarly managed \$64.5-million Talvest High Yield Bond, uses a blended benchmark. Seventy per cent consists of the Scotia Capital High Yield Bond Index, which comprises about 16 Canadian bonds. The remaining 30% weighting is the Merrill Lynch U.S. High Yield Index, which tracks a universe of 1,000 U.S. high-yield bonds.

"We ask ourselves, 'How can we differentiate ourselves?' We need to beat that [Canadian] index by about 100 basis points," says Kanar. "That's our starting point for identifying credits." Last year, the Renaissance fund returned 11.4% before fees, compared with 10% for the blended benchmark. But the management expense ratio of 1.92% brought the fund's return to below the benchmark.

The key issue, Kanar adds, is understanding risk. That is, the upside may range from 10 to 20 cents on the dollar. But the downside is potentially higher, at 70 cents on the dollar or more. "The market is so skewed to the downside that you have to be very careful. That's why we choose to have more names in the portfolio."

There are 70 names in total: 30 on the Canadian side, and about 40 from the U.S. Under the funds' investment constraints, Kanar must still operate within the former 30% foreign content limit for registered savings plans that was abolished in 2005.

Since high-yield bonds have equity-like characteristics, Kanar is mindful of a company's health. "I'm not chasing growth. The key thing I look for is stability of revenue and earnings before interest, taxes depreciation and amortization. EBITDA is the gold standard for high yield credit."

A 2010-dated bond issued by Biovail Inc. is one of the funds' largest Canadian holdings. Kanar believed the BB-low rated issue was "too cheap to ignore." Acquired two years ago, the bond yielded almost 9%, reflecting the biotechnology company's problems at the time. "There could be a period with a bump in the road, but it was a huge company that could weather a short-term storm," says Kanar.

The son of a Toronto homebuilder, Kanar came to investing via a career in accounting. As a teenager, he got a taste of business working for his father and later for the firm's accountant.

Kanar graduated from York University in 1980 with a bachelor of administration. He articulated with Clarkson Gordon, as it was known, and worked as an audit manager from 1981 to 1986 at Ernst & Young, the successor firm.

He then joined the Bank of Montreal, where he worked for four years as an account manager in corporate finance and dealt with mid-sized firms. "It was a natural progression for me," says Kanar. "It's been a career discovery process along the way. That's how you grow as a professional."

## Mark Kanar: CIBC Global Asset Management Inc.

In 1991, Kanar landed a position as a high yield analyst at Elliott & Page Ltd., a subsidiary of North American Life Assurance Co., which was bought out by Manulife Financial Corp. Later, he was promoted to senior portfolio manager, helping to manage Manulife's own \$1.5-billion high-yield account.

In April 2002, Kanar was recruited by CIBC. Besides managing the two funds, he also oversees about \$100 million in high-yield bonds for institutional accounts.

Kanar limits his single holdings to about 6% of fund assets. His turnover tends to be moderately high in the Renaissance fund, at 65.9% in 2005, 103.4% in 2004 and 122.8% in 2003. "I am not a buy-and-hold investor," says Kanar. "I'll take my profit--or my losses--and run. I'll move on to something else that has a better profile."

Sometimes, though, patience is rewarding. In 2005, Kanar kept Allied Holdings Inc., a U.S. automotive parts manufacturer, even though it had defaulted on its bonds and its prices dropped to as low as 30 cents on the dollar.

Happily, the company restructured its operations and eventually he recouped his investment. "That credit was as bad as you could get," says Kanar. "But when you look at the big picture it worked out well."

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### Funds Managed

Since	Fund Name	Total Assets (\$,000)	Star Rating
	Talvest High Yield Bond	\$64,455	No Rating
Sep/03	Renaissance Canadian High Yield Bond	\$115,024	No Rating
		<b>\$179,479</b>	
Data as at		31 Dec 06	

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### About the Author

Michael Ryval, a regular contributor to Morningstar, is a Toronto-based freelance writer who specializes in business and investing. Among the other publications in which his articles appear are Investment Executive, The Globe and Mail and FORUM.