

## Shannon to stick close to home

### Domestic funds will be 90% Canadian

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One of the highest-profile fund manager changes of 2006 was Kim Shannon's move from C.I. Investments to Brandes Investment Partners & Co. (BIPCO).

At year-end, Brandes launched three new domestic mutual funds advised by Shannon's Sionna Investment Managers Inc. It also added Sionna as portfolio manager to the renamed Brandes Sionna Canadian Balanced Fund.

Windsor-based fund analyst Dan Hallett says the new funds all resemble ones Shannon previously managed at C.I.

The probable flagship -- Brandes Sionna Canadian Equity -- will be run like the C.I. fund Shannon used to manage, with 35 to 50 stocks. It will not resemble the index: Currently, the fund has zero weight in three sectors: health care, technology and telecommunications. But while some rival managers are underweight energy, Shannon has market weighting in that sector.

Because it invests in stocks with under \$2-billion in market cap, Brandes Sionna Canadian Equity likely will be closed to new investors when it reaches \$700-million, Shannon says.

These days, even Canadian equity funds are unconstrained by the foreign content rule. As a result, many are moving to as much as 50% foreign content -- which still permits them to qualify in the "Canadian anchored" category of Morningstar Canada. Shannon, however, intends to have only 10% foreign in her domestic funds, which will come from units in Brandes Global Equity.

This is ironic, given Brandes' niche in deep value global equities. The firm was founded in controversy in 2002 after star global value manager Charles Brandes bolted from his subadvisory relationship with the then-\$10-billion AGF International Value Fund. AGF hemorrhaged millions over the defection as many investors and advisors "followed" Brandes to his new firm.

The much ballyhooed successor to Brandes, Harris Associates LP of Chicago, was recently replaced with AGF's in-house manager John Arnold, of Dublin-based AGF International Advisors Co. Ltd.

Toronto-based fund analyst Dave Paterson is leaning to Brandes Global Equity over AGF International Value Fund.

"I like what John Arnold's team has done with other mandates, but there was

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significant turnover that needed to be done to bring the fund into line with his philosophy."

In an interview yesterday, Brandes and Sionna principals were quick to clarify their relationship is not a subadvisory one. The "Brandes Sionna Strategic Alliance" announced last October will be an "enduring relationship," they emphasized. Both parties will share the expenses and the revenues of the business, says AGF alumnus Oliver Murray, now president and CEO of BIPCO.

Until the Shannon deal was inked, the Canadian equity mandate at Brandes was minimal: only \$400-million of its \$6-billion in assets under management are in Canadian securities. Currently, 8,000 financial advisors sell the funds.

Since the C.I. Canadian Investment Fund had \$6-billion in it when she left, clearly Murray has high hopes a hefty percentage of that will eventually "follow" Shannon.

To some extent, this recent Canadian thrust runs counter to Brandes' global value roots and to the "go global" push Canada's fund companies have espoused since the 30% foreign content limit was repealed two years ago.

Canada makes up only 3% of global stock markets but because of "home country bias" and the legacy of the foreign content limit, most investors have much more than 3% in Canadian equities. When you include fixed income and high-yielding income trusts, Canadian exposure accounts for well over half of most portfolios.

Thus, the biggest opportunity for Shannon might be in her two balanced mandates. Shannon dubs her new Diversified Income Fund a "triple yield" fund. It will invest in Canadian dividends, preferred shares and income trusts, plus 25% in corporate bonds managed by Brandes (and hedged back into C\$).

Management expense ratios (MERs) will be 2.49% for the two equity funds, 2.27% for the balanced fund and 2.17% for the diversified fund, Murray says.

Morningstar Canada analyst David O'Leary says "overall we like Brandes as a shop of disciplined value managers." However, right now is not a particularly great time for value funds, O'Leary says. "It's been more of a growth market than value in Canada."

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- Jon Chevreau blogs at [nationalpost.com/chevreau](http://nationalpost.com/chevreau)

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