

Looking From The Top

Applying experience to bond movements

BY MICHAEL RYVAL

While a university student, Jean Charbonneau never dreamed he would become a fixed income manager.

“Fixed income was not well covered. You got a couple of chapters on the subject and that’s it,” recalls Charbonneau, 49, head of fixed income and senior vice-president at Toronto-based AGF Funds Inc. But Charbonneau had a strong interest in macroeconomics, and that eventually developed into a

top-down investment approach to fixed income that he’s applied for most of his 25-year career.

As manager of AGF’s global bond mandate, he meets every quarter with co-managers Tristan Sones (who specializes in credit analysis) and Tom Nakamura (who specializes in currencies). Together, they hammer out a top-down oriented strategy to exploit the best opportunities.

They begin with a template

that takes into account monetary policy, inflation and real rates of return. They also compare nominal interest rates to GDP growth in a wide range of countries. Once the information is gathered, they estimate the magnitude and direction of interest rates for the countries represented in their benchmark, the Citigroup World Government Bond Index, as well as several emerging markets. They also develop a view on the yield curve and duration in each country.

This exercise generates the expected return for each country, and for other asset classes such as corporate bonds, high-yield bonds, government-sponsored organiza-

tions and emerging markets. “One number will capture lots of information,” Charbonneau says.

Based on their expectations of total return, they will overweight or underweight different countries and asset classes. “We use both quantitative models and qualitative analysis,” Charbonneau says.

Charbonneau is manager of AGF Global Government Bond, whose assets have been swollen by merger. On May 23, the fund absorbed the former AGF RSP Global Bond. Pre-merger, both funds pursued a similar strategy and had very similar holdings and the same 1.90% management-expense ratio. As well, each

fund received a 4-star Morningstar Rating in the Global Fixed Income category.

As of April 30, AGF Global Government Bond had a year-to-date return of 6.5%, 1.2 percentage points ahead of the median fund. That’s a reversal of the fund’s 6.8% loss in calendar 2007 (slightly worse than the median loss of 6.5%) when the high-flying Canadian dollar eroded gains achieved in overseas markets.

Like AGF’s market benchmark, the global bond fund holdings are not hedged against currency fluctuations. Fortunately, going into 2008, the dollar has been stable. “In fact, we had some tailwind, because the dollar weakened against the U.S. dollar for a while,” Charbonneau says.

A Franco-Ontarian who grew up in the small northern community of Hearst, Charbonneau’s first job was at the Montreal Exchange. He later joined Desjardins Trust and spent a year as a stock trader for institutional accounts. Then he switched to the fixed income side and discovered that was his métier.

Between 1988 and 1993, Charbonneau worked at the Caisse de dépôt et placement du Québec as chief trader and bond strategist on international fixed income. In 1996, after working in international fixed income sales at two small investment dealers, he joined TAL Global Asset Management. Ten years later, he joined AGF, replacing the former fixed-income head, Scott Colbourne. Charbonneau has managed AGF Global Government Bond ever since. He is also a member of the team that manages AGF’s flagship fixed income fund, the \$930.1-million AGF Canadian Bond.

“Being active managers, we make changes around core positions. It’s a phased approach,” he says. “We have an institutional mind set. If we need to produce 1% over the benchmark, for instance, we will take X amount of active risk. And if we are wrong, we won’t destroy the cumulative performance.”

Charbonneau believes that the lowering of interest rates is nearly over in North America. As a result, he intends to reduce the government bond holdings and gradually increase the exposure to the emerging markets.

“That category does not behave like U.S. treasuries. It’s driven by different factors,” he says, adding that U.S. government bonds, “are already expensive, based on factors such as real yields.”

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Michael Ryval is a Toronto financial writer.