

Pensions & Investments

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SPECIAL REPORT: Top-performing managers

Top strategies stay course

Fixed income: Commodities keep Credit Suisse at top for another quarter

By Mark Bruno

Credit Suisse Group's Total Commodity Return strategy held a familiar spot as the best-performing fixed-income portfolio for 2005, continuing to top high-yield and long duration strategies.

Credit Suisse Group's approach produced a 27% return for the 12-month period ended Dec. 31, nearly doubling the performance of the next best bond strategy, according to the Separate Accounts Monitor performance database of Morningstar Inc., Chicago.

Led by portfolio manager Nelson Louie, the Credit Suisse strategy was the top-performing fixed-income portfolio in the SAM universe for the second straight quarter and for all but the second quarter last year.

Following New York-based Credit Suisse was Zazove Associates, Incline Village, Nev., whose high-yield convertible securities strategy returned 13.6% for the 12-month period.

Rounding out the top five per-

formers for 2005 was the fixed-income composite strategy of Hoisington Investment Management Co., Austin, Texas, which returned 11.6%; New York-based Jennison Associates LLC's active extra-long fixed-income strategy, with 9.7%; and New York-based Ryan Labs Inc.'s very-long liability enhanced strategy, which returned 9.5%.

All of the top five performers handily topped the Citigroup Broad Investment-Grade Bond index, which returned 2.6% for the year ended Dec. 31. The median strategy in the Morningstar managed account fixed-income universe also returned 2.6% for the year.

Sector strength

Credit Suisse's Total Commodity Return portfolio, a commodity index strategy benchmarked to the Goldman Sachs Commodity index, benefited from strong performance in the energy and metals sectors, said Mr. Louie.

"We think that there will be a similar story line this year as last,"

said Mr. Louie. "It's a cycle where there is limited production capacity in these sectors and increasing demand because of increasing consumption."

Mr. Louie added he is "very optimistic" about the long-term outlooks for the commodity strategy, specifically because of increasing demand for commodities in emerging economies, such as the demand for gold in China.

Christopher Cook, portfolio manager of Zazove's high-yield convertible strategy, said that purchasing bonds that sell at a discount, "gives us a lot of ways to win." The firm, which manages a total of \$3.5 billion in convertible bonds, tends to look for bonds with 8% yields. "We then analyze the risk-rewards of these companies and try to determine if they will be able to pay off their debts, or if they will have to do a restructuring, or if the bonds will become busted," said Mr. Cook. He did not cite any examples.

The returns of Zazove's high-yield strategy significantly outpaced

every other fixed-income strategy for the five-year period ended Dec. 31. The strategy returned an annualized 24.4% for the period, beating out the domestic high-yield strategy of DDJ Capital Management LLC, Wellesley, Mass., the next closest performer, which returned an annualized 15.4% in the same period. (For the five years, the Citigroup BIG index returned 5.9%, while the universe median was 5.8%.)

Eric Greene, director of research at Cherry Hill, N.J.-based PENN Capital Management, said the firm's opportunistic high-yield strategy, which was 10th for the year ended Dec. 31, with a 7.2% return, benefited from carefully managing its risk. "A major key to performance has been avoiding blowups," said Mr. Greene. "We cut our losses and we've sold a lot of companies at the first sight of a downtick."

PENN Capital has added to its research staff during the past year, Mr. Greene added, allowing it to have more direct communication with corporations and greater diversify its high-yield investments. "The portfolios are more diverse because we have more people covering more companies now," he said.

While high-yield fixed income has had a major run during the past several years, many observers expect returns will be tempered in the next year. Mr. Cook, for one, said he expects high-yield returns to range from high single digits to low double digits during 2006, while Mr. Greene said he foresees returns between 7% and 9% for the next year.

BGI tops commingled

Among commingled fixed-income strategies, San Francisco-based Barclays Global Investors' 20+ Treasury Bond Index strategy

Top performers by investment class

Managed domestic broad-market fixed income

TOP 10 MANAGERS - 1 YEAR

Morgan Stanley (Core Plus)	4.6%
Jennison (Active Core)	4.1%
Morgan Stanley (Core)	3.9%
Fiduciary/Franklin Templeton (Opp.)	3.9%
Cypress Asset (Core)	3.9%
C.S. McKee	3.9%
Atlanta Capital (High Quality)	3.8%
Davis Hamilton Jackson (Aggr.)	3.8%
C.S. McKee (Broad Gov't)	3.8%
Goldman Sachs (Core Plus)	3.7%

TOP 10 MANAGERS - 5 YEARS

Denver (High-Inc. Corp. Mgmt.)	9.3%
TCW (Opp. Core Plus)	8.4%
Taplin, Canida (Corporate)	8.2%
Western Asset (Core Full Discr.)	8.0%
Financial Mgmt. Adv. (Inv. Gr. Core)	7.9%
Transamerica (Inv. Grade)	7.5%
Western Asset (Corporate)	7.5%
Hartford Inv. (Core Plus)	7.2%
MFS (Core Plus Research)	7.2%
Caywood-Scholl (Corp. Hybrid)	7.1%

Commingled domestic overall fixed income

TOP 10 MANAGERS - 1 YEAR

BGI (20+ Treas. Index)	8.7%
BGI (Long Gov't Index)	6.7%
Fort Washington (High Yield)	4.8%
Victory Capital (Conv. Mgmt.)	4.7%
SSqA (Bond Market)	4.7%
Dwight Asset (Stable Value)	4.6%
Victory Capital (Stable Val. Mgmt.)	4.5%
INVESCO (Stable Value Trust)	4.4%
Gartmore Morley (Stable Value)	4.1%
Nationwide Life	4.0%

TOP 10 MANAGERS - 5 YEARS

Fort Washington (High Yield)	10.8%
BGI (Long Corp. Index)	9.6%
Financial Mgmt. Adv. (High Yield)	9.2%
TCW (High Yield Mgmt.)	9.1%
GM Asset (Promark High Yield)	8.2%
Prudential (Privest)	8.2%
BGI (20+ Treas. Index)	8.0%
BGI (Long Gov't Index)	7.7%
UBS Fiduciary Trust (Strategic)	7.4%
Galliard Capital (Broad Market Core)	6.7%

was the top performer for the 12 months ended Dec. 31, returning 8.7%. BGI's long government bond index strategy was second, returning 6.7%.

Fort Washington Investment Advisors Inc. came in third place among commingled funds, with the Cincinnati-based firm's high-yield portfolio returning 4.8% for the year. Cleveland-based Victory' Capital Management's convertibles management fund followed, with 4.7%, followed by State Street Global Advisors, Boston, also at 4.7% with its bond market fund.

For the five-year period, the top performing commingled fixed income strategy was Fort Washington Investment Advisors high-yield strategy, which returned an annualized 10.8%, followed by BGI's long bond corporate index fund at 9.6%, and Los Angeles-based Financial Management Advisors LLC's high-yield fund with 9.2%.

The median commingled fund for the year returned 2.8%, and for the five years, an annualized 5.9%.