A diversified multi-sector Canadian fixed income fund that plays it safe

What's the strategy?

The Core Bond portfolio strategy invests primarily in government bonds and high-quality corporate bonds with a variety of maturity terms and credit risks to create a highly-diversified core Canadian bond portfolio.

What's the approach?

The portfolio manager's goal is to outperform the FTSE Canada universe bond index by seeking to optimize yield opportunities, while maintaining prudent diversification to moderate volatility and preserve capital.

The portfolio manager pursues a consistent, measured and disciplined approach to capture incremental gains through a multi-factor approach to analyzing interest rates, credit markets and yield curves. The portfolio manager manages the portfolio within a moderate variation of the index duration.

This purely Canadian bond portfolio is highly diversified by sector, term and issuance, with a focus on capital preservation and a long-term view towards conservative, stable income and capital appreciation.

Why invest in this portfolio strategy?

Ideal for investors seeking a conservatively managed, highly diversified core fixed income portfolio that's designed to be responsive to changes in interest rates and market risks, while controlling overall risk levels.

Typical portfolio characteristics

The Core Bond (Portico) portfolio strategy can offer:

- A purely Canadian bond portfolio that is highly diversified by sector, term and issuance
- A conservatively managed, high-quality portfolio of investment-grade fixed-income holdings
- Active management of credit risk, duration, yield curve and sector positioning to optimize yield opportunities while mitigating risk
- Active management of sector exposure to seek greater yield opportunities and manage risk

Strategy snapshot

Asset class
Fixed Income

Inception date
1962

Assets in mandate
$3,361.5 million

Benchmark
FTSE Canada Universe Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Dale Haynes
Vice-President, Fixed Income

About GLC

GLC Asset Management Group Ltd. (GLC) is a leading investment management firm that manages more than $50 billion in assets.

GLC has 5 investment management divisions:

- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management
- Portfolio Solutions Group

Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

As at December 31, 2018

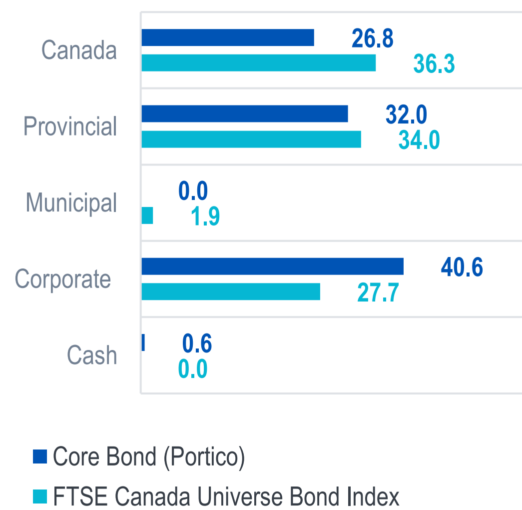
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	9.93	10.20
Modified duration (years)	7.41	7.46
Market yield (%)	2.78	2.72
Number of Bonds	127	1,469

Credit quality %

	Portfolio[1]	Index[2]
AAA	33.2	40.1
AA	39.2	36.2
A	16.7	13.1
BBB	10.3	10.6
<BBB	0.6	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL Core Bond Fund (Portico) | 2. Index: FTSE Canada Universe Bond Index

Portfolio manager's quarterly commentary

As at December 31, 2018

Market review

The FTSE Canada Universe Bond Index returned 1.76% (total return) for the fourth quarter of 2018, bringing the calendar year return back into positive territory at 1.41% (total return). North American bond yields fell sharply as investors embraced a 'risk-off' stance. This coincided with a broad global equity selloff amid concerns of slowing global growth and continued trade tensions between the U.S. and China. In December, the U.S. Federal Reserve (Fed) hiked rates for the fourth time in 2018 but bond yields fell as the Fed signalled it may adopt a slower, more gradual path going forward. The Bank of Canada also hiked rates in October, bringing the total number of hikes to three in 2018. However, Canadian interest rates fell across the curve in the quarter, weighed down by dovish commentary from Governor Poloz and mirroring the fall in U.S. bond yields.

Canadian government bonds outperformed relative to corporates. Corporate bonds produced a positive return despite spreads widening during the quarter. Federal bonds beat provincial and municipal bonds within the government sector. On a term basis, mid-term bonds led the way, followed by long bonds and then short-term bonds.

Portfolio performance

In the quarter, the fund was neutral in performance to the FTSE Canada Universe on a gross return basis. The fund did well on an overweight in 5-year Bank names, as well as 3-year Bank and Infrastructure names, all of which performed well due to demand as the quarter closed. Long end Canada weight helped as the 30-year bond performed extremely well in the last month of the quarter, but front-end Canada selection hindered performance. A small amount of underperformance occurred due to a slight skew toward the most liquid of long Corporate names, as these bonds sold off first as the risk-off trade ensued.

Portfolio activity

Over the quarter, the fund's duration was moved closer to 15 days shorter than the benchmark. From a sector perspective, we increased the fund's exposure to Provincial bonds, specifically in the 10- and 30-year term range, on spread weakness, and increased the cash exposure. In turn, we reduced the fund's Canada and corporate bond weight in the short-end of the curve.

Positioning & outlook

Factors such as trade tensions between the U.S. and China, trade tariff impositions and ramifications, as well as speculation on central bank rate moves, will continue to result in uncertainty for credit markets for the foreseeable future. Corporate bond spreads have come under pressure this quarter and may reverse direction as price discovery works through the market.

In light of this backdrop, the fund's duration position is marginally shorter than the benchmark. The fund remains overweight corporate bonds, with a focus on traditionally liquid corporate names. Should corporate spreads come under further pressure and widen further, we will look to increase the fund's corporate bond exposure at higher yields. We believe the fund is well-positioned and we remain confident in the quality of the credit issues within the portfolio regardless of the underlying trend or the absolute level of yields.