glc asset management

Well balanced, actively managed Canadian fixed income opportunity

What's the strategy?

The Core Plus Bond (Portico) portfolio strategy invests in a broad spectrum of government bonds and corporate bonds, with the opportunity to enhance yield by adding high-yield and foreign-denominated bonds when attractive market opportunities arise. This portfolio is designed to be a core Canadian fixed income holding.

What's the approach?

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.

This Canadian-focused bond portfolio is highly diversified by sector, term and issuance, with a focus on outperform the FTSE Canada Universe Bond Index by being nimble enough to optimize yield opportunities, while maintaining prudent diversification to moderate volatility. Within well-defined risk parameters, the portfolio manager has the flexibility to add exposure to high-yield bonds and foreign-denominated bonds in select holdings when attractive market conditions exist.

Why invest in this portfolio strategy?

Ideal for investors seeking a primarily Canadian diversified core fixed income portfolio that's designed to be responsive to changes in interest rates and various market conditions, while controlling overall risk levels.

Typical portfolio characteristics

The Core Plus Bond (Portico) portfolio strategy can offer:

- A primarily Canadian bond portfolio that is diversified by sector and term with a wide latitude on issuer selection
- Active management of credit risk, duration, yield curve and sector positioning to optimize yield opportunities while mitigating risk
- Opportunity to boost yield by being nimble enough to optimize yield opportunities while maintaining prudent diversification to moderate volatility, including the flexibility to invest in non-investment grade corporate debt and foreign-denominated debt

Strategy snapshot

Asset class
Fixed Income

Inception date
1976

Assets in mandate
$4,470.2 million

Benchmark
FTSE Canada Universe Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Janet Salter
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

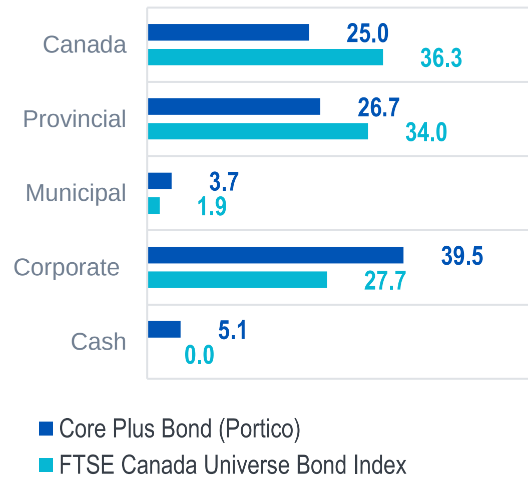
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	9.28	10.20
Modified duration (years)	6.78	7.46
Market yield (%)	2.86	2.72
Number of Bonds	127	1,469

Credit quality %

	Portfolio[1]	Index[2]
AAA	32.2	40.1
AA	35.4	36.2
A	17.5	13.1
BBB	13.3	10.6
<BBB	1.7	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Core Plus Bond Fund (Portico) CLA S19 | 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

The fund underperformed the FTSE Canada Universe on a gross return basis for the quarter. The primary driver of the negative performance relative to the benchmark was the fund's shorter duration than the benchmark as interest rates fell. The fund also gave up performance with its overweight in corporate bond and selection within the sector. The fund's underweight in provincial bonds relative to the index contributed positively to performance.

Portfolio activity

During the quarter, we reduced our exposure to corporate bonds and added some weight to provincial bonds and cash. We shorten the duration of the fund as the decrease in interest rates appeared overdone and at the bottom of the recent trading range.

Positioning & outlook

Market sentiment has turned extremely bearish on risky assets and despite the notorious risks (i.e., China/US trade talks, Brexit, US political landscape) the global economy is still growing but at a decelerating rate. We could see further downside to bond yields in the short term but we feel that is limited as a greater issuance for government debt is expected. Also, inflation, although modest, remains and growth in the global economy will cause bond yields to move higher from these overdone levels. That said, it's unlikely we see the highs of 2018 unless the global growth rate accelerates again. The North America central banks will be closely watched as the market currently anticipates that central banks will remain hold for the year despite them saying otherwise.

The fund is shorter duration than the index as we expect rates will move higher based on current fundamentals. However, we will be keeping a close eye on economic and central bank developments and will adjust the fund's duration accordingly. We have an overweight bias to short-term to mid-term corporate bonds with an underweight in long-term corporates. We continue to look for opportunity to diversify our holding and currently have limited short-term exposure of provincial and municipal bonds, while maintaining a neutral position to these bonds in the greater than five-year range.