glc asset management

An opportunity to invest for the long term, to better match long-term investment needs

What's the strategy?

The Long Term Bond (Portico) portfolio strategy invests primarily in Canadian federal, provincial, and corporate bonds with terms greater than 10 years. The goal is to create a long- term Canadian bond portfolio that provides an opportunity for higher income generation.

What's the approach?

The portfolio manager pursues a consistent, measured and disciplined approach to capture incremental gains within longer-term bonds through a multi-factor approach to analyzing interest rates, credit markets and yield curves.

Why invest in this portfolio strategy?

Ideal for investors with a longer investment horizon seeking interest income and the potential for capital appreciation.

The Long Term Bond strategy has the potential to add significant value in an economic environment of stable or declining interest rates. The portfolio is more sensitive to interest rate and inflation expectation changes than shorter-duration fixed-income options.

Typical portfolio characteristics

When compared to the broad Canadian fixed-income market, this portfolio strategy offers:

- The potential for higher income generation
- A longer duration relative to a core Canadian bond portfolio
- A mix of Canadian federal, provincial and investment-grade corporate bonds that can provide additional yield opportunities
- Well diversified fixed-income holdings to help meet long term liabilities
- Pure Canadian bond exposure

The Long Term Bond portfolio focuses on one maturity segment within the fixed-income market and can act as a complement to a core bond portfolio and offer additional yield opportunities.

Strategy snapshot

Asset class
Fixed Income

Inception date
1990

Assets in mandate
$1,057.0 million

Benchmark
FTSE Canada Long Term Overall Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Natalie Laden,
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

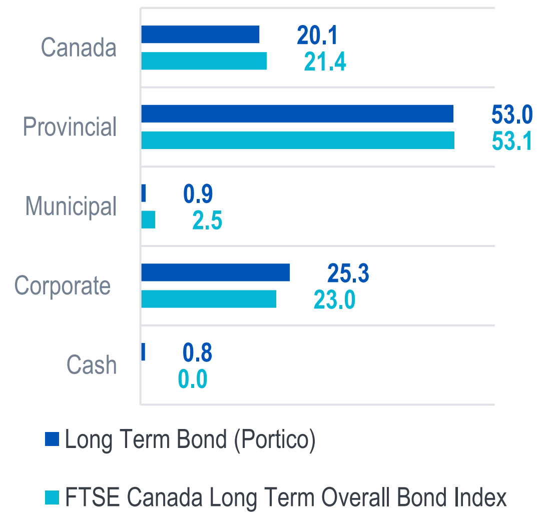
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	21.52	22.27
Modified duration (years)	14.58	14.69
Market yield (%)	3.16	3.18
Number of Bonds	85	576

Credit quality %

	Portfolio[1]	Index[2]
AAA	29.7	26.3
AA	47.1	44.7
A	16.0	20.2
BBB	7.2	8.8
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL Long Term Bond Fund (Portico) | 2. Index: FTSE Canada Long Term Overall 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 long term bond index on a gross return basis over the quarter. Selection, spread and duration detracted from performance. The majority of the underperformance was as a result of spread widening and a shorter duration as interest rates declined over the period. The underweight allocation to BBB-rated bonds contributed to performance as we maintained a moderately defensive stance. As well, positioning on the curve and lower running yield detracted slightly from performance.

Portfolio activity

During the quarter, we reduced our corporate exposure as credit spreads are historically tight, while we continued to diversify the complexion of the fund's corporate bond holdings. Within corporate bonds, we are seeking higher quality names with better liquidity and maintained the fund's BBB bond exposure, though we still remain underweight overall.

Positioning & outlook

The synchronized global economic expansion continues but the momentum has slowed, which has led to a fundamental shift in monetary policy around the world in flux. As central banks pull away from stimulative policies with more restrictive monetary policy, we expect to see a slow, gradual increase in interest rates over the long-term. However, we are cautious of risks that remain, such as geopolitical tensions, uncertainties around international trade (U.S. and China) and fiscal policies (impact of US tax reform).

Given this backdrop, the fund will remain neutral (98-100%) in duration relative to the index, until we see sustained evidence that the economy is improving and on strong footing. We are maintaining our corporate bond exposure with a focus on ensuring that our positioning within corporate bonds remains well-diversified with adequate liquidity. We are also maintaining an overweight bias to the 10-year provincial bonds and an underweight bias to BBB-rated bonds. We will continue to invest in a portfolio of high-quality long-term Canadian bonds that provide an opportunity for higher income generation.