A fixed income opportunity with lower volatility and reduced interest rate sensitivity

What's the strategy?

The Short Term Bond (Portico) portfolio strategy invests primarily in Canadian investment-grade bond securities with terms less than five years.

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. It's an actively managed high-quality portfolio that includes exposure to short-term corporate bonds, including Maple bonds. Relative to the broad Canadian fixed-income market, this portfolio strategy tends to have a shorter duration and higher exposure to corporate bonds than the broad Canadian fixed income market.

Why invest in this portfolio strategy?

Ideal for investors seeking interest income opportunities in a more defensive, short-term Canadian bond portfolio that is highly diversified across sectors.

Typical portfolio characteristics

The Short Term (Portico) strategy can offer:

- Reduced interest rate sensitivity with a shorter duration portfolio than the broad Canadian fixed income market
- Active management of duration, yield curve, sector and industry exposure to maximize total return opportunities and manage risk
- A higher exposure to corporate bonds for greater interest income opportunities
- A high-quality Canadian fixed-income portfolio and an opportunity to further diversify a fixed income portfolio

Strategy snapshot

Asset class
Fixed Income

Inception date
2013

Assets in mandate
$98.6 million

Benchmark
FTSE Canada Short Term Overall Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Jenny Wan
Manager, 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

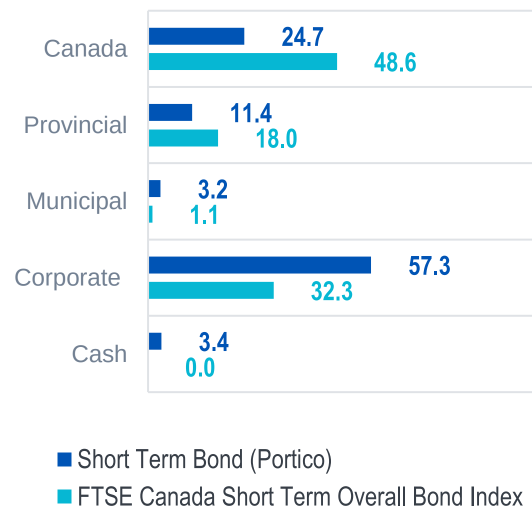
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	2.41	2.86
Modified duration (years)	2.29	2.71
Market yield (%)	2.49	2.36
Number of Bonds	103	556

Credit quality %

	Portfolio[1]	Index[2]
AAA	30.5	52.0
AA	34.9	28.6
A	20.2	9.0
BBB	14.5	10.5
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Short Term Bond Fund (Portico) | 2. Index: FTSE Canada Short 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 slightly underperformed the FTSE Short Term Bond index on a gross return basis for the quarter. The fund's strong bond selections within the corporate (specifically financial) sectors was a major contributor to performance. Higher running yield relative to the index also another contributed positively to returns. The fund's short duration versus the index primarily contributed to the negative returns, while an overweight in corporate bonds was also a detractor.

Portfolio activity

We maintained the fund's short duration position at 90% versus the index as we expect further interest rate increases from the Bank of Canada. We are maintaining the fund's sector positioning where we are overweight corporate and municipal bonds. The fund’s BBB weight decreased slightly during the quarter and overall the fund’s credit rating remains AA.

Positioning & outlook

Until oil prices recover to a higher level along with strong economic data prints, we do not expect Bank of Canada to raise interest rate in the next meeting. In the near term, rates will be leaning towards to higher level with a steepening bias. We are cautious of the risks that have the potential to cause a market correction, such as escalating foreign-trade disputes (mainly between U.S. and China,) geopolitical risks, etc.

In light of this backdrop, we are keeping the fund’s duration shorter than the narrow index; however, if the rate environment starts to change we will add to the longer end of the curve to pick up additional yield. We are maintaining the fund’s overweight position in municipal and corporate bonds. We still expect cash will continue to flow into corporates as equities settle and investors focus more on fundamentals. With recent credit weakening, we feel there is opportunity to pick up spreads products at more attractive levels. We continue to utilize floating rate notes to mitigate interest risk.