A solid foundation for preserving capital and generating stable income

What's the strategy?

The Canadian Bond (Portico) portfolio strategy invests in a broad spectrum of government bonds and corporate bonds. 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 outperforming the FTSE Canada Universe Bond Index by being nimble enough to optimize yield opportunities, while maintaining prudent diversification to moderate volatility.

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. The Canadian Bond (Portico) portfolio strategy can offer a 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 aims to optimize yield opportunities while mitigating risk.

Typical portfolio characteristics

Here's what you can expect to see from Portico's Canadian Bond fixed-income strategy when compared its Canadian benchmark:

- Broad diversification across Canadian government (inc. federal, provincial and municipal) and high-grade corporate bonds
- Duration within +/- 1 years of benchmark
- Credit-quality focus on A and BBB and above
- On average holds a range of 100 to 150 bonds

Strategy snapshot

Asset class
Fixed Income

Inception date
1976

Assets in mandate
$4,635.5 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 June 28, 2019

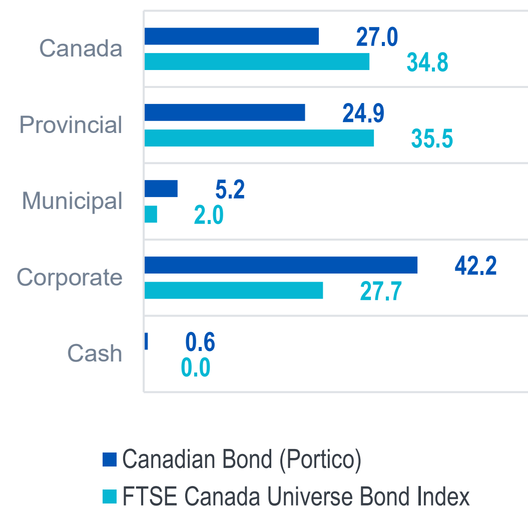
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	10.52	10.78
Modified duration (years)	8.00	8.02
Market yield (%)	2.21	2.13
Number of Bonds	169	1,469

Credit quality %

	Portfolio[1]	Index[2]
AAA	32.4	38.6
AA	34.6	37.0
A	17.1	12.7
BBB	15.9	11.7
<BBB	0.0	0.0

Sector Allocation %



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

Portfolio manager's quarterly commentary

As at June 28, 2019

Market review

The FTSE Canada Universe Bond Index returned 2.5% (total return) for the second quarter of 2019, marking the third consecutive quarter of strong returns for Canadian fixed-income investors. North American bond yields moved lower, continuing a trend that began in October 2018. Canadian 10-year bond yields were down 15 basis points (bps) for the quarter, while U.S. 10-year bond yields fell 40 bps. The fall in bond yields coincided with a policy shift from various central banks, most notably the U.S. Federal Reserve, which abruptly shifted to a rate-cutting bias after hiking rates a quarter point last December. North American bond yields continue to be weighed down by negative interest rate policies on the part of central banks in Europe and Japan. The Bank of Canada left rates unchanged during the period and provided messaging that suggests rates are on hold for at least the rest of the year. The move in bond yields saw Canadian long-term bonds significantly outperform relative to short-term bonds. Canadian corporate bonds slightly outperformed government bonds. Provincial and municipal bonds outperformed within the government sector.

Portfolio performance

The fund delivered a strong positive return that outperformed the FTSE Canada Universe benchmark on a gross return basis for the quarter. Fund performance was positively impacted by its duration and positioning along the yield curve as well as its overweight and selection in the Corporate bond sector, as spreads continue to improve. The primary driver of negative performance, relative to the benchmark, was the fund's underweight in Provincial bonds.

Portfolio activity

We opportunistically lengthened and shortened the duration of the portfolio during the quarter but finished neutral to the benchmark. Several opportunities to benefit from the trading range of the Government of Canada bond yields arose during the quarter. We added exposure in the 5- and 10-year term area and reduced our overweight exposure to bonds with a term of less than one year. We increased our Corporate bond exposure through shorter-date bonds, to take advantage of high relative yield due to the flatness of the Government curve, and then sold longer-dated Provincial and Government of Canada with less yield. The fund has 2.8% in “Maple bonds” (foreign-owned companies issuing Canadian bonds in Canadian dollars) and has no exposure to non-Canadian denominated bonds.

Positioning & outlook

Lack of inflation, a modest global growth outlook and trade war concerns are keeping central banks and bond market participants vigilant. Despite wages improving, underlying and expected inflation rates remain muted. The global economic outlook is uncertain with continued trade tension, slowing momentum in the U.S. and mediocre recoveries in other developing economies. The one bright spot is Canada: its economic and employment data continues to improve and beat expectations. In some cases, the central bank’s monetary policies have done an about-face and now look to ease monetary policy to keep the economy moving and continue this cycle. While the Fed will likely cut its overnight rate at its July meeting with further cuts expected down the road, the improving numbers in Canada give the Bank of Canada leeway to remain on hold and watch how the year unfolds. The Fed’s rate cuts could place downward pressure on bond yields but a lot of potential future rate changes have already been priced into longer-term bond yields. The risk to this outlook is with the resolution of trade tension, as well as with higher-than-expected inflation that could reduce the need for the Fed to cut rates and therefore move yields higher. We’ll keep 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 and an underweight in long-term Corporates. We continue to look for opportunities to diversify all our holdings. We currently have limited short-term exposure to Provincial and Municipal bonds and a tactical underweight position to these bonds in the greater than five-year term range.