

A focus on preserving capital and stable long-term income

What's the strategy?

The Core Bond (Portico) 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. 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.

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. 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

Here's what you can expect to see from Portico's Core Bond fixed income strategy:

- 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

\$3,585.6 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 June 28, 2019

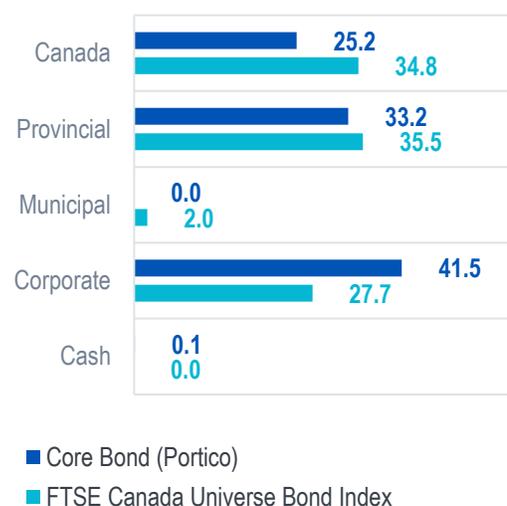
Portfolio attributes

	Portfolio ¹	Index ²
Average term (years)	10.28	10.78
Modified duration (years)	7.78	8.02
Market yield (%)	2.16	2.13
Number of Bonds	131	1,469

Credit quality %

	Portfolio ¹	Index ²
AAA	32.0	38.6
AA	39.1	37.0
A	17.7	12.7
BBB	10.6	11.7
<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 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 posted a positive return that slightly outperformed the FTSE Canada Universe on a gross return basis for the quarter. The fund was helped by an overweight in three- to ten-year Corporate bonds, specifically within Infrastructure and Financial sector names, as spreads tightened in the latter third of the quarter. Strong performance was offset slightly by its shorter duration than the benchmark, as well as an underweight in Canada bonds when rates aggressively rallied during the quarter.

Portfolio activity

The fund's duration was a little more than 60 days shorter than the benchmark during the quarter. From a sector perspective, we decreased the fund's exposure to Provincial bonds – specifically in the three-year term range – and increased its Corporate bond exposure. We also reduced the fund's Canada bond weight.

Positioning & outlook

Ongoing trade talks between the U.S. and China and the specter of central bank rate cuts affected the fixed income market and will continue to result in uncertainty for credit markets for the foreseeable future. Corporate bond spreads experienced a tightening trend to end the quarter after some weakness midway through the period. The fund's duration position will be managed slightly shorter than the benchmark. The fund remains overweight in Corporate bonds with a focus on traditionally liquid Corporate names. Should Corporate spreads come under pressure and widen, we'll look to increase the fund's Corporate bond exposure at higher yields. We believe the fund is well-positioned and remain confident in the quality of the credit issues within the portfolio regardless of the underlying trend or the absolute level of yields.

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