

## 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 high yield bonds and foreign-denominated debt.

### 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

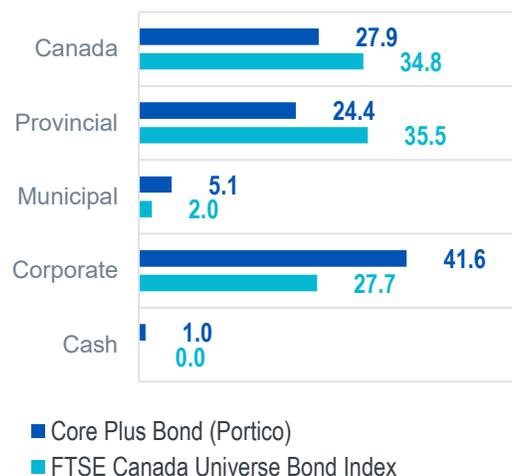
### Portfolio attributes

	Portfolio <sup>1</sup>	Index <sup>2</sup>
Average term (years)	10.48	10.78
Modified duration (years)	7.98	8.02
Market yield (%)	2.24	2.13
Number of Bonds	175	1,469

### Credit quality %

	Portfolio <sup>1</sup>	Index <sup>2</sup>
AAA	33.4	38.6
AA	32.3	37.0
A	16.9	12.7
BBB	15.7	11.7
<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 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 optimistically lengthened and shortened the portfolio's duration during the quarter but finished neutral to the benchmark. Several opportunities to benefit from the trading range of 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 bonds exposure with shorter-date bonds to take advantage of high relative yield due to the flatness of the government curve. We sold longer-dated Provincial and Government of Canada with less yield. The fund has 2.7% exposure in “Maple bonds” (foreign-owned companies issuing Canadian bonds in Canadian dollars) and no holdings in 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 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 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. We maintain the lower weighting in high yield bonds until more attractive levels surface.

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