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
$1,170.1 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 June 28, 2019

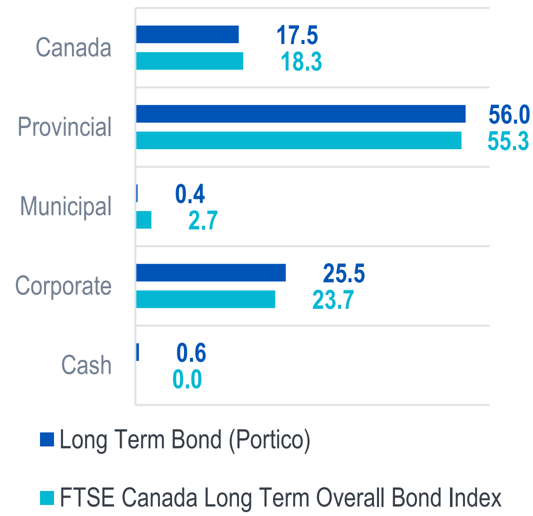
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	22.18	22.93
Modified duration (years)	15.45	15.59
Market yield (%)	2.52	2.56
Number of Bonds	93	585

Credit quality %

	Portfolio[1]	Index[2]
AAA	27.3	22.8
AA	49.7	47.4
A	14.9	19.8
BBB	8.1	10.0
<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 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 underperformed the FTSE Canada long term bond index on a gross return basis over the quarter. Duration positioning and effective trading contributed positively to returns. Spread and selection detracted from performance; specifically, the selection within the Energy and Infrastructure (Utility) sectors. The underweight allocation to BBB-rated bonds was a positive contribution as they underperformed A-rated bonds during the period; however, the lower-running yield on these bonds partially offset this.

Portfolio activity

We maintained our Corporate exposure and continued to diversify the complexion of the fund’s Corporate bond holdings during the quarter. Within Corporate bonds, we sought out higher-quality names with better liquidity to maintain the fund’s BBB bond exposure, although we remain underweight overall.

Positioning & outlook

Synchronized global economic expansion continues but its momentum has slowed, which has led to a fundamental shift in monetary policy around the world. Central Banks have pulled away from a more restrictive stance to maintain monetary policy, so we expect the interest rate range to gradually rise over the long term. The Central Banks continue to be cautious and await more sustained economic data to determine future rate movements. However, we’re cautious of the risks that remain, such as geopolitical tensions, uncertainties around international trade (especially between the U.S. and China) and fiscal policies. Given this backdrop, the fund remains neutral in duration relative to the index (between 98% and 100%) until we see sustained evidence the economy is improving and on strong footing. We’re maintaining our Corporate bond exposure with its focus on ensuring our holdings remain well-diversified with adequate liquidity. We’ll also maintain our underweight bias to BBB-rated bonds and will continue to invest in a portfolio of high-quality, long-term Canadian bonds that provide an opportunity for higher income generation.