A unique fixed-income portfolio to add alpha and enhance your risk-adjusted return

What's the strategy?

This Private Debt Institutional (Portico) portfolio strategy invests primarily in Canadian private debt investments, with the goal of providing a higher yield over comparably rated public market bonds with an emphasis on maintaining strong credit quality.

What's the approach?

This portfolio strategy leverages the expertise and experience within the Great-West Life (GWL) Private Debt team. The GWL Private Debt team sources, underwrites, structures and monitors the private debt deals. This highly specialized and experienced team has a strong marketplace reputation and well-established credit underwriting expertise. The Portico Investment Management team offers capital market expertise, portfolio management oversight and liquidity management. Both portfolio managers pursue tested and strongly vetted processes within a culture of strong risk management.

Why invest in this portfolio strategy?

deal for institutional investors seeking additional yield compensation without significant increase in credit risk versus comparable quality public bonds (e.g., credit metric deterioration, rating downgrade, default risk). This Private Debt Institutional (Portico) portfolio is a good complement to traditional bond investments and offers: Greater diversification through access to industries, deals, and borrowers not typically available in public markets; Access to long-term debt deals; and Access to highly specialized and experienced portfolio management.

Typical portfolio characteristics

Here's what you can expect to see from Portico's Private Debt fixed income strategy:

- Average BBB+ rating; minimum BBB-
- 5 to 30 year typical term range; maximum 40 years
- Expected credit spread of +40 bps to 100 bps on equivalently rated public bonds
- A portfolio management team with a strong track record of managing credit risky.

Strategy snapshot

Asset class
Fixed Income

Inception date
2017

Assets in mandate
$174.4 million

Benchmark
100% FTSE Canada All Corporate Bond Index (TR) + 5

Investment team
Portico Investment Management

Portfolio manager(s)
,

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.

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

In the second quarter, the fund posted a positive return that outperformed its benchmark, the FTSE Corporate Bond Index on a gross return basis. The outperformance versus the benchmark was primarily due to the fund having more sensitivity to interest rate changes than the benchmark: at quarter end, the fund had an average duration (a measure of interest rate sensitivity) of 10.4 years versus 6.6 years for the benchmark. As interest rates fell during the quarter, most notably in the longer part of the curve, the higher sensitivity to interest rates benefitted the fund's performance relative to its benchmark. The fund also benefitted from having a higher running yield than the benchmark.

Portfolio activity

No new investments were added in the second quarter. Credit quality remains largely unchanged, with approximately 61% of the portfolio rated (internally) BBB, and the balance rated 'A' or 'AA'. No investments are rated below investment grade. The portfolio remains well diversified, with non-energy infrastructure exposure at 17.4%, energy generation at just under 57.8% (split across hydro, wind, and solar), power transportation and distribution at 11.1%, health and long-term care at 10.8% and oil and gas at 2.9%.

Positioning & outlook

We are still seeing reasonable supply of private debt offerings in the Canadian market and are selective in opportunities that we want to add to the portfolio. The portfolio's strategy is ideal for institutional investors seeking additional yield compensation without significant increase in credit risk versus comparable quality public bonds (e.g., credit metric deterioration, rating downgrade, default risk). It also offers greater diversification through access to industries, deals and borrowers not typically available in public markets.