# A socially responsible diversified Canadian fixed-income portfolio

## What's the strategy?

The SRI Bond (Portico) portfolio strategy invests primarily in Canadian federal and provincial bonds and high-quality investment-grade corporate debt securities. All holdings pass specific exclusionary screening criteria related to a company's environmental sustainability, social responsibility and corporate governance (ESG) performance as well as the company's involvement in certain industries, such as tobacco or liquor products, weapons, gaming or pornography.

## 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 is highly diversified by sector, term and debt issuers, with moderate variation of the benchmark's duration.

## Why invest in this portfolio strategy?

This broadly diversified Canadian fixed income portfolio offers a meaningful way of ensuring that investment dollars promote a higher level of environmental sustainability, social responsibility and corporate governance, while benefiting from expert investment analysis and the opportunity for attractive interest income and long-term capital appreciation.

The SRI Bond (Portico) strategy can offer a focus on capital preservation and a long-term view towards conservative, stable income and capital appreciation.

The portfolio is 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 SRI Bond fixed-income strategy:

- A purely Canadian bond portfolio
- Active management of credit risk, duration, yield curve and sector positioning to optimize yield opportunities while mitigating risk
- A high-quality portfolio of investment-grade fixed income holdings
- Additional ESG screening, including for company involvement in certain industries, such as tobacco, alcoholic beverages, gambling, adult entertainment, military contracting, and nuclear power.

## Strategy snapshot

**Asset class**
Fixed Income

**Inception date**
2007

**Assets in mandate**
$57.5 million

**Benchmark**
FTSE Canada Universe 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

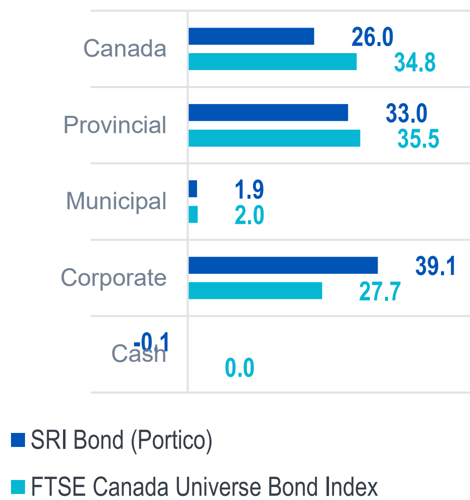
## Portfolio attributes

| | Portfolio[1] | Index[2] |
|---|---|---|
| Average term (years) | 10.58 | 10.78 |
| Modified duration (years) | 8.00 | 8.02 |
| Market yield (%) | 2.18 | 2.13 |
| Number of Bonds | 116 | 1,469 |

## Credit quality %

| | Portfolio[1] | Index[2] |
|---|---|---|
| AAA | 33.4 | 38.6 |
| AA | 36.9 | 37.0 |
| A | 16.9 | 12.7 |
| BBB | 12.8 | 11.7 |
| <BBB | 0.0 | 0.0 |

## Sector Allocation %




Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - SRI 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 for the quarter that matched the FTSE Canada Universe Bond Index on a gross return basis. Duration, spread and positioning on the curve contributed to performance. Corporate selection within the fund detracted from performance; specifically, being underweight in the Energy (Pipeline) and Infrastructure (Utility) sectors. An underweight position in the Provincial sector, the quarter's best performing sector, also detracted from returns.

## Portfolio activity

The fund's Corporate bond exposure was slightly increased while maintaining its duration closer to neutral (between 98% and 100%) relative to the index.

## Positioning & outlook

Escalating trade tensions between the U.S. and China and central bank rate moves are factors that may result in uncertainty for the market. We're paying close attention to central bank moves on both sides of the border as we await data on how the economy is evolving. The Bank of Canada's next policy meeting will add perspective to recent inflation readings, which have reached the two percent mark – the midpoint of their headline inflation target range. We continue to believe any move by either the Fed or Bank of Canada will be slow, gradual and data dependent. 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. The fund's overweight allocation to Corporate bonds and underweight allocation to Canada and Provincial bonds remains the same. When it comes to the portfolio's Corporate bond holdings, we're focused on keeping the portfolio well-diversified with adequate liquidity – the majority of its term structure being less than 10 years.