A fixed income opportunity with lower volatility and reduced interest rate sensitivity

What's the strategy?

The Short Term Bond (Portico) portfolio strategy invests primarily in Canadian investment-grade bond securities with terms less than five years.

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. It's an actively managed high-quality portfolio that includes exposure to short-term corporate bonds, including Maple bonds. Relative to the broad Canadian fixed-income market, this portfolio strategy tends to have a shorter duration and higher exposure to corporate bonds than the broad Canadian fixed income market.

Why invest in this portfolio strategy?

Ideal for investors seeking interest income opportunities in a more defensive, short-term Canadian bond portfolio that is highly diversified across sectors.

Typical portfolio characteristics

The Short Term (Portico) strategy can offer:

- Reduced interest rate sensitivity with a shorter duration portfolio than the broad Canadian fixed income market
- Active management of duration, yield curve, sector and industry exposure to maximize total return opportunities and manage risk
- A higher exposure to corporate bonds for greater interest income opportunities
- A high-quality Canadian fixed-income portfolio and an opportunity to further diversify a fixed income portfolio

Strategy snapshot

Asset class
Fixed Income

Inception date
2013

Assets in mandate
$89.1 million

Benchmark
FTSE Canada Short Term Overall Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Jenny Wan
Manager, 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

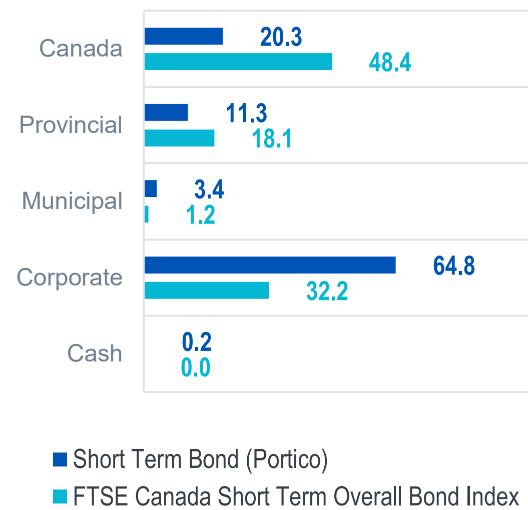
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	2.96	2.93
Modified duration (years)	2.80	2.78
Market yield (%)	2.10	1.81
Number of Bonds	102	546

Credit quality %

	Portfolio[1]	Index[2]
AAA	23.5	51.6
AA	25.1	28.0
A	23.4	8.7
BBB	28.0	11.6
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Short Term Bond Fund (Portico) | 2. Index: FTSE Canada Short 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 outperformed the FTSE Short Term Bond index on a gross return basis for the quarter. Strong sector selection was a major contributor to performance with the strategy being particularly overweight in corporate sector, which performed best. A higher running yield in the portfolio relative to the index also contributed positively to performance.

Portfolio activity

We've maintained the fund's duration position at neutral as we do not expect any rate increases from the Bank of Canada in the coming months. With interest rates remaining at an all-time low, we've increased exposure in the provincial sectors.

The fund's sector positioning remained overweight in corporate and municipal bonds and its average credit rating unchanged at A.

Positioning & outlook

Global growth has weakened, meaning the chances for the U.S. Fed to start monetary easing is on the horizon. As a result, we do not expect Bank of Canada to raise the interest rate at their next meeting, so rates will stay at their current low level with a steepening bias in the near term. We're cautious of risks that have the potential to cause another lag in interest rates, such as escalating foreign trade disputes (mainly between the U.S. and China) as well as direct geopolitical threats between Canada and China (due to the Huawei CEO arrest). We're keeping the fund's duration close to the index as long as volatility remains and will continue to hold floating rate notes to help mitigate interest risk. We're maintaining the fund's overweight position in municipal and corporate bonds. Due to investors' need for higher-yielding products, we expect cash to continue to flow into corporates because rates are staying lower for longer.