Diversify your fixed-income portfolio with high-quality, long-duration Canadian yield opportunities

What's the strategy?

The Portico Ultra Long Term Bond strategy invests primarily in Canadian federal, provincial and corporate bonds with terms greater than 20 years.

What's the approach?

This mandate closely emulates the composition and returns of the FTSE Canada 20+ overall bond index. The strategy seeks to provide investors with a level of interest income consistent with investments in longer-term fixed income products, along with the potential for capital gains.

Why invest in this portfolio strategy?

Ideal for investors with a longer investment horizon seeking interest income and the potential for capital appreciation. The Ultra Long Term Bond strategy has the potential to add significant value in an economic environment of stable or declining interest rates.

The Ultra 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.

Typical portfolio characteristics

Here is what you can expect to see from the Portico Ultra Long Term Bond strategy when compared to other fixed-income options, or the broad Canadian fixed-income market:

- Higher yield than most shorter duration fixed-income options
- Pure Canadian bond exposure, avoiding foreign currency risk
- Greater sensitivity to interest rate and inflation expectation changes than shorter-duration fixed-income options
- Well diversified fixed-income holdings to help meet long-term liabilities

Strategy snapshot

Asset class
Fixed Income

Inception date
2013

Assets in mandate
$189.6 million

Benchmark
FTSE Canada 20+ 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

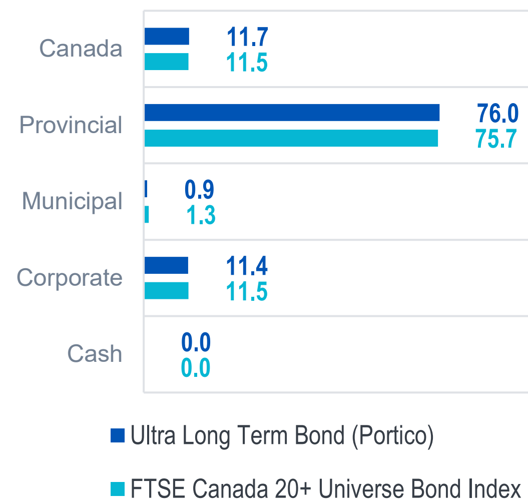
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	26.26	26.65
Modified duration (years)	21.83	22.05
Market yield (%)	2.51	2.55
Number of Bonds	130	522

Credit quality %

	Portfolio[1]	Index[2]
AAA	18.6	16.3
AA	65.5	65.8
A	12.0	12.8
BBB	3.9	5.1
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Ultra Long Term Bond Fund (Portico) | 2. Index: FTSE Canada 20+ 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 that slightly underperformed the FTSE Canada 20+ Bond Index on a gross return basis during the quarter. Selection, effective trading and rolldown all contributed positively to gross returns. The fund was positioned with a slightly shorter duration when interest rates declined over the period to create the slight underperformance. The fund had a lower running yield, so the spread component detracted from returns as they narrowed over the period.

Portfolio activity

We continued to diversify the complexion of the fund's Corporate bond holdings, seeking higher-quality names with better liquidity, and maintained our underweight BBB bond exposure during the quarter.

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, we've positioned the fund with a neutral duration relative to its FTSE Canada 20+ Bond Index benchmark. The fund's sector positioning is also neutral; however, there may be times when the fund holds a slightly higher weighting in Corporate bonds and a slightly lower weighting in Provincial bonds given their difficulty to source.