A solid foundation for preserving capital and generating stable income

What's the strategy?

The Canadian Bond (Portico) portfolio strategy invests in a broad spectrum of government bonds and corporate bonds. This portfolio is designed to be a core Canadian fixed-income holding.

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. This Canadian-focused bond portfolio is highly diversified by sector, term and issuance, with a focus on outperforming the FTSE Canada Universe Bond Index by being nimble enough to optimize yield opportunities, while maintaining prudent diversification to moderate volatility.

Why invest in this portfolio strategy?

Ideal for investors seeking a primarily Canadian diversified core fixed-income portfolio that's designed to be responsive to changes in interest rates and various market conditions, while controlling overall risk levels. The Canadian Bond (Portico) portfolio strategy can offer a portfolio that is diversified by sector and term with a wide latitude on issuer selection.

Active management of credit risk, duration, yield curve and sector positioning aims to optimize yield opportunities while mitigating risk.

Typical portfolio characteristics

Here's what you can expect to see from Portico's Canadian Bond fixed-income strategy when compared its Canadian benchmark:

- Broad diversification across Canadian government (inc. federal, provincial and municipal) and high-grade corporate bonds
- Duration within +/- 1 years of benchmark
- Credit-quality focus on A and BBB and above
- On average holds a range of 100 to 150 bonds

Strategy snapshot

Asset class
Fixed Income

Inception date
1976

Assets in mandate
$1,464.6 million

Benchmark
FTSE Canada Universe Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Janet Salter
Vice-President, Fixed Income

About GLC

GLC Asset Management Group Ltd. (GLC) is a leading investment management firm that manages more than $55 billion in assets.

GLC has 5 investment management divisions:

- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management
- Global Multi-Asset Strategy team (including 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 30, 2020

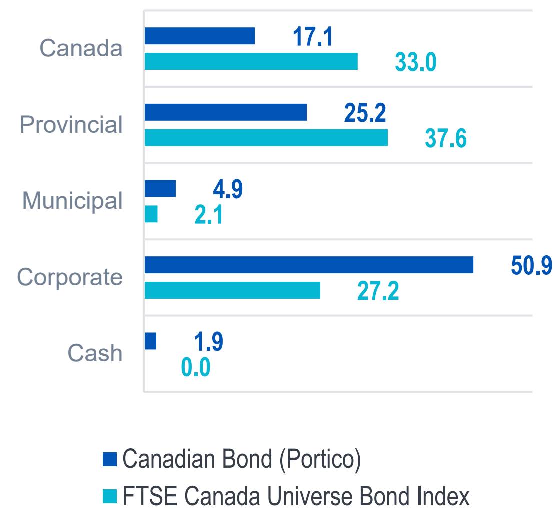
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	10.99	11.12
Modified duration (years)	8.44	8.49
Market yield (%)	1.66	1.33
Number of Bonds	235	1,505

Credit quality %

	Portfolio[1]	Index[2]
AAA	24.8	36.7
AA	31.9	36.8
A	19.1	14.8
BBB	24.2	11.6
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL – Canadian Bond Fund (Portico) | 2. Index: FTSE Canada Universe Bond Index

Portfolio manager's quarterly commentary

As at June 30, 2020

Market review

The FTSE Canada Universe Bond Index returned 5.9% (total return) in the second quarter, the third largest quarterly return since 2000. Sovereign bond yields continued their descent to new historic lows, anchored by global central banks keeping their policy rates near zero. Canadian bond yields fell in the quarter, particularly on the longer end of the curve, which resulted in longer-term bonds outperforming their shorter-term counterparts. Canadian corporates outperformed relative to government bonds, strengthened by narrowing credit spreads as economies slowly re-opened. High-yield bonds slightly lagged investment-grade bonds, while provincial bonds outperformed within the government sector.

Portfolio performance

During a period of market recovery, the portfolio posted a strong positive return that outperformed FTSE Canada Bond Universe Index on a gross return basis in the second quarter of 2020. After central bank support, the risk market rallied, and interest rates fell further to deliver a solid positive quarterly return. Fund performance was positively impacted by its overweight exposure in corporate bonds, higher-running yield than the benchmark and selection within corporate bonds. Detracting from performance (relative to the benchmark) was the fund's underweight exposure and security selection in provincial bonds as spreads narrowed rapidly, reversing from last quarter's widening.

Portfolio activity

The fund reduced its duration to neutral from its longer duration positioning for most of the quarter. This was the first leg of an anticipated move to reduce duration further when interest rates hit their lower end of their trading range. The fund implemented a 10-30 flattening strategy as the curve was at the wide end of its trading range. The fund focused on relative value within and between sectors for most of the quarter. Some notable changes where reducing Federal Agency into Federal Non-agency holdings and Mortgage Back Securities (MBS) as spread tightened between Agency versus

Non-agency securities, but value still exists in the MBS sector. We reduced our exposure in Municipal versus Provincial bonds to capitalize on recent spread movement. We reduced our overall corporate bond exposure in the investment grade area, mostly in short-term tenures, but added exposure into ten-year term bonds where longer-term value presented itself. The fund has 2.7% in “Maple Bonds” (foreign-owned companies issuing Canadian bonds in Canadian dollars) and has no exposure to non-Canadian dollar bonds.

Positioning & outlook

The economic outlook remains tepid at best, noting that uncertainty around the duration and severity of the pandemic adds further complexity to forecasting the outlook for interest rates and risky assets. Governments around the world have been providing extraordinary financial measures to help its citizens and businesses survive this serious health crisis and it’s dampening impact on the overall economy. Central banks implemented several facilities to support the functioning of the both sovereign and credit market to ensure credit is affordable and available. It’s highly anticipated that central banks will maintain their overnight rates at historical low levels for the foreseeable future. As well, their support facilities are expected to remain in place for the near term, which should remain supportive for spread product. We may see a pullback in spreads if a risk-off tone transpires, but current central bank facilities should put a cap on how high spreads can move. Overall, the outlook for fixed income is muted as the global economy reopens from the great lockdown. One risk to the outlook is market reaction to weaker-than-expected data after the initial recovery. It will not (most likely) be a V-shaped recovery as consumers determine their comfort level in both their health and financial well-being. We’ll keep a close eye on market developments, and we will adjust the fund’s duration accordingly and continue to implement curve strategies when dislocation in the market provides an opportunity to capitalize on displacements. We have an overweight bias toward short-term to mid-term corporate bonds and a neutral position in long-term corporates but will look to increase weight if spreads weaken. The fund has limited short-term exposure to provincial and municipal bonds, a neutral position in ten-year tenure bonds, twenty- and thirty-year bonds, with the interest to increase that weight if spreads weaken.