

Well balanced, actively managed Canadian fixed income opportunity

What's the strategy?

The Core Plus Bond (Portico) portfolio strategy invests in a broad spectrum of government bonds and corporate bonds, with the opportunity to enhance yield by adding high-yield and foreign-denominated bonds when attractive market opportunities arise. 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 outperform the FTSE Canada Universe Bond Index by being nimble enough to optimize yield opportunities, while maintaining prudent diversification to moderate volatility. Within well-defined risk parameters, the portfolio manager has the flexibility to add exposure to high-yield bonds and foreign-denominated bonds in select holdings when attractive market conditions exist.

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.

Typical portfolio characteristics

The Core Plus Bond (Portico) portfolio strategy can offer:

- A primarily Canadian bond 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 to optimize yield opportunities while mitigating risk
- Opportunity to boost yield by being nimble enough to optimize yield opportunities while maintaining prudent diversification to moderate volatility, including the flexibility to invest in high yield bonds and foreign-denominated debt.

Strategy snapshot

Asset class

Fixed Income

Inception date

1976

Assets in mandate

\$3,330.3 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

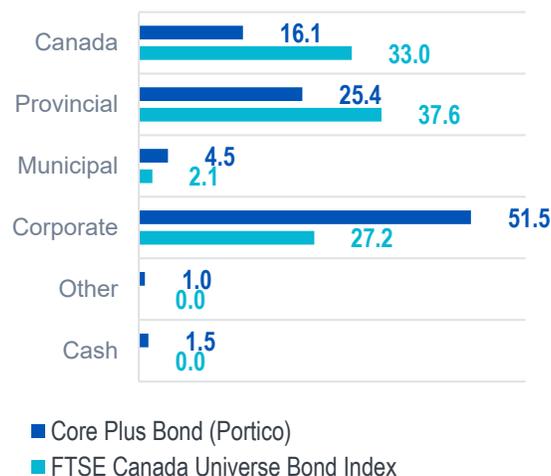
Portfolio attributes

	Portfolio ¹	Index ²
Average term (years)	10.98	11.12
Modified duration (years)	8.45	8.49
Market yield (%)	1.77	1.33
Number of Bonds	242	1,505

Credit quality %

	Portfolio ¹	Index ²
AAA	24.2	36.7
AA	30.5	36.8
A	19.7	14.8
BBB	23.8	11.6
<BBB	1.9	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Core Plus Bond Fund (Portico) CLA S19 | 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 exposure to high-yield corporate bonds as spread narrowed. Detracting from performance (relative to the benchmark) was the fund's underweight exposure and security selection in provincial bonds after spreads contracted rapidly from last quarter's widening.

Portfolio activity

The fund reduced its duration to neutral at the end of the quarter from its longer duration positioning. This was the first leg of an anticipated move to reduce duration further when interest rates hit their lower end of their trading range. In conjunction with the duration move, the fund reduced its 5-10 steepening strategy and took profits from the curve steepening over the last several months and 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. Notable changes

included reducing Federal Agency into Federal Non-agency holdings and Mortgage Back Securities (MBS) as spreads tightened between Agency versus Non-agency securities, but value still exists in the MBS sector. We reduced our exposure in Municipal versus Province 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 were longer-term value presented itself. The fund has 2.4% in “Maple Bonds” (foreign-owned companies issuing Canadian bonds in Canadian dollars), 0.5% in Emerging Market debt and has no currency risk.

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 spread weaken. The fund will look for opportunities in the high yield market to increase its exposure to the sector.

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