Actively managed Canadian corporate bond portfolio focused on generating an attractive yield while managing risk

What's the strategy?

The Corporate Bond (Portico) portfolio strategy invests primarily in investment-grade Canadian corporate bonds (rated BBB or higher), diversified across a wide range of both industry sectors and credit quality.

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 manager of this actively managed fixed-income portfolio focuses on risk management and generating an attractive yield. 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 additional yield opportunity (above that of Canadian government bonds) through investment-grade corporate bonds scrutinized for their credit quality fundamentals and attractive relative value.

This actively managed portfolio also offers a reduced sensitivity (when compared to a core bond portfolio) to the negative effects of rising interest rates on bond prices; this is due to the additional yield cushion and typical shorter duration of the portfolio.

Typical portfolio characteristics

The Corporate bond (Portico) portfolio strategy offers investors a fixed income alternative that generates a higher income than a typical core Canadian bond fund. This portfolio strategy can offer:

- A diversified Canadian fixed income portfolio of corporate bond holdings across a wide range of industry sectors and credit quality.
- Additional yield opportunity (above that of Canadian government bonds) through investment-grade corporate, with the additional flexibility to invest in non-investment grade corporate debt and foreign-denominated debt in select holdings when attractive market conditions present.
- A reduced sensitivity (when compared to a core bond portfolio) to the negative effects of rising interest rates on bond prices.
- Active fixed-income portfolio management and proprietary credit analysis to capitalize on yield opportunities and minimize portfolio risk.

Strategy snapshot

Asset class
Fixed Income

Inception date
2001

Assets in mandate
$1,472.9 million

Benchmark
FTSE Canada All Corporate Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Mark Hamlin
Vice-President, Fixed Income

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

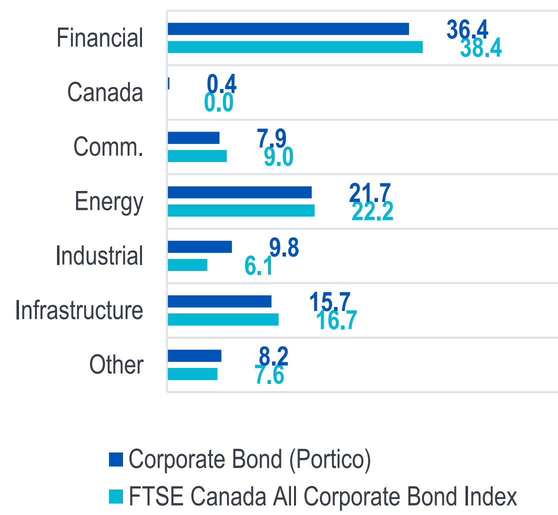
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	8.97	9.38
Modified duration (years)	6.81	6.96
Market yield (%)	2.34	2.12
Number of Bonds	186	1,000

Credit quality %

	Portfolio[1]	Index[2]
AAA	0.4	1.1
AA	10.3	17.1
A	39.6	39.1
BBB	46.3	42.7
<BBB	2.9	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Corporate Bond Fund (Portico) | 2. Index: FTSE Canada All Corporate 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 matched the FTSE Corporate Bond Universe Index on a gross return basis during Q2 2020. The second quarter was marked by a near total shutdown of the Canadian economy due to the COVID-19 pandemic. Fiscal and monetary authorities continued to provide historic amounts of support to financial markets as well as to corporations and individuals, causing significant positive performance across the corporate bond market. During this period, the Corporate Bond Fund posted a positive return of 8% on a gross return basis with the majority of the positive return for the fund being the significant spread compression occurring throughout the quarter.

Portfolio activity

The fund has adhered to its investment approach of managing risk by selling lower-rated bonds when spreads are tight and cycling into them when spreads are wider. With the wider spreads in the Q2 corporate bond market, we were actively increasing our spread risk. The fund actively reduced its Federal Bond holdings, going from 2% to 30bps. The fund also added appropriate risk into both the Infrastructure and Financial sectors, although both remain somewhat underweight versus benchmark. Within the Financial sector, the fund reduced its overweight in Insurance holdings while adding to bank assets. The fund continued to add to lower-rated holdings, with allocations to debt rated BBB or lower increasing by 2% throughout the quarter, including an increase in our high-yield exposure via a new issue.

Positioning & outlook

We remain cautious given continued uncertainty around COVID-19 and its short- and long-term impacts on the broader economy. Significant, unprecedented support has come from both fiscal and monetary authorities, which has caused fixed-income markets to recover substantially from the losses of March. However, we remain cautious as to whether this recovery is overdone and are aware that future patterns and levels of consumption are extremely opaque, making the valuation of all assets (including Corporate Bonds) extremely complicated. The fund is positioned with a neutral duration and likely to remain close to its benchmark. From a sector standpoint, the fund is overweight in the Real Estate and Industrials sectors, while remaining underweight in Financials, Infrastructure and Securitization. If corporate spreads continue to tighten, we'll look to actively reduce sectors that look overbought. Currently long-end Telecommunication issues appear somewhat rich. We continue to look for opportunities to add to select high-yield names.