Earning interest while limiting credit risk

What's the strategy?

The Government Bond (Portico) strategy invests primarily in Canadian federal, provincial and municipal government bonds and/or debt products guaranteed by government authorities with a credit rating of A or higher. This portfolio's strategy is designed to earn interest income with limited credit risk.

What's the approach?

The portfolio manager pursues a consistent, measured and disciplined approach to capture incremental gains within government bond sectors through a multi-factor approach to analyzing interest rates and yield curves.

The portfolio's duration is typically shorter than the broad Canadian bond market as measured by the FTSE Canada Universe Bond Index.

Why invest in this portfolio strategy?

Ideal for investors seeking a conservatively managed Canadian fixed-income strategy for income generation.

When compared to the broad fixed-income market, this high-quality bond portfolio offers:

- Reduced credit risk
- Less interest rate sensitivity (due to the shorter duration of the portfolio)
- A greater opportunity for capital preservation
- The potential for long-term capital appreciation

Typical portfolio characteristics

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

- 2 to 5 year average term range
- Minimum A credit rating (at purchase)

Strategy snapshot

Asset class
Fixed Income

Inception date
1994

Assets in mandate
$179.9 million

Benchmark
80% FTSE Short Term Government Bond Index
20% FTSE Canada Mid Term Government 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

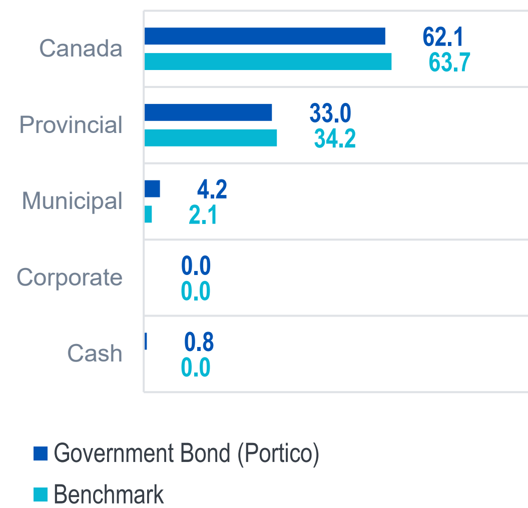
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	3.77	3.89
Modified duration (years)	3.57	3.67
Market yield (%)	0.58	0.54
Number of Bonds	44	279

Credit quality %

	Portfolio[1]	Index[2]
AAA	68.8	67.2
AA	29.2	29.4
A	2.0	3.5
BBB	0.0	0.0
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Government Bond Fund (Portico) | 2. Index: 80% FTSE Short Term Government Bond Index, 20% FTSE Canada Mid Term Government 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 ongoing global health crisis and global market volatility, the Government Bond Fund posted a positive return that outpaced its blended benchmark (80% FTSE Canada Short All Government Bond index and 20% FTSE Canada Mid All Government Index) on a gross return basis. While the second quarter of 2020 was marked by a near total shutdown of the Canadian economy due to the COVID-19 pandemic, the fund continued to provide stable income. Areas of fund outperformance were curve positioning, specific security selection and credit spread positioning.

Portfolio activity

As credit spreads tightened and yields continued to fall in the face of substantial support from both fiscal and monetary authorities, the fund took profit on its overweight in credit and its long duration position. As the risks to both duration and spreads appear to now be asymmetric in the opposite direction (higher longer-end yield, wider spreads), these positions have been opportunistically reversed.

Positioning & outlook

Despite substantial increases in the notional amount of Federal Debt being issued globally to fund support programs, this debt remains close to all-time low yields as Central Banks maintain quantitative easing bond purchase programs. This pattern is likely to continue for the next 12 to 24 months at a minimum, keeping shorter-end yields pegged at these levels. As such, we see shorter-end federal government debt as a relatively unattractive investment in the current environment, except as a diversification against risk assets. Similarly credit spreads (MBS, Provincial, Supra) have tightened substantially as monetary authorities have supported these sectors of the market. There is less certainty, however, that these tighter spread levels will remain – Central Bank support is designed to improve the functioning of the market as opposed to target specific yields. As such, we see the possibility for these spreads to widen somewhat from current levels. With this in mind, the Government Bond fund is currently somewhat underweight credit and slightly short in duration.