An opportunity to invest for the long term, to better match long-term investment needs

What's the strategy?

The Long Term Bond (Portico) portfolio strategy invests primarily in Canadian federal, provincial, and corporate bonds with terms greater than 10 years. The goal is to create a long- term Canadian bond portfolio that provides an opportunity for higher income generation.

What's the approach?

The portfolio manager pursues a consistent, measured and disciplined approach to capture incremental gains within longer-term bonds through a multi-factor approach to analyzing interest rates, credit markets and yield curves.

Why invest in this portfolio strategy?

Ideal for investors with a longer investment horizon seeking interest income and the potential for capital appreciation.

The Long Term Bond strategy has the potential to add significant value in an economic environment of stable or declining interest rates. The portfolio is more sensitive to interest rate and inflation expectation changes than shorter-duration fixed-income options.

Typical portfolio characteristics

When compared to the broad Canadian fixed-income market, this portfolio strategy offers:

- The potential for higher income generation
- A longer duration relative to a core Canadian bond portfolio
- A mix of Canadian federal, provincial and investment-grade corporate bonds that can provide additional yield opportunities
- Well diversified fixed-income holdings to help meet long term liabilities
- Pure Canadian bond exposure

The 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.

Strategy snapshot

Asset class
Fixed Income

Inception date
1990

Assets in mandate
$1,309.4 million

Benchmark
FTSE Canada Long Term Overall Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Alexa Richardson,
Manager, Fixed Income

Dale Haynes,
Vice-President, Fixed Income

Mark Hamlin,
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

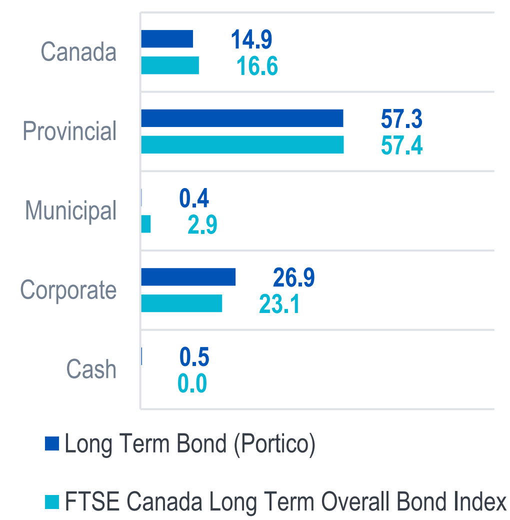
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	22.53	23.06
Modified duration (years)	16.10	16.20
Market yield (%)	2.03	2.01
Number of Bonds	105	610

Credit quality %

	Portfolio[1]	Index[2]
AAA	24.8	21.3
AA	49.1	49.4
A	14.7	19.4
BBB	11.4	9.9
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL Long Term Bond Fund (Portico) | 2. Index: FTSE Canada Long Term Overall 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 delivered a strong double-digit positive return that outperformed the FTSE Canada Long Term Bond Index on a gross return basis. Strong second-quarter performance helped recover most of the losses experienced in Q1. The fund benefitted from a slightly longer duration than its benchmark as market yields rallied to multi-year lows over the course of the quarter. Positioning along the curve wasn't a significant detractor to performance, while the fund's overweight position in corporate bonds contributed significantly as spreads contracted over the period. Within corporate bonds, its overweight position in integrated energy and infrastructure names contributed to performance, reversing the prior quarter's weakness. The fund has a slightly positive carry versus the index, which also contributed to performance.

Portfolio activity

The fund maintained a slightly longer duration versus the benchmark index. Over the course of the quarter, the index weight of provincials and corporates increased through a combination of higher provincial issuance as well as

Government of Canada buybacks. The fund adding to provincials has resulted in an underweight position in provincial bonds versus the index. In the same vein, we've been adding to corporate bonds when opportunities arise to maintain an overweight exposure to corporate bonds versus the index.

Positioning & outlook

The fund has benefitted from spread tightening in the second quarter. We plan to maintain a neutral duration in the portfolio and will continue to ensure our holdings remain well-diversified, with adequate liquidity. At this point in the economic cycle, we don't expect to add aggressively to corporates until we see further spread widening. We will, however, continue to look for opportunities to add to positions as we see fit (in either the primary or secondary markets) to maintain our overweight exposure to corporates.