glc asset management

Private Debt Institutional
Portico Investment Management

Q1 2020

A unique fixed-income portfolio to add alpha and enhance your risk-adjusted return

What's the strategy?

This Private Debt Institutional (Portico) portfolio strategy invests primarily in Canadian private debt investments, with the goal of providing a higher yield over comparably rated public market bonds with an emphasis on maintaining strong credit quality.

What's the approach?

This portfolio strategy leverages the expertise and experience within the Canada Life Private Debt team. The Canada Life Private Debt team sources, underwrites, structures and monitors the private debt deals. This highly specialized and experienced team has a strong marketplace reputation and well-established credit underwriting expertise. The Portico Investment Management team offers capital market expertise, portfolio management oversight and liquidity management. Both portfolio managers pursue tested and strongly vetted processes within a culture of strong risk management.

Why invest in this portfolio strategy?

deal for institutional investors seeking additional yield compensation without significant increase in credit risk versus comparable quality public bonds (e.g., credit metric deterioration, rating downgrade, default risk). This Private Debt Institutional (Portico) portfolio is a good complement to traditional bond investments and offers: Greater diversification through access to industries, deals, and borrowers not typically available in public markets; Access to long-term debt deals; and Access to highly specialized and experienced portfolio management.

Typical portfolio characteristics

Here's what you can expect to see from Portico's Private Debt fixed income strategy:

- Average BBB+ rating; minimum BBB-
- 5 to 30 year typical term range; maximum 40 years
- Expected credit spread of +40 bps to 100 bps on equivalently rated public bonds
- A portfolio management team with a strong track record of managing credit risky.

Strategy snapshot

Asset class
Fixed Income

Inception date
2017

Assets in mandate
$180.4 million

Benchmark
100% FTSE Canada All Corporate Bond Index (TR) + 50 BPS

Investment team
Portico Investment Management

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

Gaurav Mittal,
Vice-President, Private Debt Investments

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.

Portfolio manager's quarterly commentary

As at March 31, 2020

Market review

The FTSE Canada Universe Bond Index returned 1.6% (total return) for the first quarter of 2020. North American bond yields dropped to historic lows: central banks lowered interest rates and investors flocked to safe-haven assets due to the COVID-19 pandemic. The U.S. Federal Reserve cut its benchmark interest rate twice in the quarter, taking the target range to 0% and 0.25%, while the Bank of Canada slashed interest rates by a total of 150 basis points in three emergency meetings, lowering the overnight rate to 0.25%. Canadian bond yields fell in the quarter, particularly on the shorter end of the curve, which resulted in short- and medium-term bonds outperforming long-term bonds. Canadian corporates underperformed relative to government bonds, hurt by widening credit spreads due to the coronavirus outbreak. High yield bonds underperformed their investment-grade counterparts and federal bonds outperformed within the government sector when investors fled to safety.

Portfolio performance

During a period that concluded with the ongoing global health crisis and global market volatility, the fund posted a positive return that outperformed the FTSE Corporate Bond Index by a healthy margin on a gross return basis during the first quarter. The fund's outperformance was due to it being more sensitive to interest rate changes than the benchmark: at quarter end, it had an average duration (a measure of interest rate sensitivity) of 8.2 years versus the benchmark's 6.4 years. As interest rates fell during the quarter, the higher interest rate sensitivity benefitted the fund's performance. The average spread on the fund's holdings outperforming its index to benefit returns, due in part to having invested excess cash into a Government of Canada bond.

Portfolio activity

No new investments were added during the first quarter. Credit quality remains largely unchanged, with approximately 55% of the portfolio internally rated as BBB, and the balance rated 'A' or better. No portfolio holdings are rated below investment grade. The portfolio remains well-diversified, with non-energy infrastructure exposure at 15.7%, energy-generation holdings at 53% (split across hydro, wind and solar), power transportation and distribution at 10.1%, health and long-term care at 10.1% and oil and gas at 2.7%. The balance of the portfolio is invested in cash and Government of Canada bonds. The fund maintains an adequate level of liquidity to invest in new deals as they become available. The fund also receives regular payments of principal and interest from its investments.

Positioning & outlook

The supply of private debt offerings in the Canadian market has become less robust with the advent of COVID-19; however, the fund is well positioned to take advantage of opportunities when supply picks up again. The portfolio's strategy is ideal for institutional investors seeking additional yield compensation without significant increase in credit risk versus comparable quality public bonds (e.g., credit metric deterioration, rating downgrade, default risk). It also offers greater diversification through access to industries, deals and borrowers not typically available in public markets. The fund is primarily invested in infrastructure opportunities that provide a steady and consistent source of cash flow from long-term operating contracts with reliable counterparties. The fund is predominantly invested in infrastructure and renewable power projects and utilities. The fund has limited exposure to the oil and gas sector, with no exposure to oil and gas producers themselves. All of the investments in the fund are internally or externally rated investment grade.