A socially responsible diversified Canadian fixed-income portfolio

What's the strategy?

The SRI Bond (Portico) portfolio strategy invests primarily in Canadian federal and provincial bonds and high-quality investment-grade corporate debt securities. All holdings pass specific exclusionary screening criteria related to a company's environmental sustainability, social responsibility and corporate governance (ESG) performance as well as the company's involvement in certain industries, such as tobacco or liquor products, weapons, gaming or pornography.

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 is highly diversified by sector, term and debt issuers, with moderate variation of the benchmark's duration.

Why invest in this portfolio strategy?

This broadly diversified Canadian fixed income portfolio offers a meaningful way of ensuring that investment dollars promote a higher level of environmental sustainability, social responsibility and corporate governance, while benefiting from expert investment analysis and the opportunity for attractive interest income and long-term capital appreciation.

The SRI Bond (Portico) strategy can offer a focus on capital preservation and a long-term view towards conservative, stable income and capital appreciation.

The portfolio is designed to be responsive to changes in interest rates and market risks, while controlling overall risk levels.

Typical portfolio characteristics

Here's what you can expect to see from Portico's SRI Bond fixed-income strategy:

- A purely Canadian bond portfolio
- Active management of credit risk, duration, yield curve and sector positioning to optimize yield opportunities while mitigating risk
- A high-quality portfolio of investment-grade fixed income holdings
- Additional ESG screening, including for company involvement in certain industries, such as tobacco, alcoholic beverages, gambling, adult entertainment, military contracting, and nuclear power.

Strategy snapshot

Asset class
Fixed Income

Inception date
2007

Assets in mandate
$56.0 million

Benchmark
FTSE Canada Universe Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Natalie Laden,
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.

Portfolio attributes

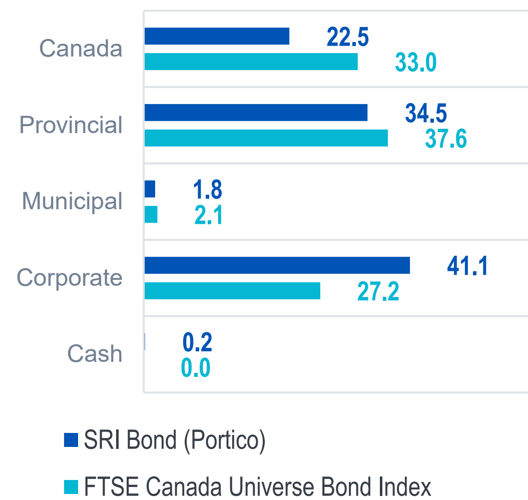
	Portfolio[1]	Index[2]
Average term (years)	11.04	11.12
Modified duration (years)	8.50	8.49
Market yield (%)	1.48	1.33
Number of Bonds	143	1,505

Credit quality %

	Portfolio[1]	Index[2]
AAA	30.3	36.7
AA	34.8	36.8
A	19.7	14.8
BBB	15.2	11.6
<BBB	0.0	0.0

As at June 30, 2020

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - SRI Bond Fund (Portico) | 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 with a continuation of the ongoing global health crisis and global volatility, the portfolio posted a positive return that outperformed FTSE Canada Universe Bond Index on a gross return basis during Q2 2020. Spread, carry, duration and rolldown were positive contributions to performance as spreads narrowed significantly throughout the quarter after reaching their wide points in March. However, the outperformance was somewhat hampered by selection and the fund's underweight position in the Agency and Provincial sectors.

Portfolio activity

The fund's corporate bond exposure decreased slightly, and provincial bond exposure increased while maintaining a neutral-to-long duration relative to the index (between 98% and 101%). As a result of the fund's ESG analysis and screening process, funds were redeployed into existing corporate bond holdings that offered a more suitable combination of ESG factors and financial attributes with more attractive opportunity relative to their peers.

Positioning & outlook

Markets will continue to face significant challenges until the end of 2020, aside from economic disruption related to the COVID-19 pandemic: abrupt changes in world oil prices; significant slowing global economic growth; ongoing U.S./China trade tensions; the U.S. election; and, other escalating geopolitical risks. An extraordinarily unprecedented amount of fiscal stimulus and quantitative easing programs have been implemented to help inject liquidity into the financial system throughout a very challenging time for businesses, individuals and countries. We believe future moves by either the Federal Reserve (Fed) or Bank of Canada will be reactive adjustments as conditions warrant and will continue until the economic recovery advances. We expect rates to remain lower for longer and are therefore positioning the portfolio accordingly by staying neutral-to-long versus the FTSE Canada Universe benchmark. We also remain cautious on corporate credit and may look for opportunities to add to our position as spreads widen. For the portfolio's corporate bond holdings, we're focused on keeping the portfolio well-diversified with adequate liquidity – the majority of its term structure being less than 10 years. Additional ESG screening and exclusionary selection criteria make this fund a meaningful way to ensure that investment dollars promote a higher level of environmental sustainability, social responsibility and corporate governance – while still benefiting from expert investment analysis and the opportunity for attractive interest income and long-term capital appreciation.
