A fixed income opportunity with lower volatility and reduced interest rate sensitivity

What's the strategy?

The Short Term Bond (Portico) portfolio strategy invests primarily in Canadian investment-grade bond securities with terms less than five years.

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. It's an actively managed high-quality portfolio that includes exposure to short-term corporate bonds, including Maple bonds. Relative to the broad Canadian fixed-income market, this portfolio strategy tends to have a shorter duration and higher exposure to corporate bonds than the broad Canadian fixed income market.

Why invest in this portfolio strategy?

Ideal for investors seeking interest income opportunities in a more defensive, short-term Canadian bond portfolio that is highly diversified across sectors.

Typical portfolio characteristics

The Short Term (Portico) strategy can offer:

- Reduced interest rate sensitivity with a shorter duration portfolio than the broad Canadian fixed income market
- Active management of duration, yield curve, sector and industry exposure to maximize total return opportunities and manage risk
- A higher exposure to corporate bonds for greater interest income opportunities
- A high-quality Canadian fixed-income portfolio and an opportunity to further diversify a fixed income portfolio

Strategy snapshot

Asset class
Fixed Income

Inception date
2013

Assets in mandate
$93.8 million

Benchmark
FTSE Canada Short Term Overall Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Jenny Wan
Manager, 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

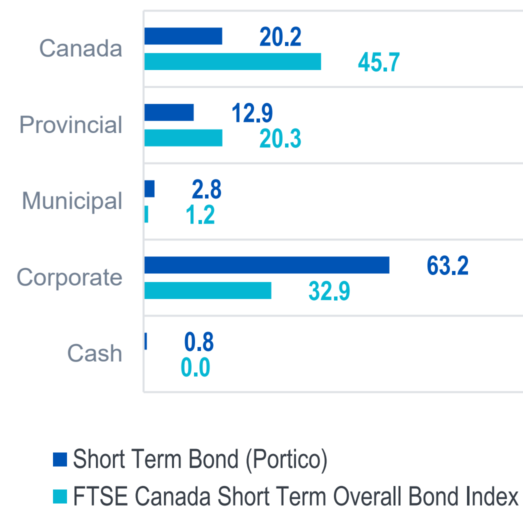
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	2.86	3.01
Modified duration (years)	2.73	2.88
Market yield (%)	1.36	0.81
Number of Bonds	123	545

Credit quality %

	Portfolio[1]	Index[2]
AAA	24.2	48.5
AA	20.1	26.7
A	27.9	13.6
BBB	27.9	11.2
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Short Term Bond Fund (Portico) | 2. Index: FTSE Canada Short 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 with the global economy on lockdown, businesses gradually reopening and risk assets bouncing back up, the portfolio delivered a positive return that outperformed the FTSE Short Term Bond index on a gross return basis during Q2 2020. Sector positioning was the main contributor to performance, specifically overweighting the corporate sector, along with higher running yield in the portfolio relative to the index. Bond selection within corporate sectors (i.e., Real Estate and Securitization) was a detractor to performance. The outlook in those sectors remains less optimistic as the damage caused by the pandemic will most likely need a longer time to recover.

Portfolio activity

As market volatility stabilized (somewhat) and investors started to once again pay attention to fundamentals rather than sentiment, we adjusted the fund's duration position from long to short versus the index. With interest rates remaining extremely low, and the need to 'reach for yield' continuing, we maintained overweighting in the corporate bond sector relative to the index across the entire spectrum. The portfolio's average credit rating remained unchanged at A.

Positioning & outlook

To continue combatting the recent pandemic that's expected to bring about a global recession, central banks (in Canada and around the world) maintained the expansion of monetary and fiscal policies to an extent that drove one of the rating agencies to downgrade Canada's country rating below AAA. With these extreme measures in place, we expect the Bank of Canada to remain on hold in the coming months as long as pandemic cases continue to plateau and oil prices stay around the current level. The retracement of the equity selloff in the past quarter has brought in credit spreads immensely, almost back to pre-pandemic levels. Investors are starting to focus on the fundamentals so we don't expect credit spreads to have massive compression from here until the end of the year. We remain cautious to the uncertainties of how this global economic backdrop will impact our domestic economy (e.g., job losses that might not come back). We will keep the fund's duration shorter than the index's and will look to return back to neutral if our thesis changes (e.g., if interest rates trend lower once again due to unexpected reasons). We'll adjust the strategy accordingly as opportunities arise. We will also continue to overweight corporate bonds in line with our strategy of active and selective participation in the primary market (for both provincials and corporates) as the current risk-on tone continues.