More active. More diversified. More responsive. When you need more from your core bond holding.

What's the strategy?

This Canadian-focused bond portfolio is highly diversified by sector, term and issuance, with a focus on outperforming the FTSE Canada Universe Bond Index.

What's the approach?

Portico's active management approach pursues a consistent, measured and disciplined approach to capturing incremental gains while controlling overall risks. Portico's portfolio management team employs proprietary research and analysis to identify and capitalize on enhanced yield and return opportunities within the fixed-income marketplace. Within well-defined risk parameters, the portfolio management team's active management approach is nimble enough to optimize yield opportunities through exposure to high-yield and foreign-denominated bonds, ETFs, alternative fixed income holdings and non-hedged currencies when attractive market opportunities arise.

Why invest in this portfolio strategy?

This portfolio is designed to be a core Canadian fixed-income holding. The fund is ideal for investors seeking a primarily Canadian diversified core fixed-income portfolio that's designed to be responsive to changes in interest rates and various market conditions while controlling overall risk levels. Within well-defined risk parameters, the portfolio management team has the flexibility to add exposure to high-yield bonds, foreign-denominated bonds and alternative fixed-income securities, such as derivatives, and other debt instruments that can provide enhanced yield and trading opportunities.

Typical portfolio characteristics

The Tactical Bond (Portico) portfolio strategy can offer:

- **More diversification** – Flexibility by leveraging a broad range of conventional and alternative assets, including derivatives and ETFs.
- **More active** – This Canadian-centric fund accesses global opportunities to capitalize on asymmetric market opportunities, hedge risks and maximize payoffs.
- **More responsiveness** – Broad flexibility to capitalize on shifting markets through strategic portfolio construction and nimble trade execution.

Strategy snapshot

Asset class
Fixed Income

Inception date
2019

Assets in mandate
$19.9 million

Benchmark
FTSE Canada Universe Bond Index

Investment team
Portico Investment Management

Portfolio manager(s)
Mark Hamlin
Vice-President, Fixed Income

Janet Salter
Vice-President, Fixed Income

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

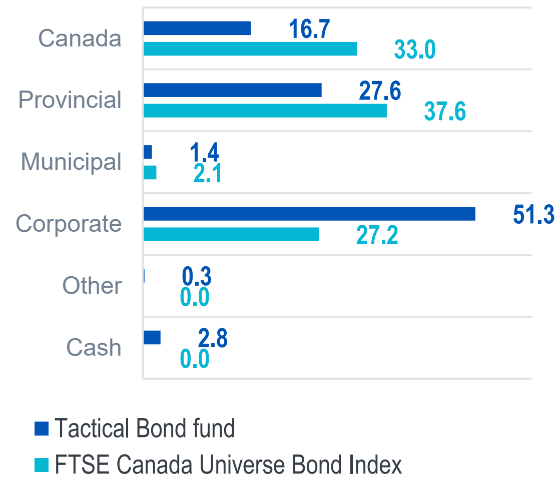
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	10.87	11.12
Modified duration (years)	8.42	8.49
Market yield (%)	1.82	1.33
Number of Bonds	157	1,505

Credit quality %

	Portfolio[1]	Index[2]
AAA	21.5	36.7
AA	23.0	36.8
A	23.7	14.8
BBB	30.0	11.6
<BBB	1.6	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: Tactical 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, the portfolio delivered a strong positive return that outperformed its benchmark (FTSE Universe Index) on a gross return basis during Q2 2020 as credit spreads contracted from their widest levels. The majority of the fund's outperformance was due to spread contraction (88bps) although the fund also outperformed the benchmark in terms of carry and individual security selection. Overall the fund returned 7.14% on a gross return basis during the second quarter versus a benchmark return of 5.87%.

Portfolio activity

The Tactical Bond Fund maintained its overweight in corporate bonds, although the magnitude of the overweight was decreased as spreads tightened as the second quarter progressed. Overall, the corporate weight was reduced by 3% and the cash component was increased by 3%. Municipal and provincial weightings remained unchanged close to benchmark. In terms of sector rotation, the fund reduced both financial and real estate holdings by 5% during the quarter and increased its exposure to the energy sector by 3% and the infrastructure sector by 4%. The average rating of the fund remained unchanged at A.

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 is likely to continue for the next 12 to 24 months at a minimum, keeping shorter-end yield 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 because monetary authorities have supported these sectors of the market. Less certainty exists, 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. The Tactical Bond Fund maintains its overweight in corporate bond risk, although at a reduced level as compared to the beginning of the second quarter. In non-federal spread debt (Provincial, Municipal, Supra), the fund remains close to benchmark on aggregate.