Diversify your fixed-income portfolio with high-quality, long-duration Canadian yield opportunities

What's the strategy?

The Portico Ultra Long Term Bond strategy invests primarily in Canadian federal, provincial and corporate bonds with terms greater than 20 years.

What's the approach?

This mandate closely emulates the composition and returns of the FTSE Canada 20+ overall bond index. The strategy seeks to provide investors with a level of interest income consistent with investments in longer-term fixed income products, along with the potential for capital gains.

Why invest in this portfolio strategy?

Ideal for investors with a longer investment horizon seeking interest income and the potential for capital appreciation. The Ultra Long Term Bond strategy has the potential to add significant value in an economic environment of stable or declining interest rates.

The Ultra 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.

Typical portfolio characteristics

Here is what you can expect to see from the Portico Ultra Long Term Bond strategy when compared to other fixed-income options, or the broad Canadian fixed-income market:

- Higher yield than most shorter duration fixed-income options
- Pure Canadian bond exposure, avoiding foreign currency risk
- Greater sensitivity to interest rate and inflation expectation changes than shorter-duration fixed-income options
- Well diversified fixed-income holdings to help meet long-term liabilities

Strategy snapshot

Asset class
Fixed Income

Inception date
2013

Assets in mandate
$221.2 million

Benchmark
FTSE Canada 20+ Universe 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

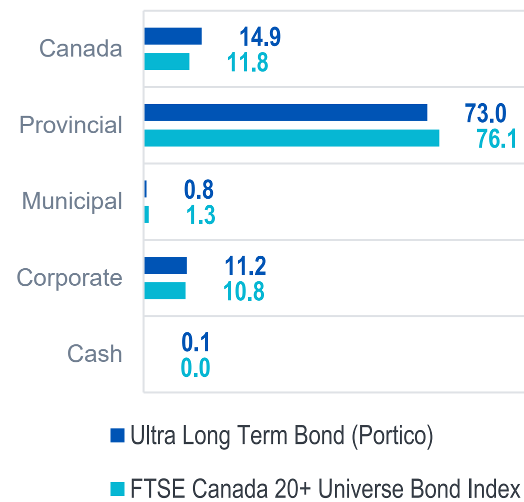
Portfolio attributes

	Portfolio[1]	Index[2]
Average term (years)	27.39	27.11
Modified duration (years)	23.00	22.89
Market yield (%)	1.95	2.01
Number of Bonds	148	517

Credit quality %

	Portfolio[1]	Index[2]
AAA	20.5	15.9
AA	63.0	66.4
A	13.1	13.3
BBB	3.5	4.4
<BBB	0.0	0.0

Sector Allocation %



Source: GLC, FTSE Global Debt Capital Markets | 1. Fund: LL - Ultra Long Term Bond Fund (Portico) | 2. Index: FTSE Canada 20+ 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 posted a strong double-digit positive return, although it slightly underperformed the FTSE Canada 20+ Bond Index on a gross return basis during Q2 2020. The underperformance was almost exclusively due to the fund's provincial holdings – both selection within the provincials and from trading losses in the quarter. Quebec was one of the strongest performing provinces, and names there (including Hydro Quebec) did particularly well. The fund's underweight in the province (particularly in Quebec strip bonds) detracted from performance. In addition, the fund was slightly short in duration over the course of the quarter, which detracted from performance when yields rallied. Positioning along the curve wasn't a significant detractor from performance. Having an overweight position in corporates contributed positively to performance.

Portfolio activity

The fund maintained a slightly shorter duration versus the index, bringing it closer to neutral by quarter end. We've been adding to corporate bonds as opportunities arise. The weight of provincials within the index has increased during Q2 (through a combination of increased provincial issuance as well as Government of Canada buybacks), and the fund has likewise invested in more provincial product, targeting an equal weight allocation versus the index.

Positioning & outlook

We plan to maintain a neutral duration in the portfolio. We'll 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 spread widening, but will continue to look for opportunities to add to positions as we see fit (in either the primary or secondary markets) to maintain our slight overweight exposure to corporates.