

Beating today's fixed-income challenge



Fixed-income holdings are a good complement to other investments within your portfolio by helping protect you against market volatility. Even when yields are low, fixed-income investments have an important role to play in all but the most aggressive portfolios.

What does fixed income accomplish?

Income/returns

The income generated by fixed-income funds helps offset one of the main risks associated with fixed-income products – concerns about rising interest rates. These increases that have a negative influence on bond prices can be mitigated by the extra income these products generate. In fact, since 2011, approximately 90 per cent of total FTSE TMX Canada Universe Bond Index returns have come from interest payments, not changes in bond prices.

Year	Price return	Income return	Total return
2016	-1.4%	3.1%	1.7%
2015	0.3%	3.3%	3.5%
2014	3.2%	2.6%	5.9%
2013	-4.7%	3.6%	-1.2%
2012	-0.1%	3.7%	3.6%
2011	5.5%	4.0%	9.7%

Source: Bloomberg.

Safety

Investments, like bonds, that experience lower volatility can help prevent emotionally-driven financial decisions. So while bonds may not always be the most profitable choice, they do help mitigate a portfolio's volatility.

Liquidity

The fixed-income market in Canada is much larger in volume than the equities market. This means it is much easier for a manager to adjust a fund's holdings when conditions merit a change.

Balance and diversification

Fixed income is necessary to build a balanced portfolio – a very important factor in investment success. Historically, when equities decline, traditional bonds often increase in value and provide a counter balance in the portfolio. Diversification helps reduce a portfolio's overall volatility.



Demystifying your choices

Fixed income is not a one-size-fits-all solution. Even within the fixed-income asset category, there is a high degree of diversity and a range of risks.

A mix of fixed-income products has a place in a well-diversified portfolio but understanding the differences is important for the construction of a successful portfolio.

Our fixed-income solutions

Investors seeking mandate



		Core Bond (Portico)	Core Plus Bond (Portico)	Corporate Bond (Portico)	Fixed Income Profile (PSG)	Floating Rate Income (Mackenzie)
		Core Canadian exposure to high-quality income securities	Core Canadian exposure with high yield opportunity	Diversification and yield enhancement via corporate bonds	Exposure to multi-managers in one fund invested in low-risk fixed income	Diversification and yield enhancement with rising interest rate protection
Income need & type	YIELD TO MATURITY	2.1	2.2	2.7	2.6	7.0
	RISING RATE PROTECTION*					
	CREDIT PROTECTION*					
Overview	COMPOSITION	Broad universe of fixed-income securities, primarily Canadian government fixed-income securities and high quality investment-grade corporate fixed-income securities.	Broad universe of fixed-income securities, primarily Canadian government fixed-income securities and high quality investment-grade corporate fixed-income securities. It may hold up to 10 per cent of its assets in high-yield bonds.	Broad universe of fixed-income securities, primarily focused on high quality corporate fixed-income securities.	Broad universe of fixed-income securities, primarily Canadian government fixed income securities. It generally includes foreign bonds, debentures, mortgages and cash up to 20 per cent.	Primarily focused in floating rate bank loans and notes and higher yielding corporate bonds. Regional allocation is distributed mainly in United States and Canada. It has less than five per cent globally.
	AVERAGE CREDIT QUALITY	AA	AA	A	A	BB-
	MODIFIED DURATION (YEARS)	7.1	7.0	5.9	7.1	0.8
	DIFFERENTIATOR	Multi-sector allocation that focuses on 'playing it safe' in Canada while seeking capital appreciation and interest income.	A balanced approach between government and corporate bonds and between terms and credit risks.	Invests across a range of sectors and credit quality to provide further diversification benefits to traditional fixed income.	An 'all in one' fixed-income solution	Higher yielding securities with typically more credit protection than high-yield bonds.
Details	RISK RATING	Low	Low	Low	Low	Low to moderate
	CATEGORY	Canadian fixed income	Canadian fixed income	Canadian fixed income	Canadian fixed income	Floating rate loan
	MANAGER				Portfolio Solutions Group A division of GLC Asset Management Group Ltd.	
	REGIONAL FOCUS	Canada	Canada	Canada	Canada	North America
	CURRENCY HEDGE	N/A	N/A	N/A	N/A	Full



Investors seeking mandate



		North American High Yield Bond (Putnam)	Real Return Bond (Portico)	Short Term Bond (Portico)	International Bond (Brandywine)	Unconstrained Fixed Income (Mackenzie)
		Diversification and yield enhancement via high-yield securities	Inflation protection with long-term maturity	Shorter duration for reduced rate sensitivity	Medium-term investment with exposure all over the world	Diversified fixed income seeking absolute return
Income need & type	YIELD TO MATURITY	6.2	0.4	1.4	2.9	5.9
	RISING RATE PROTECTION*					
	CREDIT PROTECTION*					
Overview	COMPOSITION	Mainly in higher yielding corporate bonds of Canadian and U.S. issuers.	Mainly Canadian government bonds and mix of provincial and municipal bonds	Majority of assets are high-quality corporate bonds and a mix of high-quality government bonds with a shorter duration than the broad Canadian fixed-income market.	Invests in quality government and corporate debt outside Canada.	Diversified global fixed-income securities such as corporate bonds, floating rate bonds, government bonds and cash equivalents from North America and Western Europe.
	AVERAGE CREDIT QUALITY	BB-	AA	AA	AA	BB+
	MODIFIED DURATION (YEARS)	3.7	16.0	2.7	4.5	3.0
	DIFFERENTIATOR	Sector-centric approach, broadly diversified, uncovers unique credit opportunities.	Long-term opportunity that protects against inflation.	Lower volatility and reduced interest rate sensitivity. Has a defensive orientation.	Exposure to sovereign debt with low correlation to traditional fixed-income and equities	Benchmark agnostic with an absolute return policy.
Details	RISK RATING	Low to moderate	Low to moderate	Low	Low to moderate	Low to moderate
	CATEGORY	High yield fixed income	Canadian inflation protected income	Canadian short term fixed income	Global fixed income	Alternative strategies
	MANAGER					
	REGIONAL FOCUS	North America	Canada	Canada	International	Anywhere
	CURRENCY HEDGE	Full	N/A	N/A	Active hedging	Full

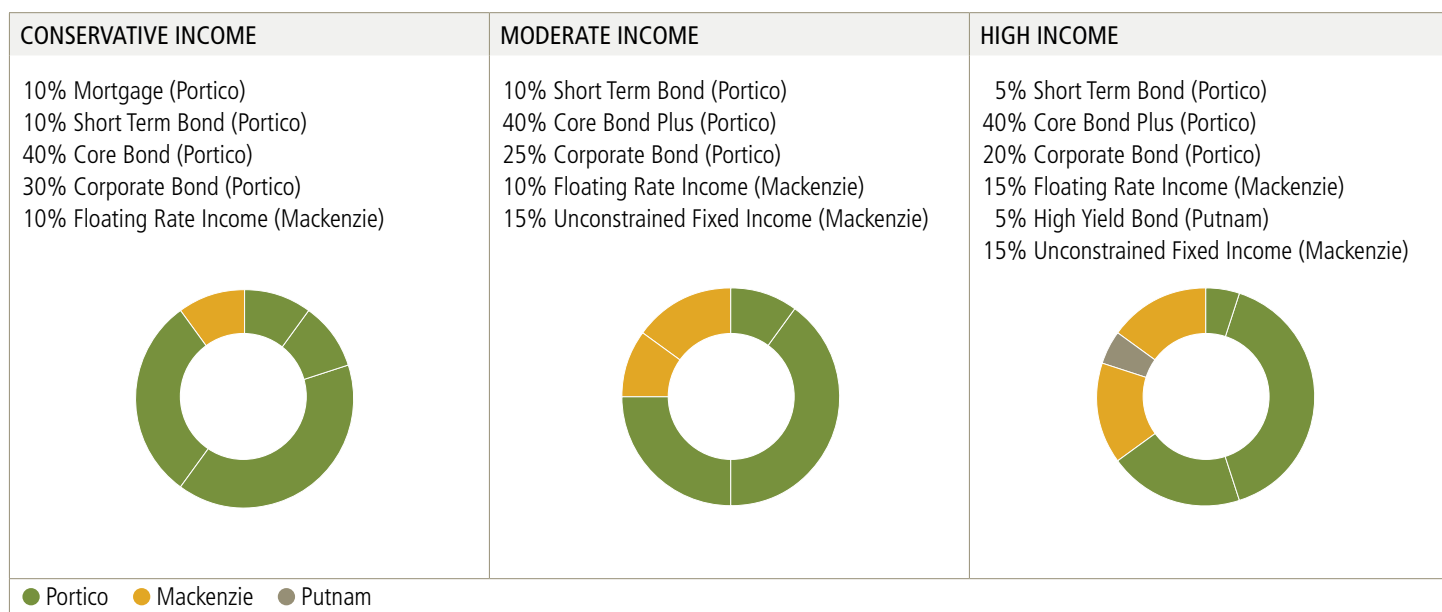
*Rising rate protection and credit protection use a scale from one to four, with one being the lowest relative rating and four being the highest.

Source: Morningstar, GLC and Mackenzie as at Jan. 31, 2017.

Fixed income fund pairing ideas

Every investor is different. A very conservative investor will likely have a different fixed-income portfolio than that of an investor seeking high income. Creating a mix of various fixed-income funds may enhance diversification and provide optimal yield portfolios for investors.

	Establish portfolio goals	Define investment universe	Reduce volatility and enhanced diversification
CONSERVATIVE INCOME	2.5% yield +/- 25 bps	Government Corporate Mortgages	Attempt to achieve yield goal at lowest possible volatility while enhancing clients' fixed-income exposure
MODERATE INCOME	3.25% yield +/- 25 bps	Government Corporate High yield	
HIGH INCOME	3.75% yield +/- 25 bps	All fixed income choices	



Next steps:

- 1) Review** your fixed-income fund choices to assess the level of value being provided over the long term.
- 2) Consider** incorporating the use of various fixed-income fund selections as a way to seek enhanced yield and diversification to achieve strong, risk-adjusted returns.
- 3) Implement** an appropriate strategic mix to capitalize on the benefit of various fixed-income instruments that are not always available directly to most Canadian investors.

A description of the key features of the segregated funds policy is contained in the information folder.
Any amount allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value.