

INVESTMENT INSIGHTS

PERSPECTIVES ON INVESTMENT STRATEGIES

Investors in Canadian institutional fixed income are increasingly interested in core plus allocations as they look to diversify concentration risks in the Canadian market. We asked Robert Prospero, Portfolio Manager at Aviva Investors, what differentiates one “plus” approach from another, and why he thinks a global perspective is critical to deliver resilient core plus solutions.

WHAT DIFFERENTIATES AVIVA INVESTORS' APPROACH TO FIXED INCOME INVESTING?

We believe three key areas of focus are essential to deliver a resilient fixed income solution: commitment, creativity and construction. Our commitment to the Canadian marketplace is informed by a global research platform of over 400 investment professionals and analysts across 17 offices and includes delivering resilient solutions to Canadian investors through a boots-on-the-ground strategy. Creativity refers to how we harness global resources and deploy intellectual capital in Canadian solutions.

Beyond fundamentals, our analysts are encouraged to creatively explore elements of the entire capital structure, factor in technical considerations and focus on valuations across the credit curve. Construction is how the Canadian portfolio managers bring all the ideas together in portfolios that offer good downside protection, are built to withstand different economic scenarios and can perform even if we are wrong with our central investment thesis.

WHY IS A LOCAL FIXED INCOME TEAM PRESENCE IMPORTANT?

Our local team, which includes two portfolio managers, two analysts and a dedicated trader, has an advantage when it comes to understanding the dynamics and evolution of the Canadian benchmark. For example, the Canadian index has a preponderance of Canadian banks, low single name issuer diversity and a limited number of concentrated sectors. Understanding this allows us to exploit persistent structural inefficiencies and build portfolios that can outperform in up-and-down markets.

From an investment perspective, while global investment themes can have a local impact, it's also essential to understand local businesses. For instance, spreads may widen on the debt of an Ontario real estate company because of concerns globally, but it's still more important to know if the tenants can pay next month's rent. In face-to-face meetings with management teams, our analysts gain insight and context on strategies that often aren't available through quarterly reports and earnings calls.

WHY SHOULD CANADIAN INSTITUTIONAL FIXED INCOME INVESTORS CARE ABOUT INTERNATIONAL COMPANIES?

First, industry themes play out in different geographies at different rates. For instance, 5G technology will likely be deployed in the United States years before it is deployed in Canada, and our U.S. analysts are better placed to evaluate the impact on the industry. Insights from our global team allow our Canadian analysts to better understand how the Canadian market may develop and the risks and opportunities ahead.

Second, global issuers are issuing debt in Canada at an increasing rate. Instead of analysts playing catch-up to

understand companies and industries in geographies far outside their traditional coverage universe, firms with global resources can lead deals and negotiate pricing and terms.

Finally, companies sometimes decide to issue bonds in certain currencies based on where it is cheapest on a cross-currency swap basis. A wave of foreign companies issuing debt in Canadian dollars can upset the local supply and demand equilibrium and cause a market sell-off. Similarly, Canadian companies that decide to issue globally can create a scarcity value for their existing Canadian dollar-denominated debt. Having a global view is vital in understanding these dynamics.

HOW DO YOU WORK WITH YOUR GLOBAL TEAMS?

Our global framework starts with the Aviva Investors House View, a comprehensive compilation of views and analysis from the major investment teams that is shared across the firm at quarterly House View Forums and that outlines key investment themes and the major risks around those themes. We also regularly engage with the global team in cross-asset meetings and investment grade bond, fixed income and sector thematic forums, where we share ideas to understand longer-term market drivers in an effort to anticipate rather than to react to the market. We interact frequently with our risk teams and our environmental, social and governance (ESG) team. And we meet daily with the fixed income team to discuss earnings results, acquisitions, ratings changes and economic releases.

CAN YOU PROVIDE EXAMPLES OF GLOBAL IDEAS THAT HAVE BEEN INTEGRATED INTO YOUR PORTFOLIO?

We recently invested in one of the largest retail drugstore chains and

pharmacy benefits manager in the United States with over 90 million plan members. Following a recent acquisition, it became one of the largest and most diversified healthcare companies in the U.S. We like the combined company's scale and breadth of services, as well as its significant free cash flow and de-leveraging potential.

Another high-conviction global idea is investing in a top luxury cruise line, which operates both river and ocean cruises across the globe. We are attracted to this company on account of strong macro trends, their strong reputation for high-quality service, and the high degree of visibility into the business since cruises are typically booked 12 to 18 months in advance.

HOW DO THE STYLES OF CANADIAN CORE PLUS FIXED INCOME MANAGERS VARY?

Comparing core plus managers is difficult because they define “plus” differently. Some are based locally, while others are based internationally; some have high-yield bolt-on strategies,

while others use equities and derivatives. Additionally, many managers have differing views on how much out-of-index positioning is appropriate for a plus allocation. At Aviva Investors, our approach to core plus is different. Our Canadian portfolio managers are fully accountable for all investment decisions and our goal is not to add beta in higher-yielding asset classes but to build more resilient portfolios through a holistic portfolio construction process with plus components that provide exceptional return without exceptional risk.

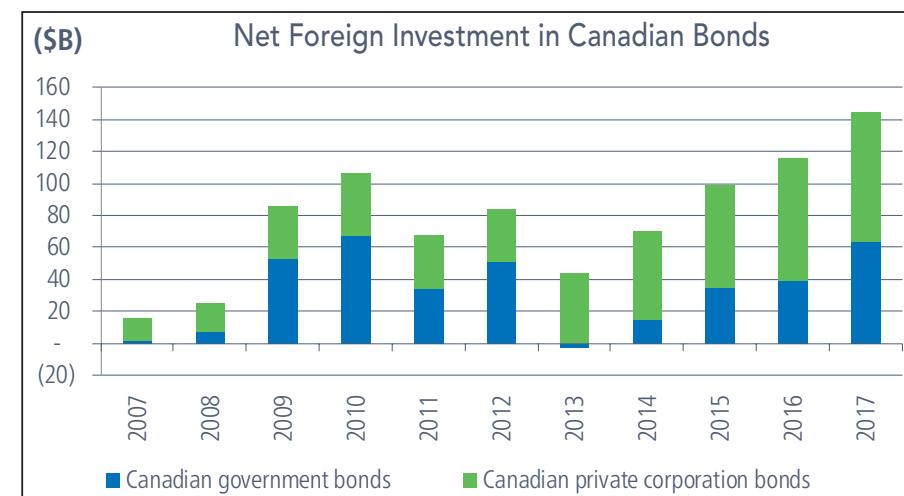
HOW ARE GLOBAL INVESTORS IMPACTING THE CANADIAN MARKET?

There is more international money invested in Canadian assets than ever before. The Bank of Canada estimates that foreign purchases of approximately \$150 billion of Government of Canada bonds between 2009 and 2012 lowered the 10-year yield by 100 basis points.¹ Since then, asset flows into



ROBERT PROSPERO, CFA
PORTFOLIO MANAGER
AVIVA INVESTORS

Canada have increased and have the potential to more significantly impact all corners of the Canadian market. To understand Canadian bond market technicals, it is imperative to understand what drives foreign investors' investment decisions. The global nature of our firm gives us insight into what makes certain geographies more or less attractive and drives asset flows into or away from Canada.



Source: Statistics Canada. Table 36-10-0028-01, International transactions in securities, portfolio transactions in Canadian and foreign securities, by type of instrument and issuer, monthly (x 1,000,000). <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=361002801>

¹ Bank of Canada (2015). Foreign Flows and Their Effects on Government of Canada Yields. <https://www.bankofcanada.ca/2015/11/staff-analytical-note-2015-1/>

Important information:

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