

INVESTMENT INSIGHTS

PERSPECTIVES ON INVESTMENT STRATEGIES

It isn't easy to build effective fixed income allocations today. In a challenging environment, Rémi Tétreault, investment specialist, at Aviva Investors emphasizes the importance of diversification into global fixed income opportunities. He explains how institutional investors can access a wider opportunity set by seeking out Core Plus fixed income solutions, and suggests attributes to look for in a Core Plus manager.

WHAT CHALLENGES DO INSTITUTIONAL INVESTORS FACE IN TODAY'S FIXED INCOME MARKETS, AND WHAT CAN THEY DO TO OVERCOME THEM?

Institutional investors continue to confront an uncertain future, constantly changing market conditions and limited options. These dynamics are not only present in Canada, but also in global fixed income markets.

Furthermore, it can be reasonably assumed that the global economy no longer warrants the accommodative measures adopted by central banks following the financial crisis. In fact, higher policy interest rates are appropriate in a world in which growth and inflation have been restored. The combination of increased policy rates and reduced government bond purchases, or quantitative easing unwind, threatens fixed income investments and leaves institutional investors with important decisions to make concerning fixed

income allocations within their investment policy.

We find investors can benefit from analyzing their current fixed income allocations and identifying opportunities for diversification. We encourage investors to search for Core Plus fixed income solutions that can expand the opportunity set while maintaining resilience in varying market conditions. In other words, we suggest seeking out investment managers who have been able to leverage global investment ideas to address the shortcomings of the Canadian market without taking on unintended risks within their portfolios.

WHAT SETS AVIVA INVESTORS' CANADIAN CORE PLUS FIXED INCOME SOLUTION APART FROM ITS PEERS?

We believe three central areas of focus are essential to deliver resilient fixed income solutions and differentiate us from our competitors: construction, creativity and commitment.

Our holistic portfolio construction process, managed entirely by our Canadian portfolio managers, is not a bolt-on portfolio approach. Rather, we adopt a risk-aware approach aimed at reducing portfolio volatility, protecting capital in down markets and lowering reliance on market direction. We integrate the highest conviction ideas (global or Canadian) in a benchmark-aware manner, being mindful of the contribution of non-Canadian market risk.

We prioritize creativity through an ideas-driven, unconstrained approach that brings together our full global investment capabilities across a broad range of disciplines.

Commitment comes from accountability. Our dedicated

investment professionals who work in Canada are supported by more than 400 investment professionals located around the world.

Portfolio construction, investment creativity and commitment underpin our ability to offer a resilient Canadian Core Plus solution.

WHAT ARE THE BENEFITS OF ADDING CORE PLUS TO A CORE ALLOCATION?

In a complex environment, institutional investors have to decide how to integrate global fixed income into a portfolio in a way that improves risk-adjusted returns. We believe that, through a holistic investment process, a Core Plus investment solution can address the challenges investors face by increasing portfolio diversification given the wider opportunity set. We also believe that Core Plus offers greater investment flexibility and allows for greater performance consistency, with returns that rely less on market direction while also offering superior downside protection.

HOW WOULD YOU DESCRIBE YOUR INVESTMENT PROCESS FOR CORE PLUS?

The first step, our House View, identifies the key themes we believe will drive markets in the next one to three years. It outlines our central view by asset class and region and the key investment risks over the medium term. It provides a base macro perspective and feeds into our global credit strategy. At this stage, through firm-wide collaboration, we identify market dynamics, assess the credit cycle and establish our regional scorecards. Through regular forums, we strongly encourage knowledge sharing to further strengthen our investment capabilities in Canada.

The sector and security selection process is based on our proprietary research framework that looks at Macro, Fundamentals, Valuations and Technicals. This framework encompasses elements of the House View and our global credit strategy and requires our investment professionals to develop an original investment thesis with an exit strategy. Afterwards, we begin our portfolio construction process using many tools that help optimize the portfolio, and we execute various stress tests to help build a resilient portfolio. Running different scenarios helps our portfolio managers identify investment themes within fixed income markets and understand how the portfolio would react when our main investment thesis is challenged. Lastly, a robust risk management process helps us monitor the portfolio daily and avoid any unintended risks within the portfolio. This is critical to building a successful and resilient Core Plus solution.

CAN YOU PROVIDE AN EXAMPLE OF A TRADE THAT SHOWS YOUR CORE PLUS MANAGEMENT STYLE IN ACTION?

Firm-wide collaboration is at the centre of our success. For example, leveraging the insights of our U.S. Investment Grade team allows the Canadian portfolio managers to integrate their highest-conviction ideas in a risk-aware manner. One example of such collaboration was when we decided to invest in an American computer data storage company to benefit from our fundamental credit view on global data growth. Our estimation of 30% near-term growth, and mid-term growth supported by increased device penetration (mobile phones, tablets, laptops, etc.), reinforced our constructive view on the sector. Meanwhile, local U.S. expertise allowed us to invest with a higher degree of confidence in a promising investment idea. Global investment ideas are key to well-diversified sources of return that aren't as dependent on market direction. As we've already suggested, diversification

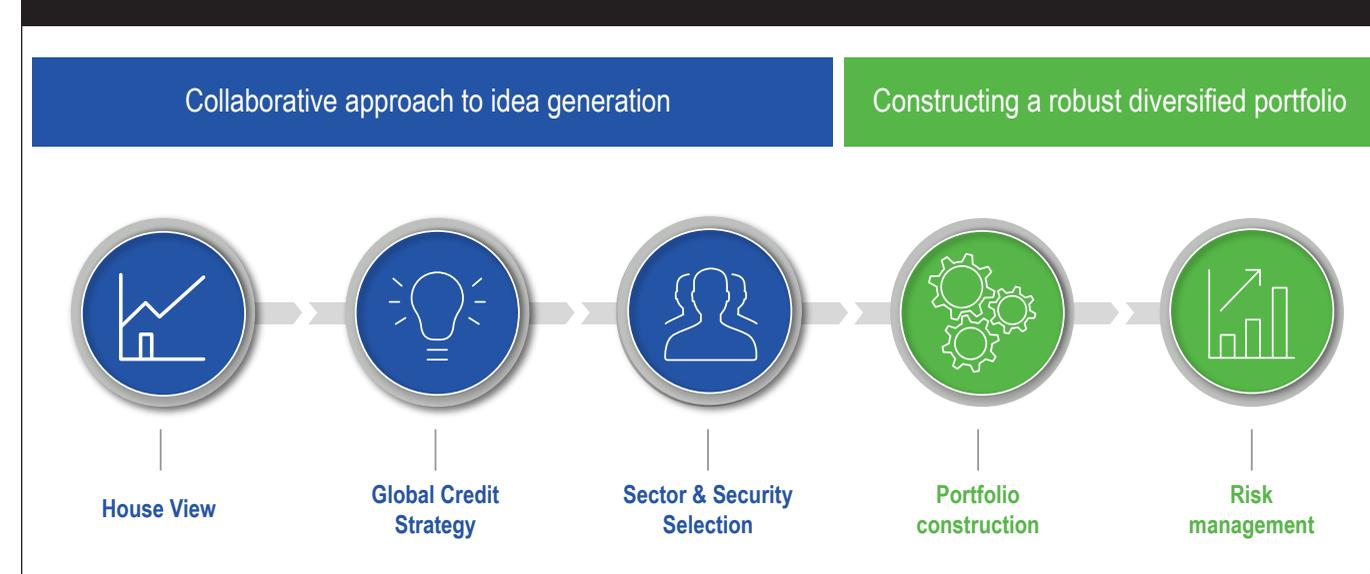


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helps build resilience in our portfolios and, most importantly, helps our clients meet their financial goals.



CORE PLUS INVESTMENT PROCESS



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