iA Global Asset Management

Bond (iA)

QUARTERLY ANALYSIS

As at June 30, 2024

KEY TAKEAWAYS

- Overweights in corporate and short-term bonds contributed to the return as the yield curve normalized.
- Increased provincial and short-term tenor exposure marked portfolio activity.
- The portfolio continued to underweight government bonds while overweighting provincial, municipal, and corporate spreads.

PORTFOLIO MANAGERS

David McCulla CFA
Senior Director, Portfolio Manager, Fixed Income

Alexandre Morin CFA
Senior Director, Portfolio Manager, Fixed Income

PERFORMANCE ANALYSIS

Outperformance in the second quarter

During the quarter, we were overweight corporate bonds, which outperformed relative to the index. Furthermore, our increased exposure to bonds with maturities of 5 years or less boosted the portfolio's return as the yield curve became less and less inverted.

We were also overweight non-rated municipal bonds with short maturities. With the change in the yield curve, our positioning in this segment provided a tailwind that contributed positively.

Our federal and provincial positionings detracted from the portfolio's performance. Even though we underweighted these sectors, we owned long-dated bonds that did poorly on a relative basis, as shorter-dated bonds were favoured by the yield curve move.

3-YEAR RISK-RETURN ANALYSIS

Indicator	Fund	Index*
Beta	1.01	1.00
Standard deviation (%)	7.29	7.19
Information ratio	0.92	-
Tracking error	0.51	

PERCENTILE RANKING (GROSS RETURNS)

Period	Percentile ranking	Nb of funds in category
1 year	75	137
3 years	62	123
5 years	66	105

Source: Morningstar ratings, Canadian Fixed Income

TOP CONTRIBUTORS (QTD)

- Corporate bonds
- Municipal bonds

TOP DETRACTORS (QTD)

- Federal bonds
- Provincial bonds

FUND CHARACTERISTICS

Characteristic	Fund	Index*
Number of holdings	545	1759
Yield to maturity	4.47	4.18
Average duration	7.57	
Average coupon	3.68	3.38
Average credit rating	A	AA

* FTSE Canada Universe

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PORTFOLIO ACTIVITY

Maintaining an overweight position in duration and credits

We had an overweight duration position relative to our benchmark because we expected the economy to continue to slow. In this context, the yield curve steepened when the Bank of Canada delivered its first rate cut in slightly more than 4 years.

We added to our provincial exposure during the quarter as spreads widened and we remained modestly overweight investment-grade credit, with a preference for shorter-term tenors.

We continue to overweight non-rated bonds issued by Quebec municipalities.

SIGNIFICANT TRANSACTIONS (Q2 2024)	
Transaction	Rationale
BUY Provincial Bonds	Provincial bond spreads widened to more attractive levels
Duration	Tactical position with an overweight bias as volatility is still predominant
BUY CAN 5s SELL CAN 10s	Positioning the portfolio for a steepening of the curve
BUY USD	Overweight USD vs CAD as we believe the CAD will underperform due to divergence in monetary policy

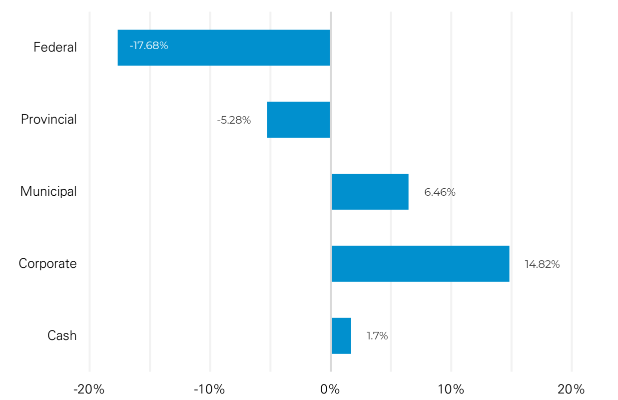
PORTFOLIO POSITIONING

Overweight spread product

We maintained an underweight exposure to Government of Canada bonds throughout the quarter and an overweight position in credit products such as provincial, municipal and corporate bonds. Even though we were modestly overweight corporate bonds, we preferred shorter-term investment-grade credit. The portfolio ended the quarter with an overweight exposure to provincial bonds – with the overweight coming from the higher-yielding provinces. We maintained our overweight in non-rated bonds issued by Quebec municipalities. We like this credit because it offers low interest rate risk combined with a higher yield.

Nimbleness continues to be the key in such volatile markets; therefore, we will continue to be tactical and to manage the portfolio's interest rate risk actively.

SECTOR DEVIATIONS



MARKET OUTLOOK

We see room for bond yields to keep going down

Our outlook for the fixed income market remains positive. Bond yields are still near multi-decade highs; therefore, we think they offer a very attractive risk/reward profile. Supporting this view is our expectation that growth in Canada will slow in 2024 and that inflation will move lower still, causing the Bank of Canada to reduce its overnight rate further. Against that backdrop, we expect ongoing yield volatility, which will give us the opportunity to be both active and tactical in our portfolio positioning.

TOP 5 HOLDINGS		
Holding	Type of issuer	Weight (%)
Industrial Alliance Canadian Corporate Bond (iA) Fund	Fixed Income	24.94
Government of Canada, 4.000%, 2029-03-01	Federal Government	7.19
Government of Canada, 3.000%, 2034-06-01	Federal Government	6.35
Government of Canada, 2.000%, 2032-06-01	Federal Government	5.70
Province of Ontario, 2.900%, 2046-12-02	Provincials	2.61

About iA Global Asset Management (iAGAM)

ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

General Disclosures