



CIBC ASSET MANAGEMENT

Alternative Approaches to Traditional Fixed Income

DC Investment Forum

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CONFIDENTIAL

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Reviewing the Role of Fixed Income

Traditional Role of Fixed Income In a Well-Constructed Portfolio

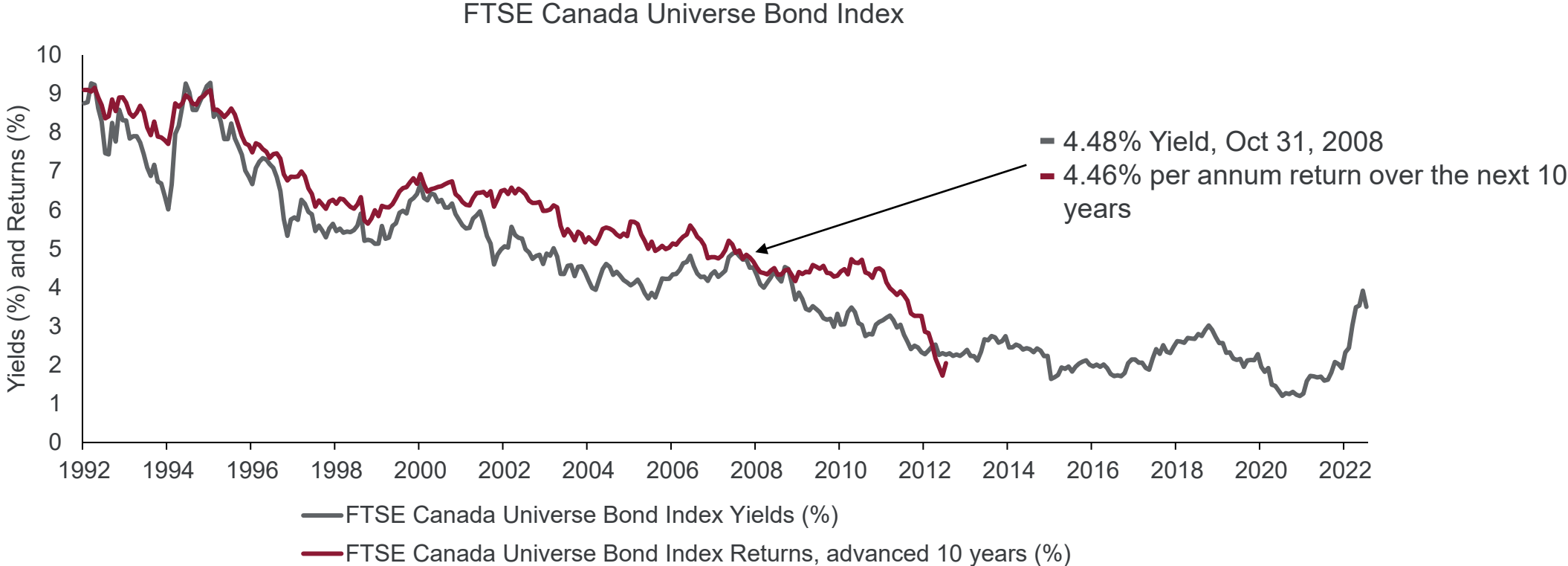
A Balanced Mixed of Portfolio Nutrients

- A source of predictable returns and income
- Diversification
- Capital preservation
- A source of liquidity
- A tool to hedge liability risk



Yield Predicts Return

Current yields have been an excellent proxy for future fixed income returns.

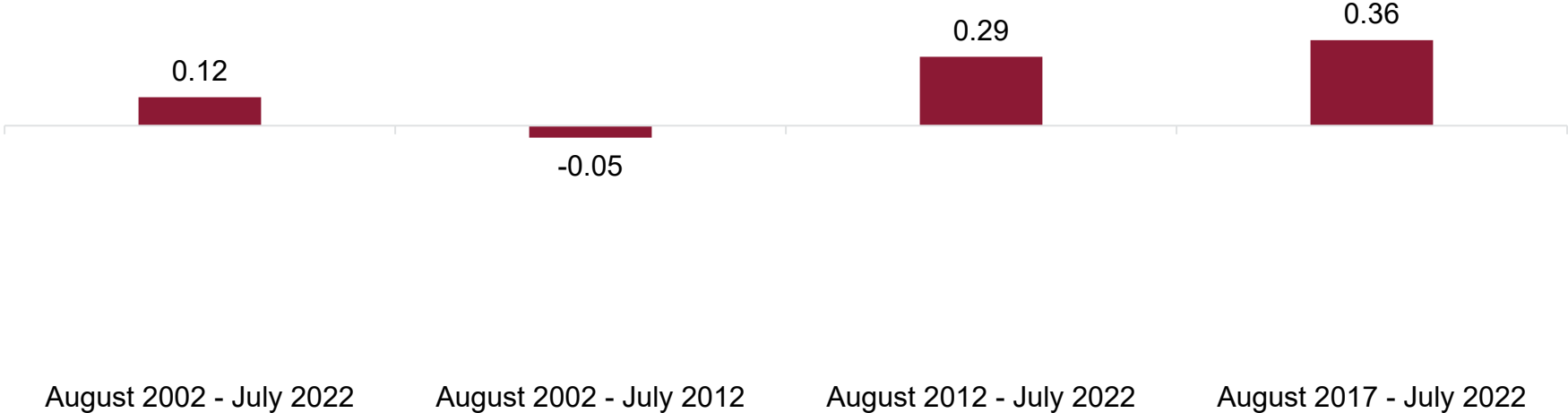


Source: FTSE Debt Capital Markets, Morningstar Research Inc. As of July 31, 2022.

Low Correlations Remain in Place for Broad Fixed Income

As interest rates declined, correlations between stocks and bonds have risen, but remain comparatively low.

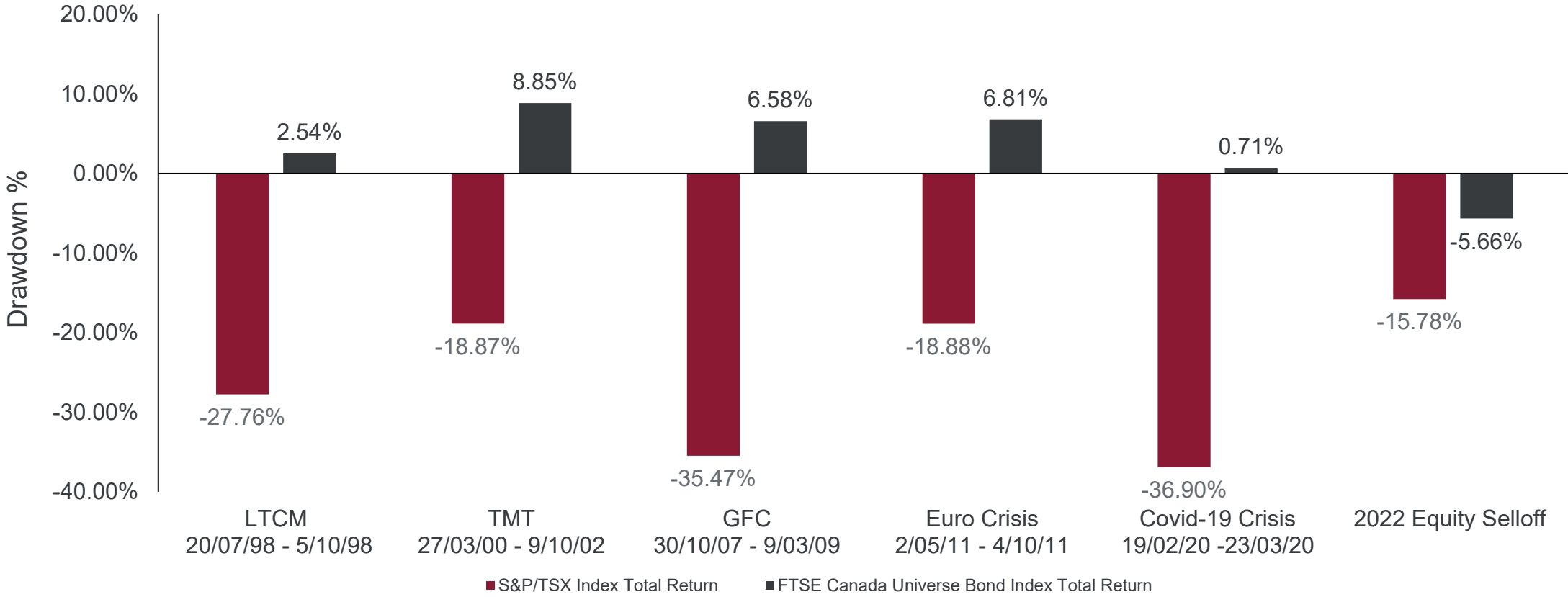
FTSE Canada Universe Bond vs. S&P/TSX Composite Correlation of Returns



Source: Morningstar Research. Data as of July 31, 2022.

High Quality Bonds Protect Portfolios During Equity Market Sell-Offs

Government bonds provide a safety net in risk-off environments.



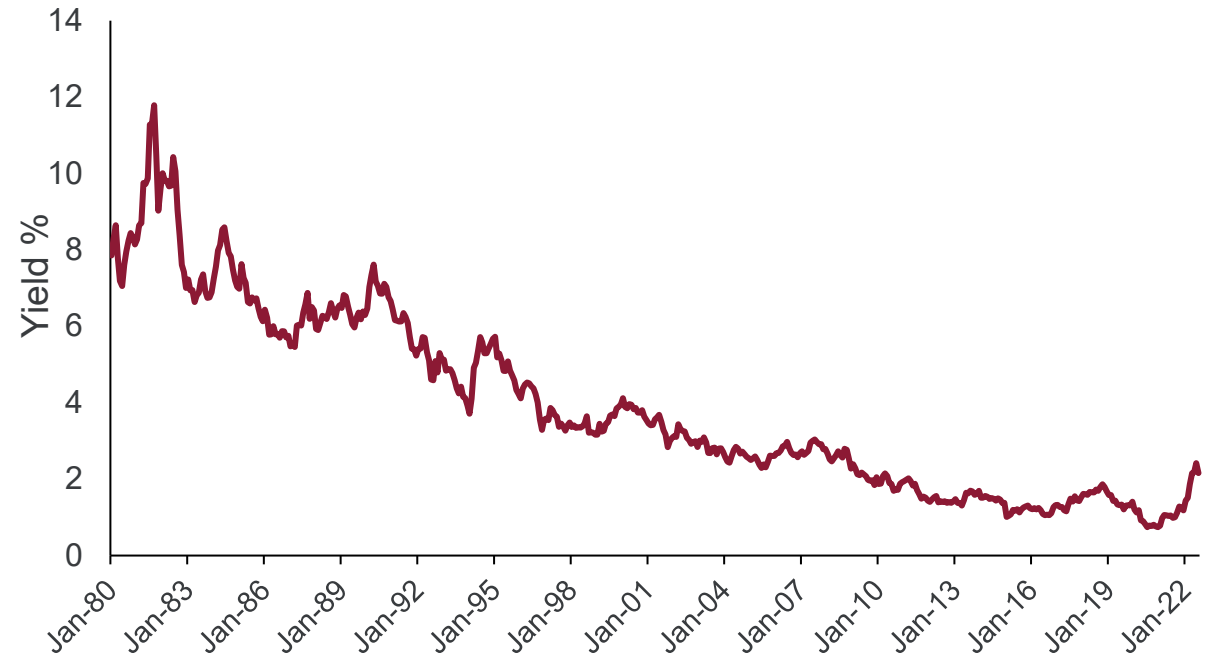
Source: Refinitiv Eikon.

Fixed Income State of the Union

Yields at 12-year highs.

- Benefits of fixed income remain intact
- Higher current yields improve future return potential and defensive qualities of duration
- But how can we get more out of our fixed income allocation?

FTSE Canada Universe Overall Bond Index Yield



Source: FTSE Debt Capital Markets. As of July 31, 2022.

Opportunities to Improve Fixed Income Portfolio Outcomes

Many Flavours of Fixed Income

Move beyond Core across two main dimensions:

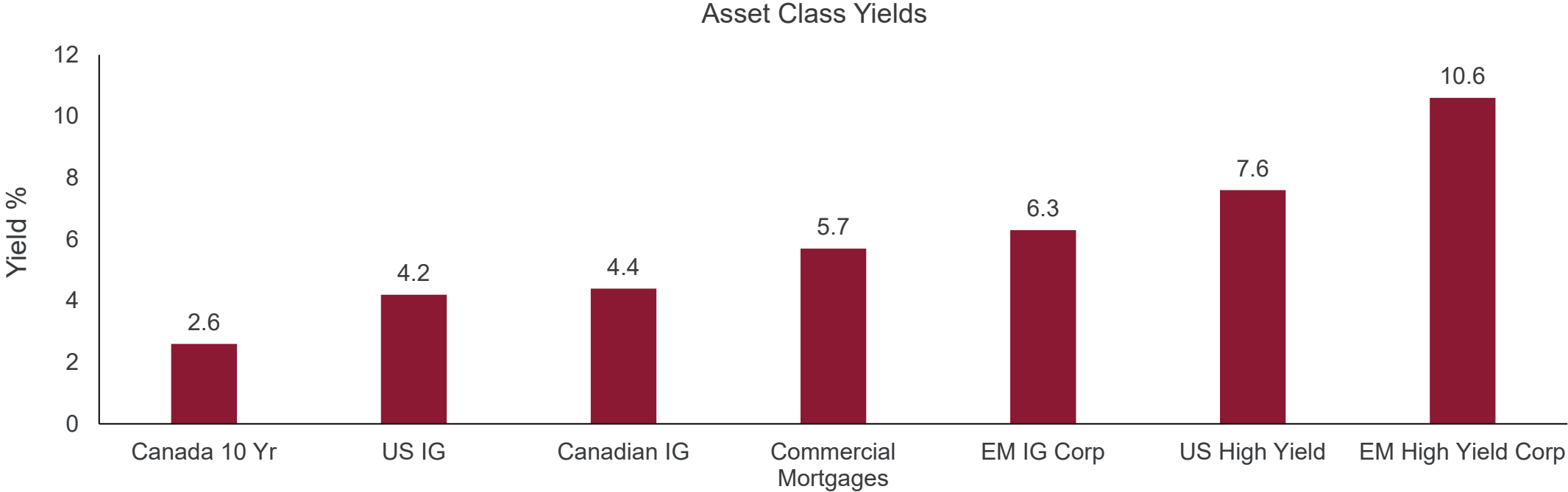
- Alternative Sectors
- Alternative Strategies

Core Fixed Income		
Federal	Provincial	Canadian Corporates

Alternative Fixed Income	
Alternative Sectors <ul style="list-style-type: none">• High Yield• EMD• Commercial Mortgages• Private Debt• Real Return Bonds	Alternative Strategies <ul style="list-style-type: none">• Core Plus• Absolute Return Credit• Multi-Asset Credit

Expanding the Opportunity Set

Look globally for compelling opportunities to enhance returns.



Source: Federal Reserve Economic Data, FTSE Global Debt Capital Markets Inc., ICE BofA Indices, ACM Advisors, as of July 31, 2022.

Improve Portfolio Diversification

Alternative fixed income asset classes exhibit low correlations to core bonds, improving portfolio resiliency.

	Core Bonds	Corporate Bonds	Commercial Mortgages	High Yield Bonds	Leveraged Loans	EM Bonds	U.S. Equities
Core Bonds	1.00						
Corporate Bonds	0.47	1.00					
Commercial Mortgages	0.18	0.64	1.00				
High Yield Bonds	-0.15	0.16	0.22	1.00			
Leveraged Loans	-0.04	0.30	0.16	-0.03	1.00		
EM Bonds	0.62	0.56	0.39	0.11	-0.11	1.00	
U.S. Equities	0.68	0.35	0.14	-0.21	0.30	0.34	1.00

The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Morningstar Research Inc. Data as of July 31, 2022. All data expressed in Canadian Dollars. Core Bonds: CIBC Canadian Core Fixed Income Pool, Corporate Bonds: FTSE Canada All Corporate Universe Bond Index, Commercial Mortgages: ACM Commercial Mortgage Fund, High Yield Bonds: Bloomberg Global High Yield Bond Index, Leveraged Loans: S&P/LTSA Leveraged Loan Index, Emerging Market Bonds: JPMorgan EMBI Plus, U.S. Equities: S&P500 Index.

High Yield

Fixed Income securities rated BB+ and below.

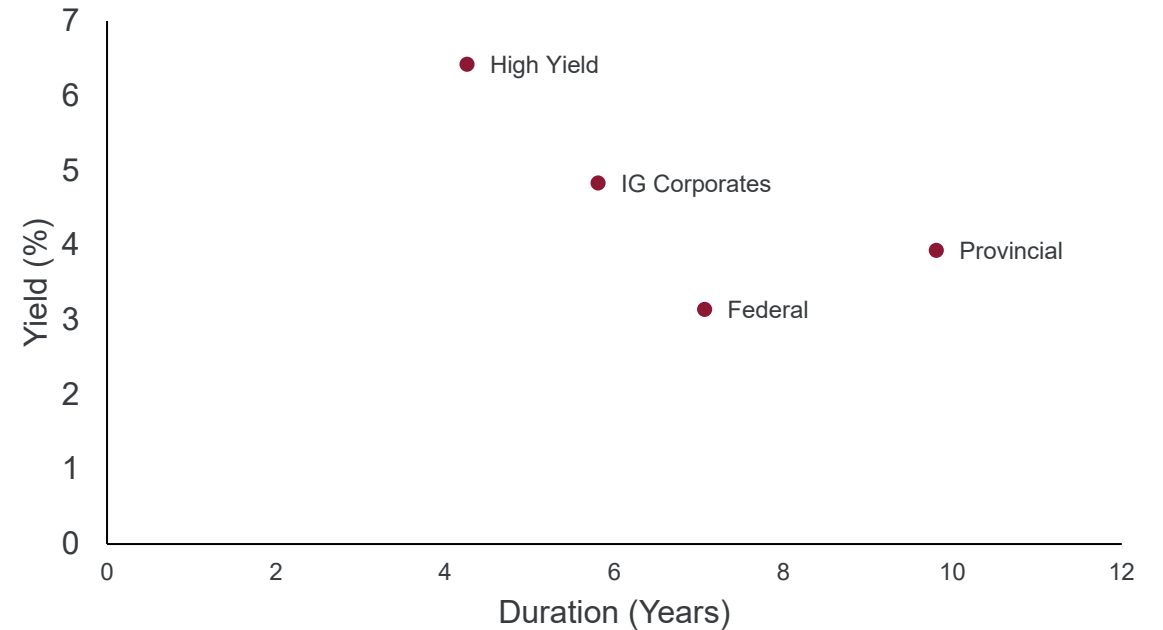
Benefits:

- Sector and geographic diversification
- Higher return potential
- Lower sensitivity to interest rates

Risks to consider:

- Credit (or default) risk, interest rate risk, economic risk and liquidity risk

Fixed Income Sector Yield vs. Duration



Data as of July 29, 2022. Source: FTSE Debt Capital Markets. HY represented by Renaissance High Yield Bond Fund.

Emerging Market Debt

Bonds issued by countries or companies in developing markets in either the local currency or US dollars.

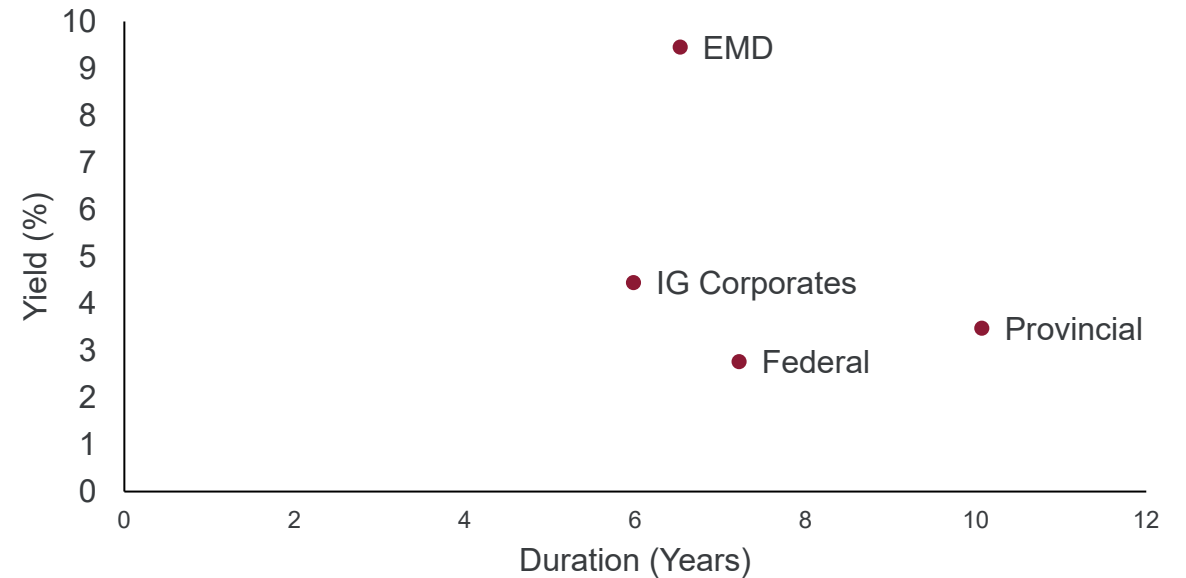
Benefits:

- Sector and geographic diversification
- Higher return potential
- Take advantage of economies at different stages in the economic and monetary cycles

Risks to consider:

- Credit (or default) risk, political risk, interest rate risk, economic risk and liquidity risk

Fixed Income Sector Yield vs. Duration



Data as of July 29, 2022. Source: FTSE Debt Capital Markets. EMD represented by ICE BofA High Yield Emerging Markets Corporate Plus Index using Federal Reserve Economic Data.

Commercial Mortgages

Loans secured by a direct claim on a commercial real estate.

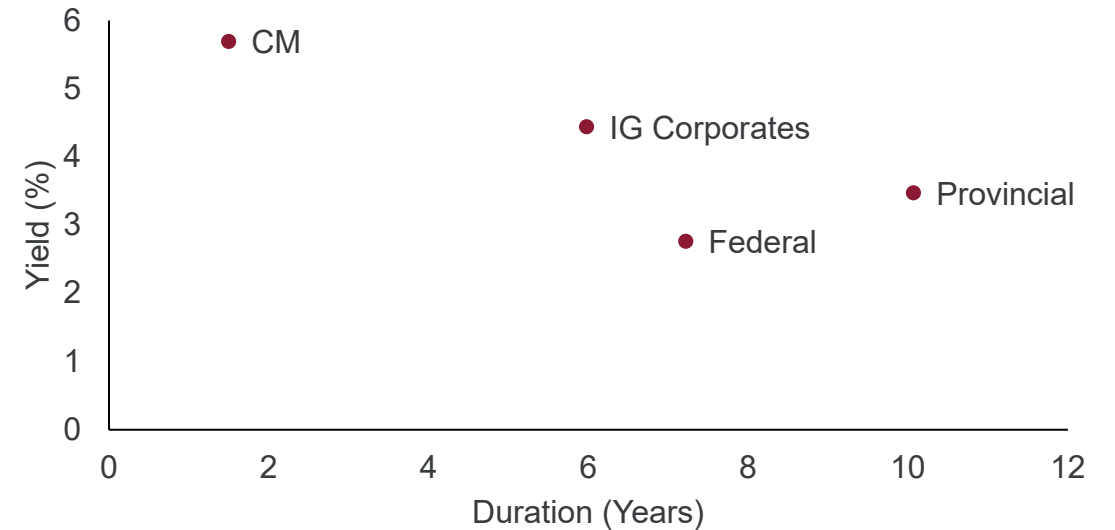
Benefits:

- High and predictable income
- Strong covenants
- Secured by hard assets
- Lower volatility

Risks to consider:

- Credit (or default) risk, interest rate risk, economic risk and illiquidity risk

Fixed Income Sector Yield vs. Duration



Data as of July 29, 2022. Source: FTSE Debt Capital Markets. EMD represented by ICE BofA High Yield Emerging Markets Corporate Plus Index using Federal Reserve Economic Data.

Ingredient Summary

Risks and opportunities from adding alternative fixed income. Risks can be balanced through a diversified mix of allocations.

	Improved Yield	Diversification	Lower Credit Risk	Illiquid
High Yield	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EMD	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commercial Mortgages	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Putting it All Together – Recipe #1 Core Plus

- Core: Defensive, domestic exposure Canadian investors require.
- Plus: Out-of-benchmark exposures to improve portfolio diversification and deliver higher risk-adjusted returns.

Active Canadian Core Portfolio

Plus opportunistic allocations to:

Global
Developed
Sovereign Debt

High Yield Bonds

Emerging Market
Debt

Private Debt

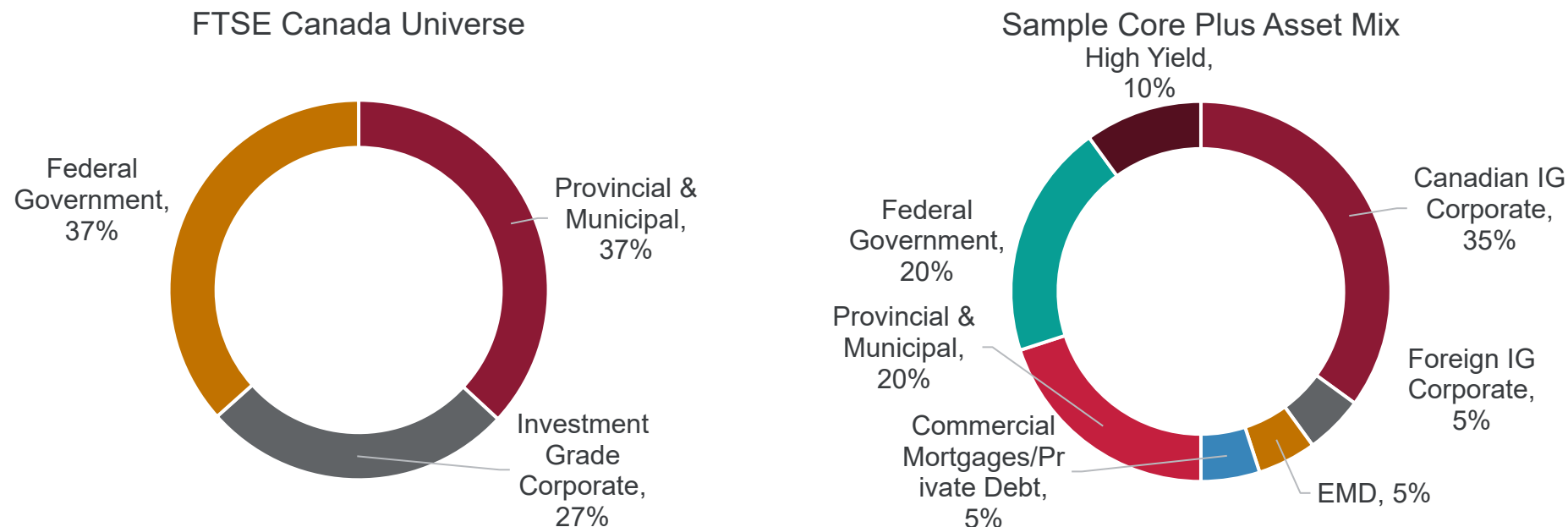
Loans

Structured
Securities

Real Return
Bonds

Global
Investment
Grade Credit

Case Study – Passive to Core Plus



Median Manager	FTSE Universe Bond Index	Active Core Universe	Core Plus Universe
10-Year Annualized Return (%)	1.72	2.13	2.33
10-Year Annualized Volatility (%)	4.44	4.39	4.57
Information Ratio (10Y)	N/A	0.52	0.51

Data as of July 29, 2022. Source: FTSE Debt Capital Markets. EMD represented by ICE BofA High Yield Emerging Markets Corporate Plus Index using Federal Reserve Economic Data.

Putting it All Together – Recipe #2 Absolute Return Credit

Unconstrained mandates uniquely positioned to exploit market inefficiencies.

Absolute Return Credit	
Asset Classes	Strategies
<ul style="list-style-type: none">• Sovereign Bonds• Investment Grade Credit• High-Yield Bonds• Emerging Market Debt• Preferred Shares	<ul style="list-style-type: none">• Levered Credit• Long-Short Credit• Credit Momentum• Tail hedging strategies

Key Takeaways

- Diversification - One free lunch
- Higher yields have improved future expected returns
- Global markets add new sources of return and investment breadth
- Active management - harnesses benefits of an expanded fixed income toolkit