



BUILDING AN INNOVATIVE AND DIVERSIFIED FIXED INCOME PORTFOLIO

Investment Innovation Conference

Guest Speaker : Karin Sullivan
Vice President, Fixed Income

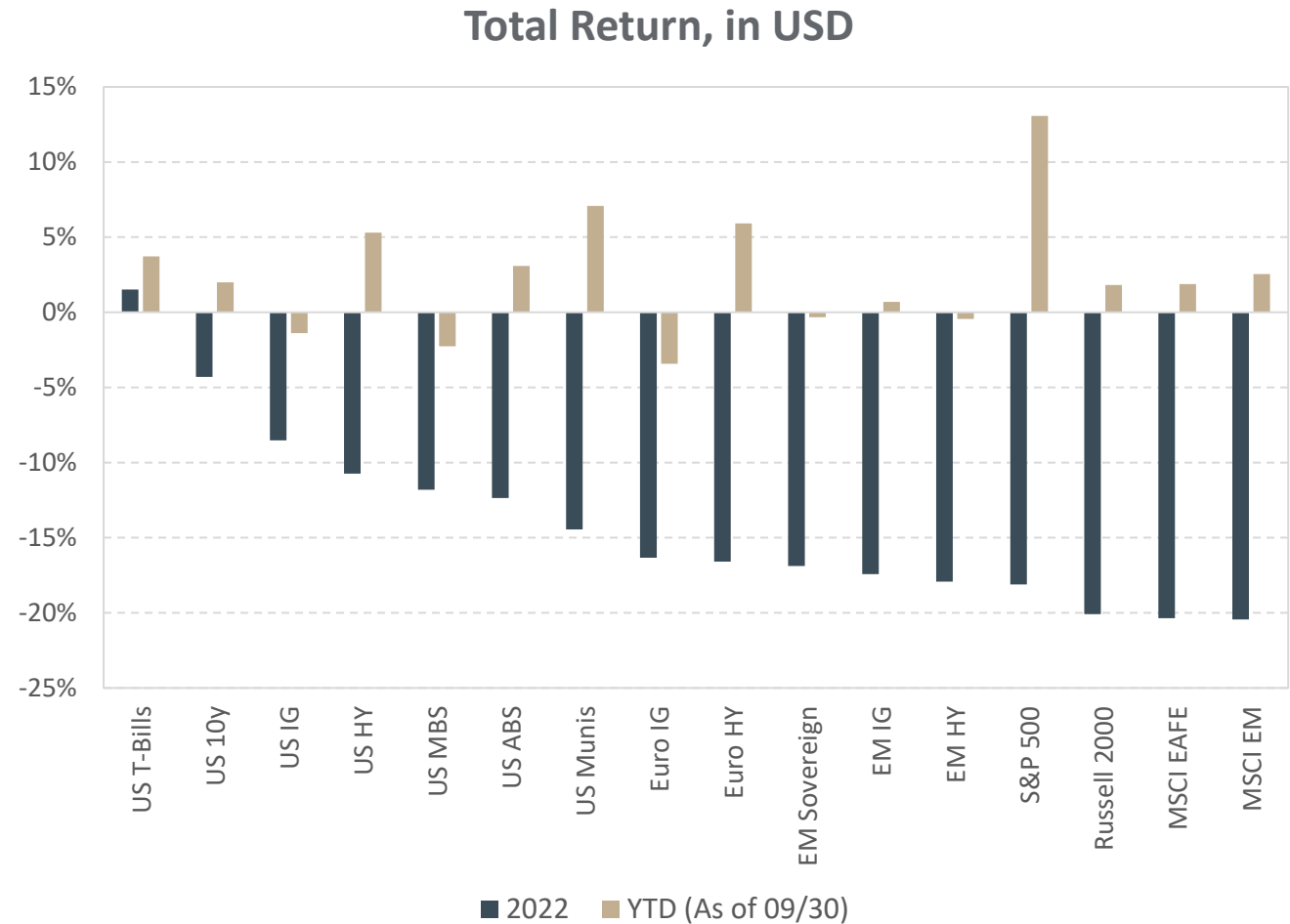
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STRICTLY CONFIDENTIAL

INTRODUCTION

Markets don't always behave as expected

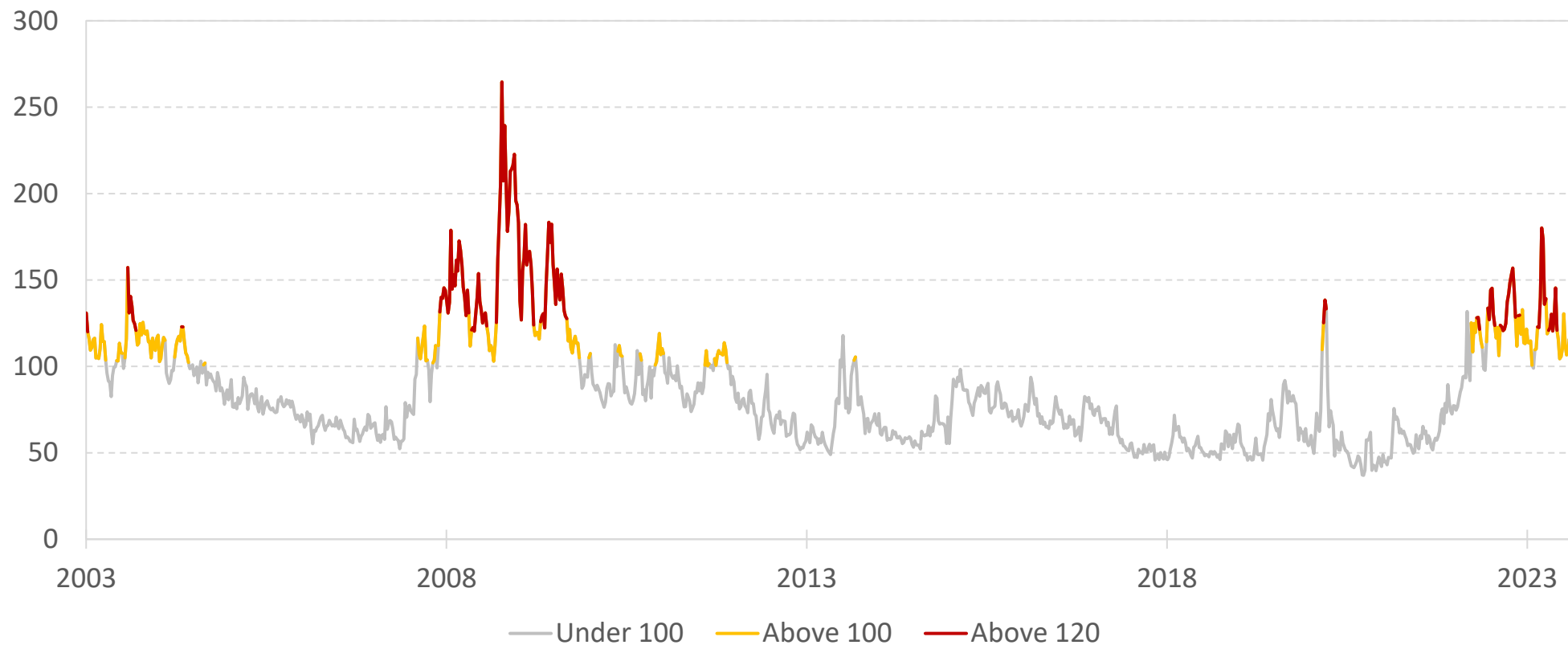
- 2022 Expectations:
 - “Reuters Poll: Fed to raise rates 3 times”
 - “Stocks had a lousy start to year, but Wall Street expects good times ahead”
- 2022 Reality
 - Fed raised rates 7 times for a total of 425bps of hikes
 - Stocks were down 20%
- 2023 Expectations:
 - “Yield curve inverts to historic lows, sounding recession warning”
 - “61% chance of recession this year”
 - “Economy set to slow significantly”



MARKET ENVIRONMENT

What volatility regime are we in?

MOVE Index



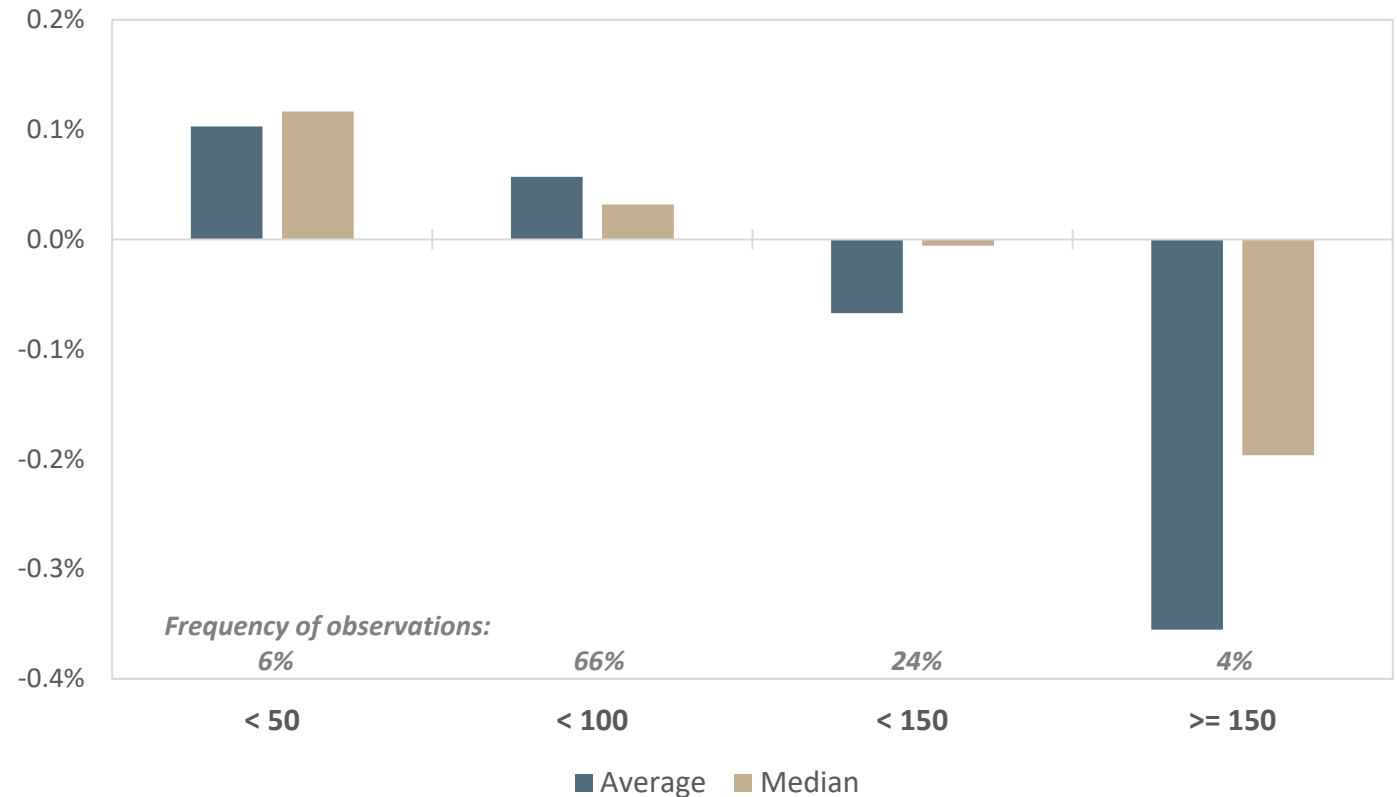
Since 2022, MOVE has been under 100 only 11% of the time

MARKET ENVIRONMENT

What volatility regime are we in?

- Probability of positive credit performance is higher in low volatility environments
- Since 2022, MOVE has been under 100 only 11% of the time
- Directional bets in a high volatility environment are challenging

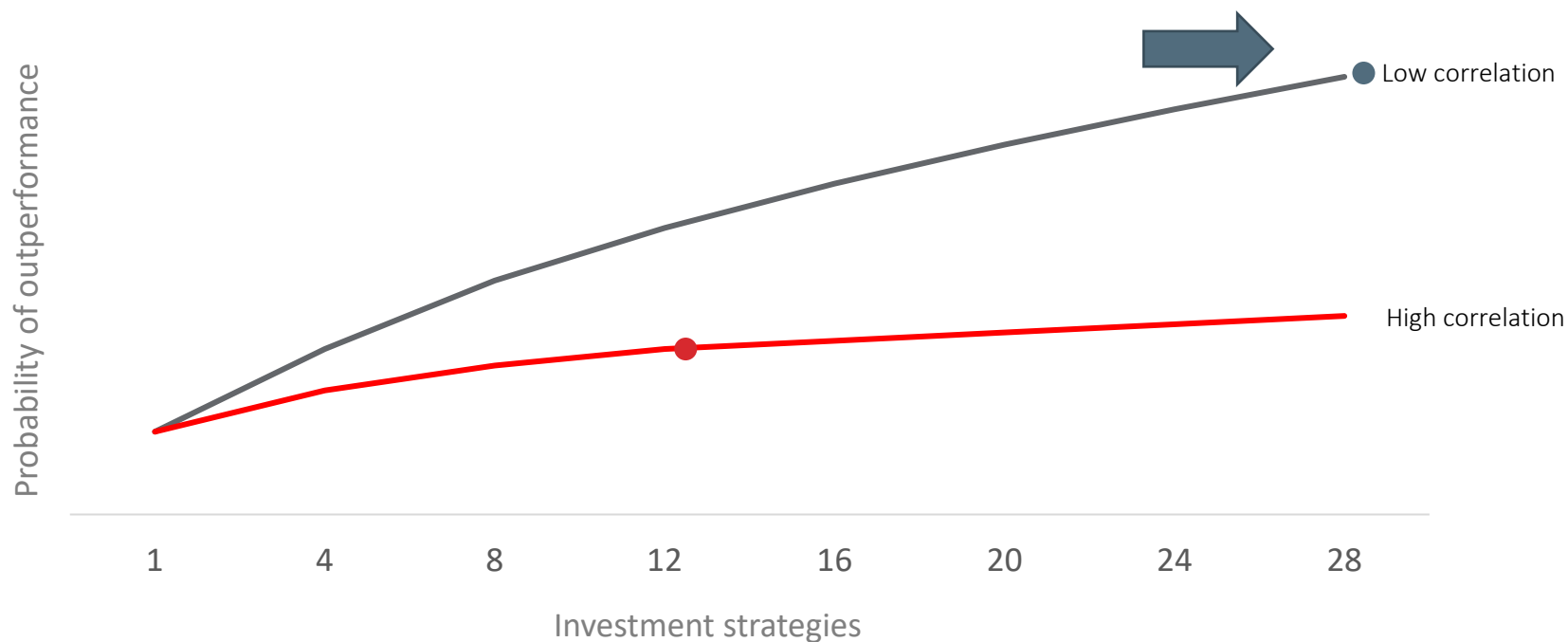
BBG US Agg Corp IG weekly Excess Return
Conditional on MOVE Index level



Source: Trans-Canada Capital, Bloomberg

LOOK FOR UNCORRELATED SOURCES OF ALPHA

An important factor to consider for portfolio construction



Looking for a greater number of *uncorrelated* strategies in an effort to provide for better risk-adjusted performance

INNOVATIVE FIXED INCOME MANAGEMENT

Targeted risk selection enhances probability of stable, repeatable alpha

Directional Bets

Duration
Credit

Risk Selection Approach

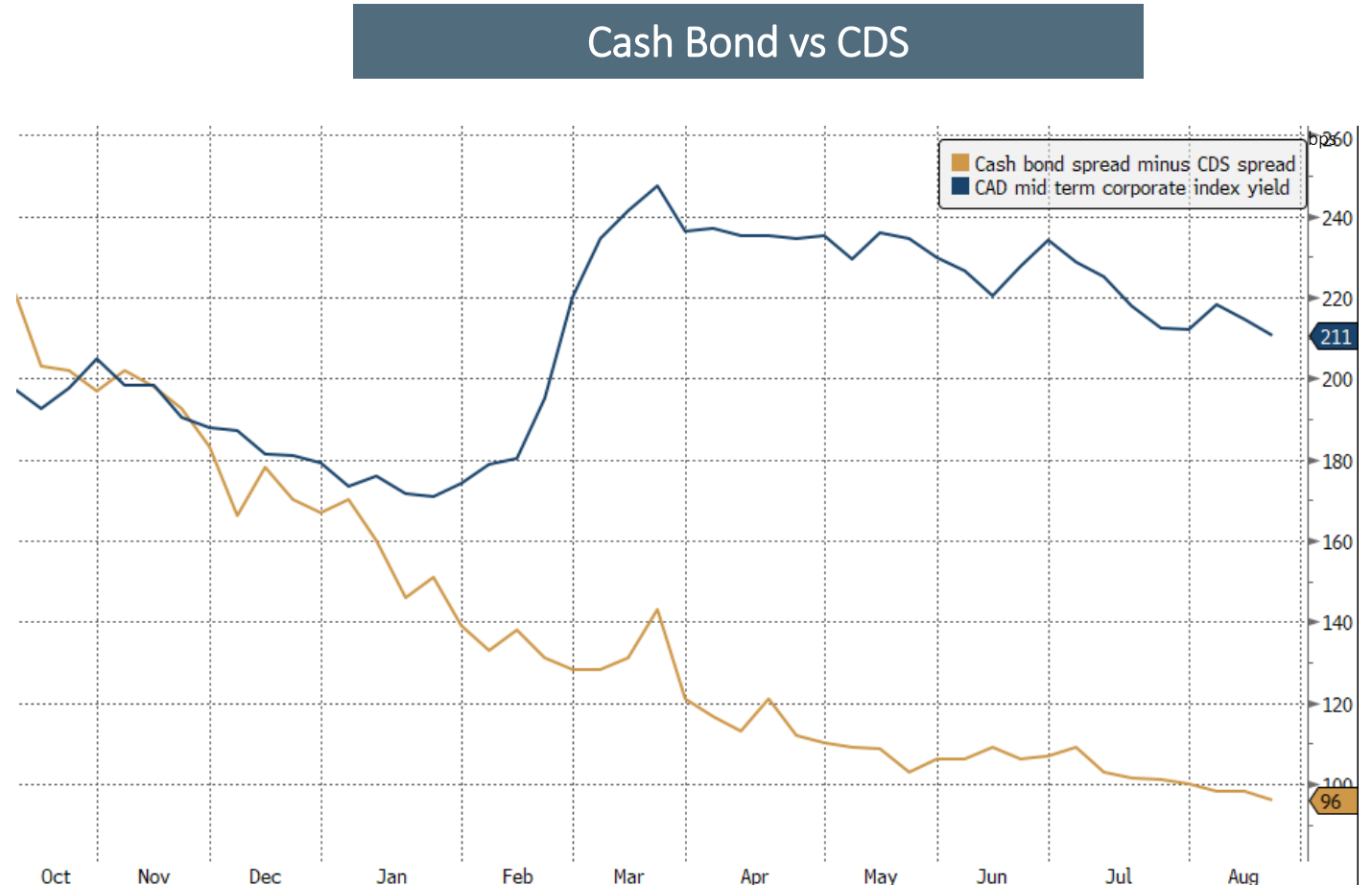
Interest Rate Curve	Market Neutral Strategies
Volatility Capture	Liquidity Provider
Credit Exposure	Basis Trade
Security Selection	ESG
Relative Value Trades	Liquidity Premium
Quantitative Strategies	Credit Curve

Flexibility, adaptability and diversification are key

RISK SELECTION APPROACH

Credit

- Themes: Liquidity premium, relative value, credit exposure, basis trade
- Trade Construction: Buy cash bond in spread, buy protection via CDS
- Risks Selected
 - Spread differential between cash bond and CDS
- Risks Hedged
 - Default risk
 - Interest rate risk
 - Currency risk
 - Credit exposure risk



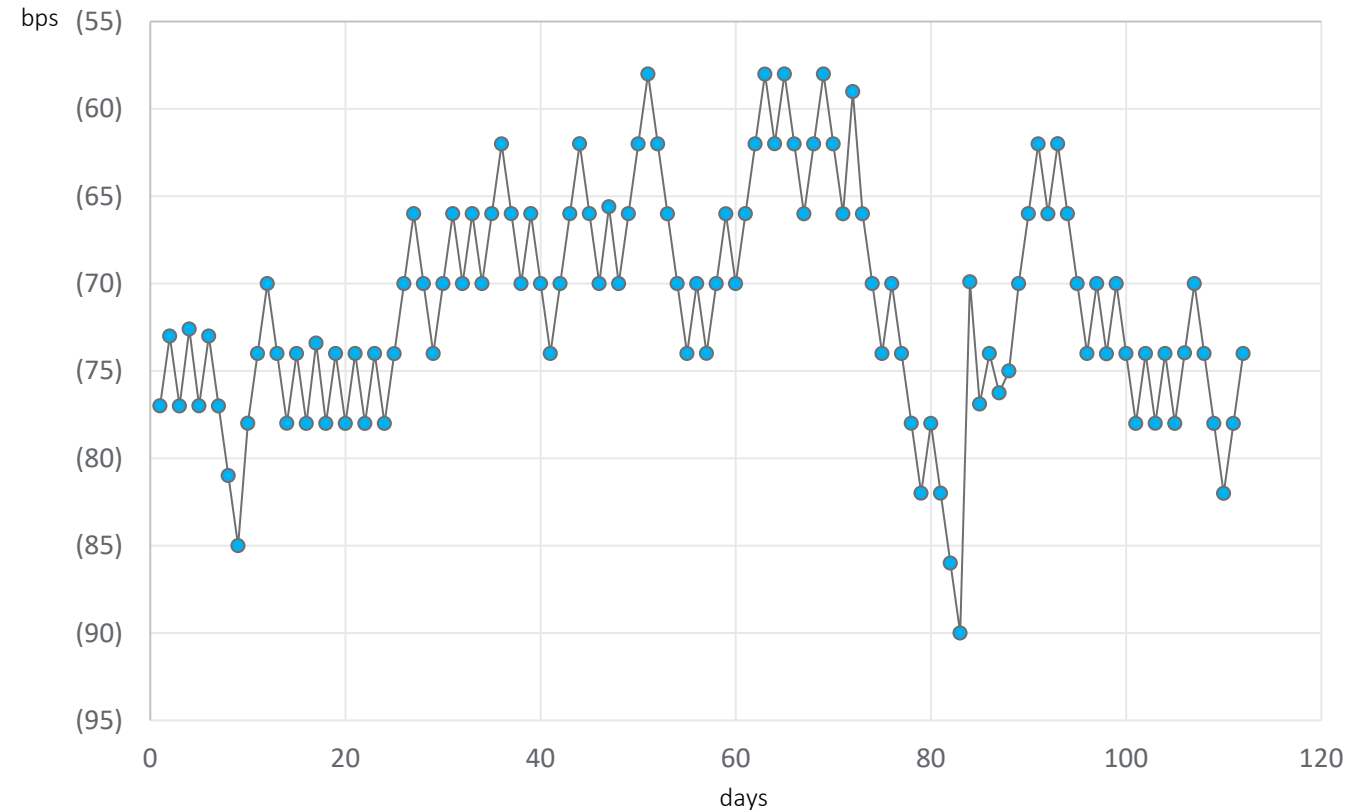
Source: Trans-Canada Capital, Bloomberg

RISK SELECTION APPROACH

Interest Rates

- Themes: Range trading, volatility capture, providing liquidity
- Trade Construction: Buy/sell same term sovereign bonds dynamically
- Risks Selected
 - Interest rate spread differential between two sovereigns
- Risks Hedged
 - Duration risk
 - Currency risk
 - Same term traded, no curve risk

Sovereign Bond Spread Differential

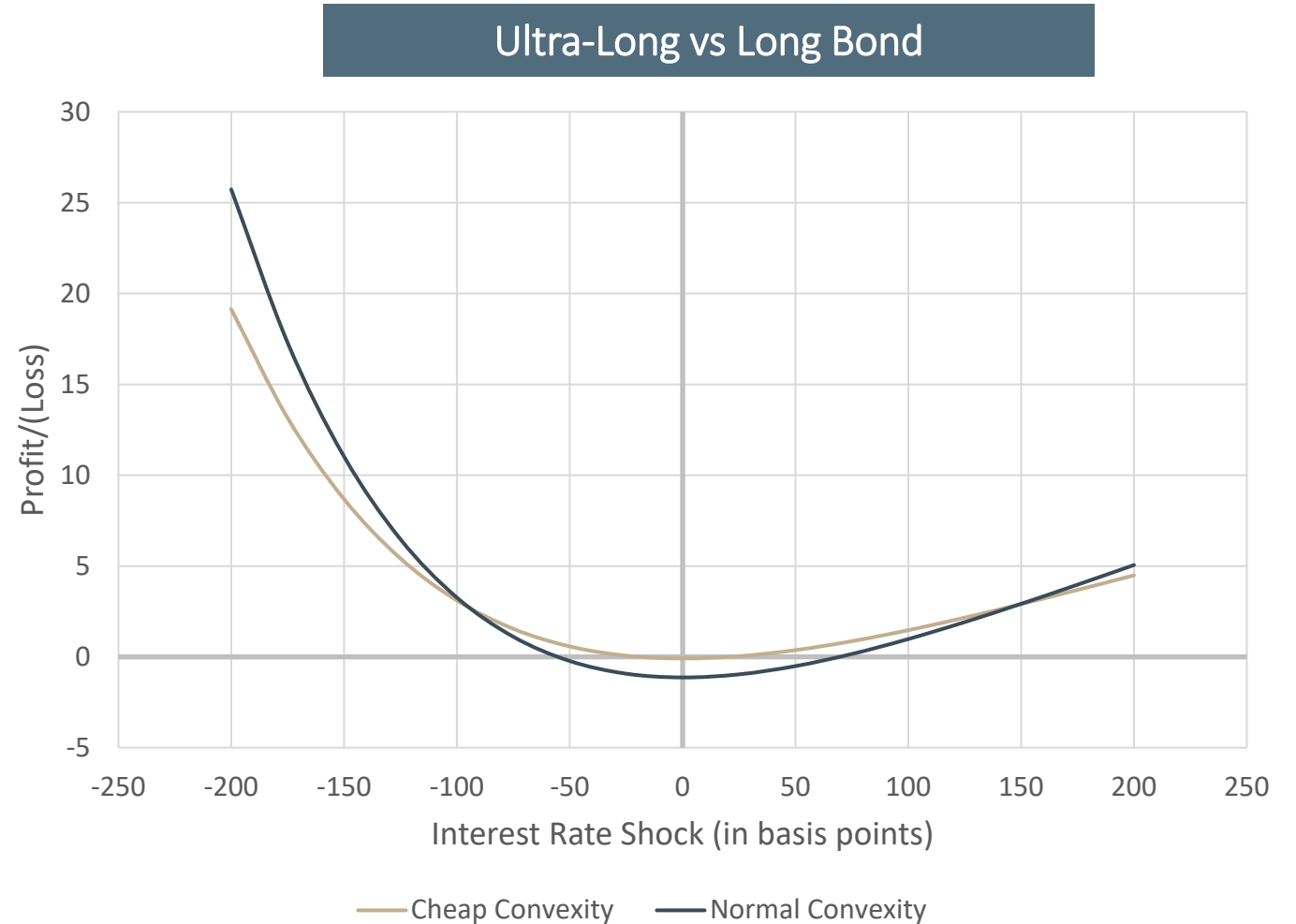


Source: Trans-Canada Capital, Bloomberg

RISK SELECTION APPROACH

Convexity

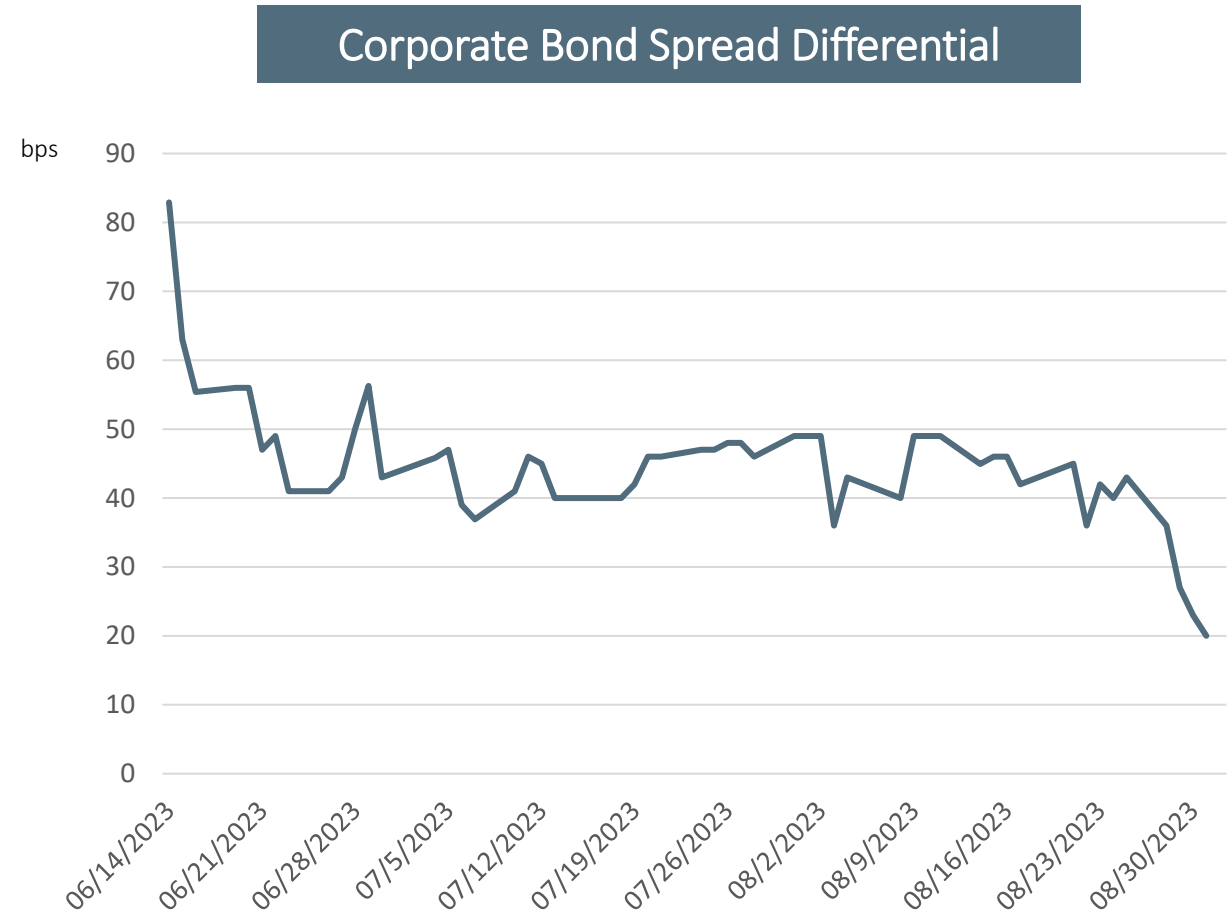
- Themes: Interest rate sensitivity, volatility capture, dynamic rebalancing
- Trade Construction: Buy ultra-long bond, sell long bond of same issuer
- Risks Selected
 - Interest rate volatility
 - Interest rate curve (long-end)
 - Convexity
- Risks Hedged
 - Interest rate risk (temporarily)
 - Credit exposure risk



RISK SELECTION APPROACH

ESG

- Themes: ESG, security selection, relative value
- Trade Construction: Buy 5yr green bond of renewable energy producer, sell 10yr green bond of power producer
- Risks Selected
 - Increase green bond holdings
 - Improve carry
 - Enhance spread compression potential
- Risks hedged
 - Interest rate risk
 - Credit exposure risk
 - Reduce carbon intensity

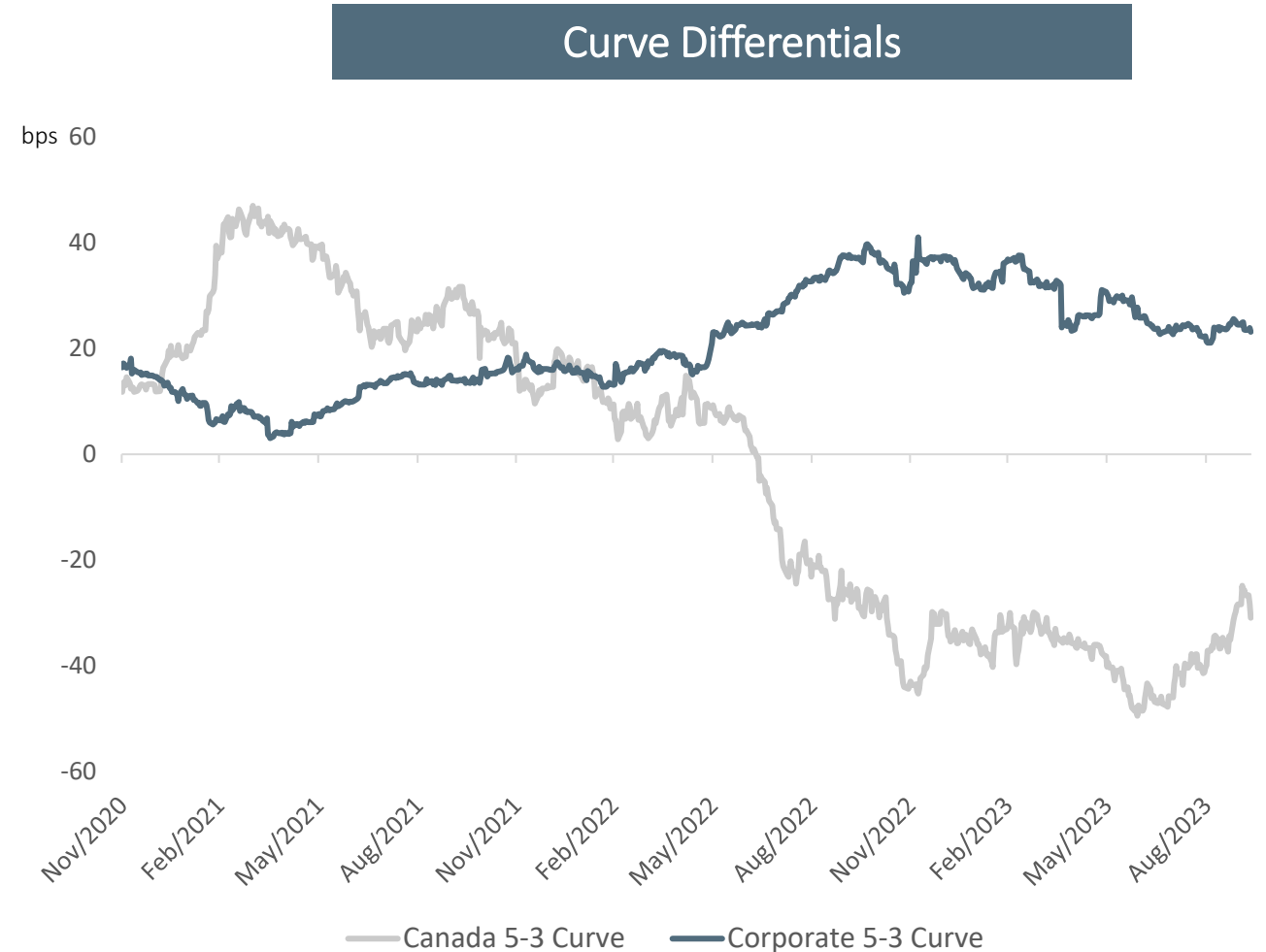


Source: Trans-Canada Capital, Bloomberg, Sustainalytics

RISK SELECTION APPROACH

Curves

- Themes: Separating interest curve from credit curve
- Trade Construction: Extend when curves are steep, retract when curves are flat
- Risks Selected
 - Curve risk where adequately compensated
 - Improve carry
 - Enhance spread compression potential
- Risks hedged
 - Interest rate risk
 - Credit exposure risk

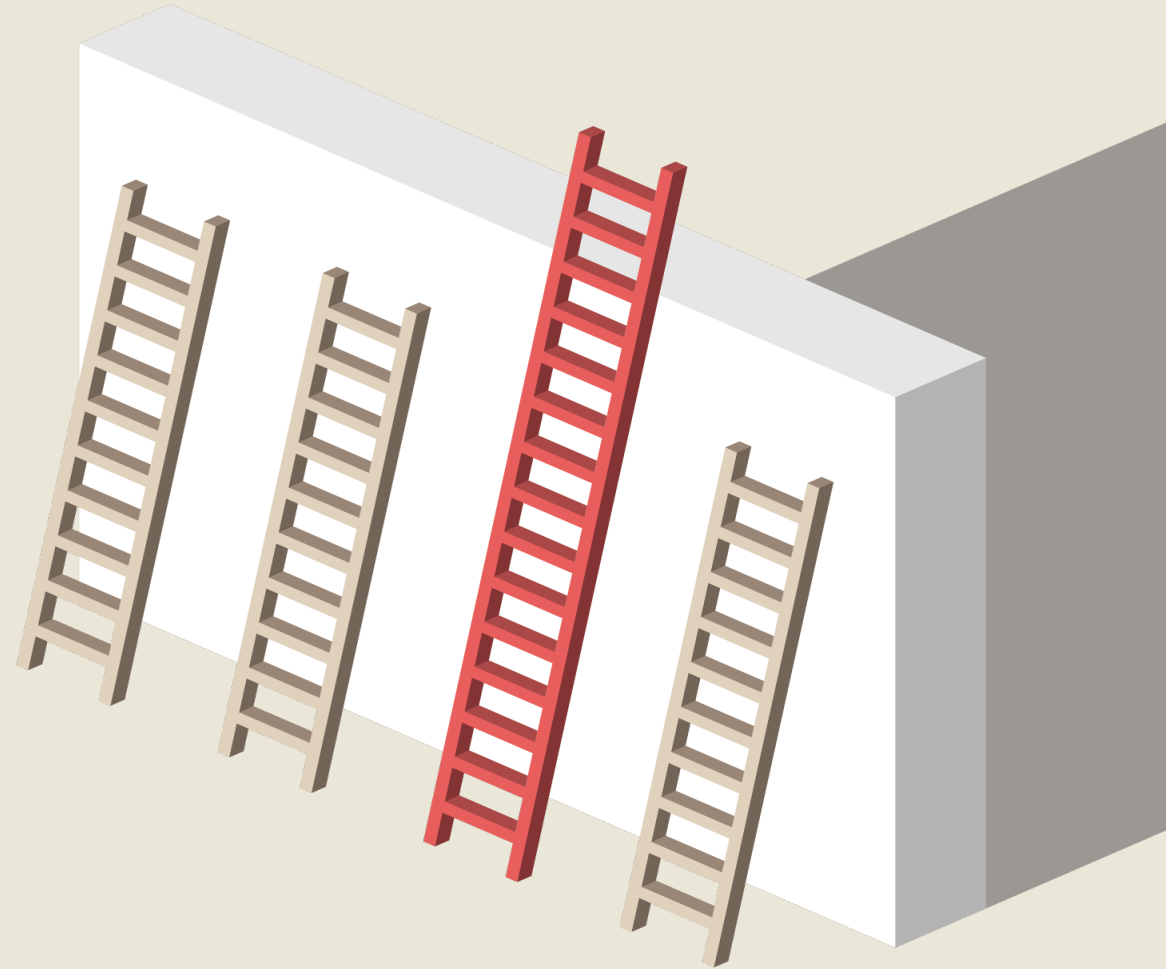


Source: Trans-Canada Capital

A HOLISTIC APPROACH IS INNOVATIVE AND BENEFICIAL FOR INVESTORS

Key takeaways for investors

- Forecasting the path and timing of market movement is difficult
- Diversifying your sources of alpha can help generate more value
- Risk selection enhances adaptability to different market environments





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