



SLC | Fixed
Income

Extreme Makeover: Fixed Income Edition

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Presentation team



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Polling question

Are you thinking about changing your fixed income allocation?

- a. Reducing it
- b. Increasing it
- c. Same allocation, different composition
- d. Same allocation, same composition

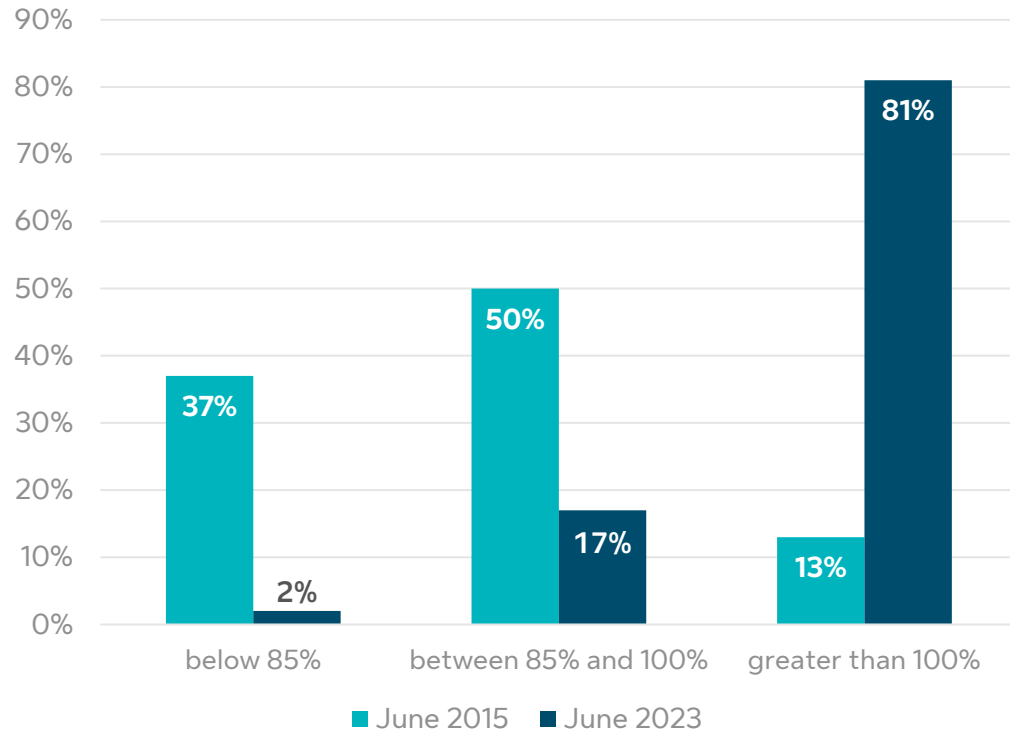
Polling question

What are the reasons you have fixed income in the portfolio?

- a. Income Generation
- b. Yield Enhancement
- c. Liability Hedging
- d. Diversification
- e. Liquidity management
- f. Capital preservation

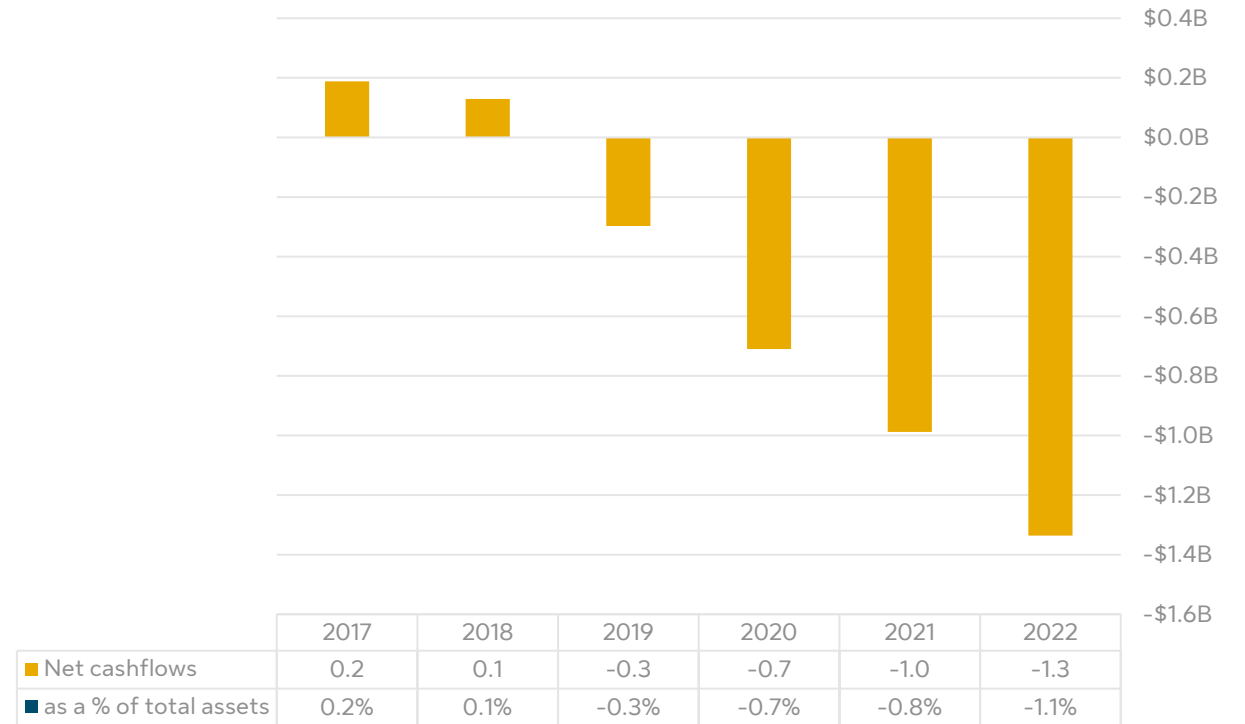
Objectives of pension plans have changed

Closed plans are becoming better funded...



Source: FSRA's Quarterly Update on Estimated Solvency Funded Status of Defined Benefit Plans in Ontario.

... and open plans are becoming cashflow negative



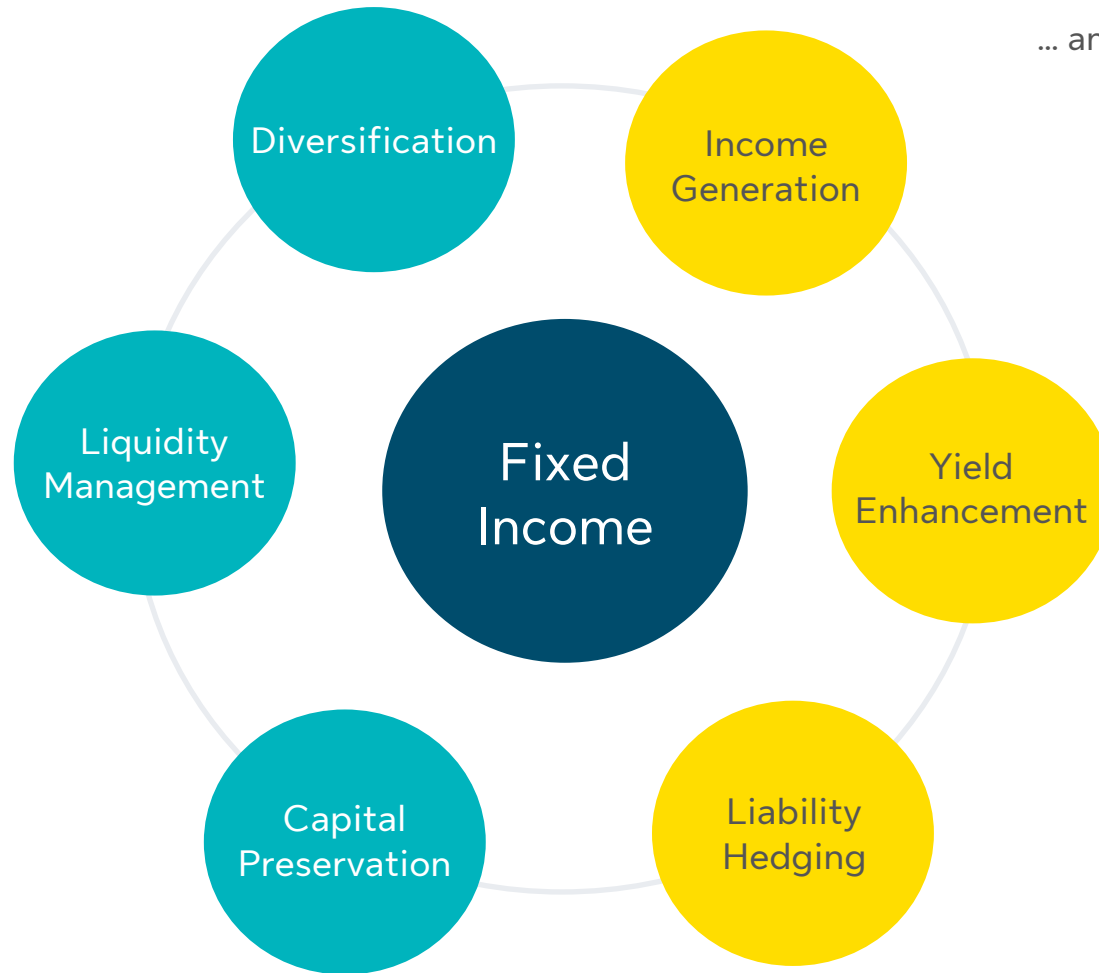
Source: OMERS Financial Statements

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The multiple and evolving roles of fixed income within investors' portfolios

Then...

... and now

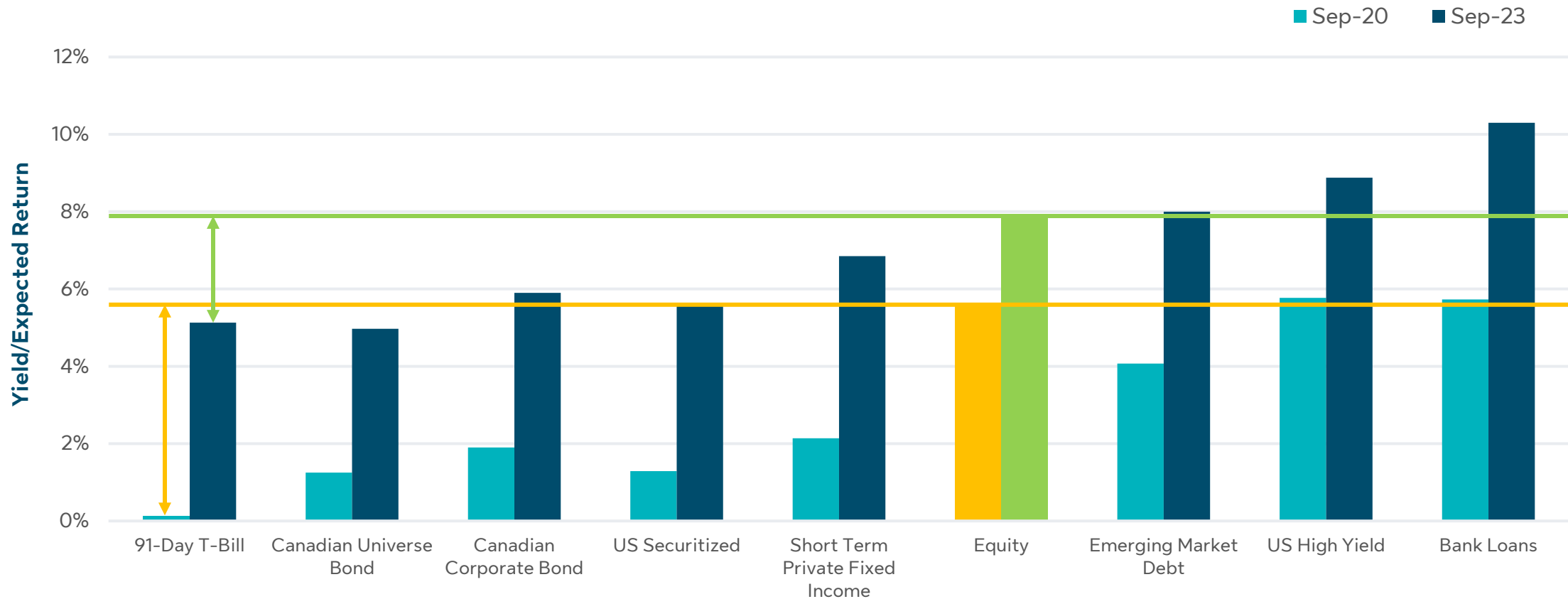


The fixed income space has evolved significantly over the last few years, providing investors with more tools to craft allocations that are tailored to their objectives and risk constraints.

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Certain fixed income asset classes now offering equity-like return potential



Note: As at September 30, 2023. The following representative indices were used for each asset class; 91-Day T-Bill (Cash & Equivalents, yield = yield to maturity), FTSE Canada Universe Bond Index (Canadian Universe Bond, yield = yield to maturity), FTSE Canada All Corporate Bond Index (Canadian Corporate Bond, yield = yield to maturity), Bloomberg US Securitized Index (US Securitized, yield = yield to worst), FTSE Canada Short Term Corporate A Bond Index + illiquidity premium (Short Term Private Fixed Income, yield = yield to maturity), Bloomberg Emerging Market USD Agg Index (Emerging Market Debt, yield = yield to worst), Bloomberg US High Yield Bond Index (US High Yield, yield = yield to worst and duration = option and Morningstar LSTA Leveraged Loan Index (US Bank Loans, yield = yield to maturity). Equity expected return represents the 2020 and 2023 long-term capital market assumption for U.S. Large Cap from JPMorgan. Past performance is not a guarantee of future results. It's not possible to invest in an index directly.

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Case study: Hedging unrewarded risks

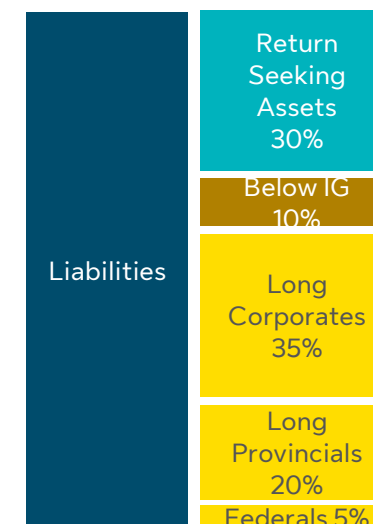
Example: a fully funded pension plan with 50% of liability hedging assets and a solvency liability duration of 12 years.



Current Portfolio



Increasing Duration/
Corporate Exposure



Reduce Equity/
Diversify Credit

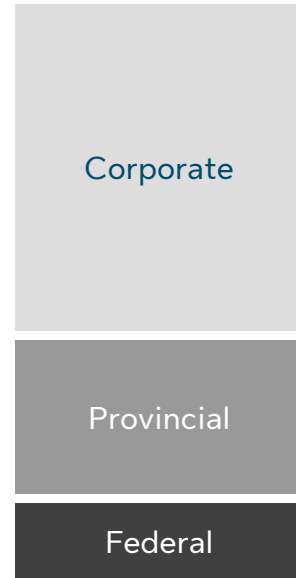
Expected return	+	=
Funded status volatility	-	--
Interest rate hedge ratio	+	+
Credit diversification	+	++
Income generation	=	+

Note: The above case study is for illustrative purposes only and does not represent an existing portfolio. There is no guarantee of future outcomes.

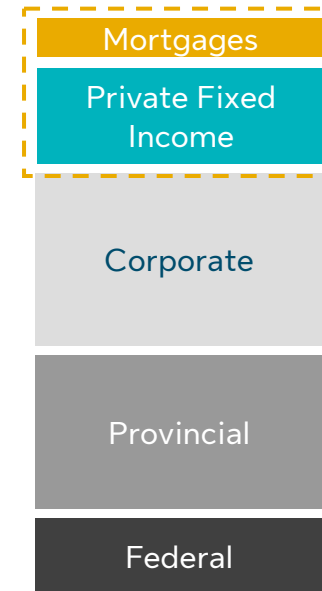
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Case study: Seeking to improve risk and return metrics by diversifying credit exposure

Credit diversifiers can help reduce concentration risk in traditional hedging assets while improving return expectations.

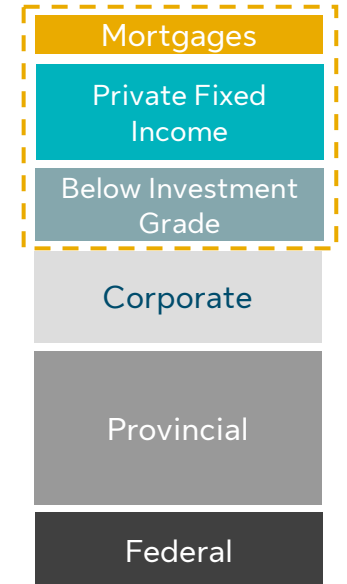


Current Portfolio



20% allocation

Adding Private Fixed Income and Commercial Mortgages



30% allocation

Adding Below Investment Grade Bonds

Expected Return	+	++
Volatility	=	+
Interest Rate Hedge Ratio	=	=
Credit Diversification	+	++
% Illiquid	+	+

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Questions?

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