



ARE ALL BOND FUNDS CREATED EQUAL, MR. BOND?

The world of bonds, the boring capital market security that has failed over the years to provide the same dramatic appeal and excitement as the stock market. One would be hard pressed to join a conversational circle at a cocktail party and win over the audience by talking about government bonds, mortgage backed securities or the yield curve. Perhaps the only man on earth that could interject with bond talk and not cause the circle to disperse immediately might be the charismatic James Bond himself. This is a debate we certainly won't argue with. However, if one were to suggest that all "Bonds" are created equal, Sean Connery, Daniel Craig and Pierce Brosnan would likely roll over in their graves.

In the same way that Connery, Craig and Brosnan were not created equal, neither are all fixed income or income funds. So, what exactly sets them apart? In order to answer this question, let's first start with the purpose of bonds. An allocation to fixed income within one's investment portfolio is intended to provide income while preserving capital. Said differently, the stocks in one's portfolio are the V12 engine powering James Bond's Aston Martin while the bond portion serves as the suspension to help smooth the ride, manage bumps on the road and navigate the corners. This is only possible from an investment perspective because in theory, bonds have a negative correlation with stocks; meaning when stock performance falters, bonds will shine. Here's where the difference lies, and where we realize that not all fixed income funds are created equal.

Since 1980, interest rates have been on a steady decline. They were once as high as 15% and had dipped as low as 2.3% in 2009. While interest rates have continued to grind lower, the search for income has become more challenging. Since the Great Financial Recession, investment managers who manage income funds have begun to "reach for yield" by broadening their investment universe to preferred shares, lower quality corporate bonds and in some cases even stocks. This strategy can work for a period of time, bolstering the income or yield within the fund, but does it cause the suspension to falter when needed most? The answer is yes. Preferred shares and corporate bonds have a higher correlation with stocks than a traditionally diversified fixed income fund. As a result, the allocation that is intended to provide protection when stock performance is under pressure, will no longer do so.

This begs the question, how does Matco manage the Matco Fixed Income Fund and how is it positioned? As with all our strategies, management is process driven with risk controls in place. Specific to the Fixed Income Fund, we have a minimum allocation of 25% to government bonds, which provide the greatest and most resilient hedge to equities. All bonds purchased within the fund are required to be investment grade, which means they are of higher quality when it comes to credit metrics. Within the world of investment grade bonds, BBB is the lowest allowable rating on the scale.



As such, we have an internal maximum limit of 15% in BBB rated corporate bonds which ensures the overall credit quality of the fund remains in good standing. The fund is also completely absent of preferred shares and common stocks. The underlying details of a fixed income fund are important for investors to understand, so they are not misled as to how well the conservative portion of their portfolio will provide protection when it's needed most.

With that in mind, the Matco Fixed Income Fund, which is a core holding within both our Matco Balanced Fund and the portfolios of many of our clients, has provided strong downside protection within the recent market volatility. As of April 30, the Fund is up 5.1% year to date, ranking within the 45th percentile of all fixed income Funds in Canada. Although interest rates are as low as ever, we will remain vigilant within our investment process and risk controls. As a foundational investment philosophy, an investor's strategic asset mix is critically important, but sometimes what lies under the hood of "Mr. Bond's" Aston Martin is equally as important.

If you have any further questions about the Matco Fixed Income Fund or a fixed income fund you are currently invested in, please don't hesitate to contact your Matco Portfolio Manager.

TREVOR GALON, CFA
Chief Investment Officer



MATCO FINANCIAL INC.

Founded in 2006 to manage and service seven family offices, today Matco offers the benefits of our extensive investment management experience to individual investors, foundations, endowments, condominium corporations, trusts, corporations and not-for-profit organizations.

Our mission is to simplify the investment world for our clients by understanding their needs and providing exceptional investment solutions that preserve and grow capital.

Matco Financial is an independent, privately held discretionary investment counsellor and asset management firm that serves the needs of individual investors, institutions, advisors, trusts, corporations and not-for-profit organizations. Matco provides investment advisory services to investors on a discretionary basis through mutual funds and separately managed accounts. This communication is intended for information purposes only and does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Matco Financial Inc. makes no representations as to the accuracy or any other aspect of information contained in other websites. All statements that look forward in time or include anything other than historical information are subject to risks and uncertainties and are not guarantees of future performance. Investors should not rely on forward looking statements. Actual results, actions or events, could differ materially from those set forth in the forward looking statements.

For more information please visit www.matcofinancialinc.com

Copyright © *2016* Matco Financial Inc., All rights reserved.

Our mailing address is:

350, 440 – 2nd Ave SW,
Calgary, Alberta T2P 5E9
Phone: 403.539.5740
Fax: 403.539.5744

www.matcofinancialinc.com