IA Clarington Strategic Corporate Bond Fund

Growth has overtaken inflation as the number one concern in credit

It has become pretty clear that growth concerns have overtaken inflation as the number one risk to higher yielding credit given weakness in commodities, company earnings guidance and of course the shut down in parts of China. But we figured as much - reviewing our last several months of calls and notes we expected this year to be a tough one in the first part given that everything that has moved financial assets higher in the past two years has likely peaked and is now reverting lower to the mean. High yield markets suffered one of their worst monthly losses in a couple of years as yields increased almost 100 basis points to 7.11%. Just think - we have only seen greater than 7% yields in high yield credit 3 times since the end of 2015.

The question remains; does it look compelling enough to call it a bottom? We can never know for sure, however, the ingredients that backstop a yield in higher yielding credit are the default rate, company specific factors and relative yield. So far the default rate remains at one of the lowest levels ever recorded and given the excess liquidity in the economy. Recognizing that we are in process of reducing money supply, there still remains a relatively low probability of recession in the next twelve months, and if growth slows, we expect the 10-year U.S. Treasury bond yield to slow its ascent, making the relative yield of credit that much more attractive. Company specific factors have improved as well over the past few years as outstanding debt has been refinanced at lower rates and pushed back several years, thereby reducing refinancing risk as the economy and markets work their way through the current transition from peak growth and peak inflation to lower but sustainable growth over the coming two years.

We have a majority position in the highest rated part of the high yield universe in BB's, which we find well situated to protect against slower growth while benefiting from any decrease in 10-year bond yields. We have also started to put some cash to work over the past couple of weeks into higher rated, more interest rate sensitive credit, as our portfolio repositioning is reflecting our beliefs in the current market.

Yields starting to look attractive

Source: Bloomberg, iA Clarington as at April 30, 2022. Based on ICE BofA US High Yield Index. YTM refers to Yield to Maturity.

Total returns[1]:

- The U.S. high yield index generated a total return of -3.64% in April while the Canadian high yield index posted a return of -1.54%.
- The YTM on the U.S. high yield index increased during the month to 7.11% while the YTM on the Canadian high yield index increased to 5.77%.
- During April , spreads increased in the U.S. high yield market by 54 bps compared to an increase in the Canadian high yield market of 5 bps.

Notable:

- The Fund's healthcare and consumer staples related securities generated the largest contributions to the Fund's performance during the month.
- The Funds' largest individual contributors to performance during the month included holdings in Trulieve Cannabis Corp, 9.75% of 2024 bonds and Terraform Power 4.25% of 2023 bonds.
- The Fund's U.S. dollar exposure was, on average, approximately 75% hedged during the month.

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Fund assets

Asset	% of total assets
Investment Grade Corporate Bonds	6.4%
High Yield Corporate Bonds	79.4%
Convertible Bonds	0.6%
Cash & Equivalents	11.1%
Total Assets	**97.5%**
Other	2.5%
Net Assets	**100.0%**

Ratings Distribution

Credit rating	% of net assets
A- and Higher	0.0%
BBB	6.4%
BB	39.0%
B	23.3%
CCC	6.5%
NR	6.7%

Fund attributes[2]

Corporate bonds	
Portfolio Current Yield	5.23%
Yield to Maturity	6.32%
Coupon	5.38%
Average Bond Price	$94.144
Credit Spread	301 bps
Bond Rating	B+
Number of Companies	53
Number of Bonds	69
% of Value in C$	56%
% of Value in US$	44%

Term to Maturity	7.8 years
Duration	3.1 years
Term to Maturity Distribution	
≤ 1 Year	6.2%
1 Year to ≤ 5 Years	34.4%
5 Years to ≤ 10 Years	34.3%
≥ 10 Years	7.4%

Top 10 bond holdings

Company	% of net assets
INTERTAPE POLYMER 4 ⅜% 06/15/29	2.89
RUSSEL METALS 5 ¾% 10/27/25	2.89
ISHARES IBOXX HIGH YLD ETF	2.86
SUPERIOR PLUS LP 4 ¼% 05/18/28	2.69
RITCHIE BROS HOLDINGS 4.95% 12/15/29	2.61
CANWEL BUILDING 5 ¼% 05/15/26	2.26
TRULIEVE CANNABIS 9 ¾% 06/18/24	2.26
GARDA WORLD SECURITY 9 ½% 11/01/27	2.21
AIR CANADA 4 ⅝% 08/15/29	2.18
PARKLAND CORP 6% 06/23/28	2.15
Top 10 as % of Total	**25.01**

Source: iA Clarington as of April 30, 2022.

Sector Distribution

Sector	% of net assets
Basic Materials	10.0%
Communications	4.2%
Consumer	16.5%
Diversified	0.0%
Energy	15.9%
Financial	4.3%
Government	0.0%
Healthcare	4.7%
Industrial	14.2%
Real Estate	3.1%
Technology	0.0%
Utilities	11.8%

Dealer use only. [1] Bond data from ICE Bank of America indices. Canadian dollar high yield refers to ICE BofA Canada High Yield Index. U.S. dollar high yield refers to ICE BofA U.S. High Yield Index. Canadian dollar investment grade corporate bond market refers to ICE BofA Canada Corporate Index. U.S. dollar investment grade corporate bond market refers to ICE BofA U.S. Corporate Index. U.S. Treasuries refers to Bloomberg Barclays U.S. Treasury Total Return Index. Canadian government bonds refers to FTSE Federal Canada Bond Index. Leveraged loans refers to Credit Suisse Leveraged Loan Index. Total returns are in local currency.

[2] Fund attributes are market-weighted averages (i.e. yield, coupon, rating, term, duration). Cash & equivalents are excluded from all except for "Portfolio Current Yield" which includes cash & equivalents. Option adjusted credit spread shown. High yield benchmark refers to ICE BofA US High Yield Index.

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