CAMBRIDGE
GLOBAL ASSET MANAGEMENT

Our approach to fixed-income investing

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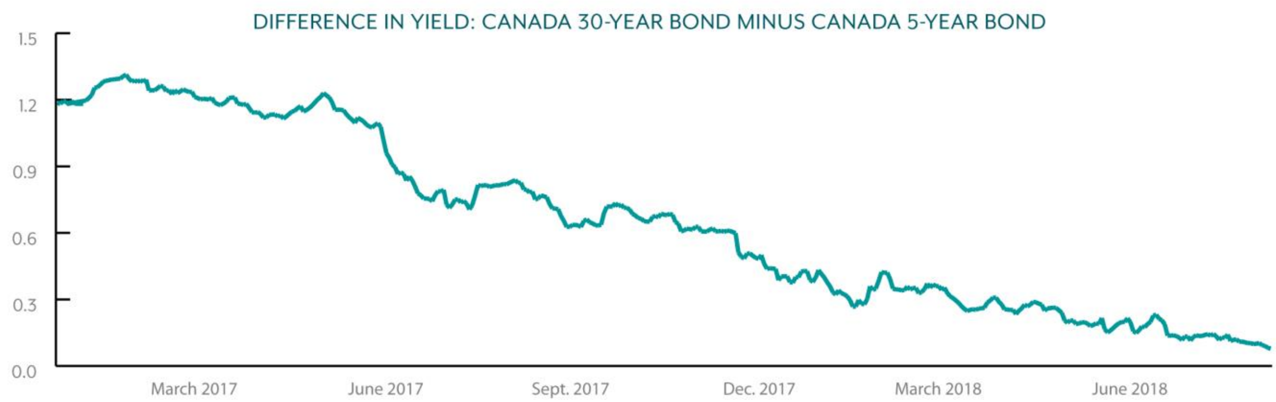
Cambridge has provided fixed-income management through our multi-asset portfolios for some time, and we wanted to provide more detail on our investment process and the various portfolio construction tools on which we rely. Our actively managed bond portfolios are constructed using four primary strategies that both add value and control risk. These four areas include: yield enhancement, interest rate anticipation, credit selection and foreign holdings. The possible risks and potential returns in these areas are continuously reviewed and evaluated individually and as a cohesive group with the objective of generating strong risk-adjusted returns for our clients. Using the Cambridge Bond Fund as an example (a component of our balanced mandates), this portfolio has the flexibility to enhance returns using these tools, while operating under a set of portfolio guidelines that will help clients understand the portfolio's range of potential exposures. The discussion that follows describes these strategies in more detail, as well as how they interact within the overall portfolio.

Yield enhancement: On the surface, yield enhancement is a simple activity – buy securities with higher yields. In practice, however, that is only part of the objective within the strategy, where yield and price are intertwined. We're focused on enhancing holding period returns, with little or no change to interest rate, liquidity or credit risk. This can be done in a variety of ways, the most powerful of which is ensuring that the portfolio takes advantage of "roll down." Roll down is simply the change in a security's price over time if there is no change to the yield curve or the level of yields. The return of a fixed-income security over a set period is not the yield alone; rather, it is the yield plus any change in the price of the security. Since there are bonds outstanding at most maturities one knows what the yield of a bond is going to be at any time in the future, assuming no change to the yield curve. For example, a 10-year bond today is going to be a 9-year bond one year from now, and a 9-year bond today is going to be an 8-year bond one year from now, etc. Therefore, when purchasing a 10-year bond and holding it for 12 months, one can use the yield of the 9-year bond to calculate what the price is going to be at the end of the period. We hold bonds that have a superior return when including both yield and roll down when compared to other bonds with similar risks. The federal, provincial and corporate positions can all be structured to best take advantage of yield enhancement opportunities.

Rate anticipation: Our rate anticipation strategy takes advantage of expected changes to both the shape of the yield curve and level of interest rates. Factors that change the shape of the yield curve and level of interest rates include changes in bank policy, economic growth and inflation. Clearly, the portfolio's duration greatly influences its sensitivity to changes in the level of interest rates. We actively manage the portfolio's duration to add value for clients. We also feel that duration is far more complicated than the commonly used single number, and we plan to dedicate a future blog to fully explaining duration and how we use it. The period including calendar 2017 and 2018 year-to-date is a great example for explaining the power of changes in the shape on the yield curve. The chart below shows the difference between the yield of the 30-year Canadian bond and 5-year Canadian bond since the beginning of 2017.

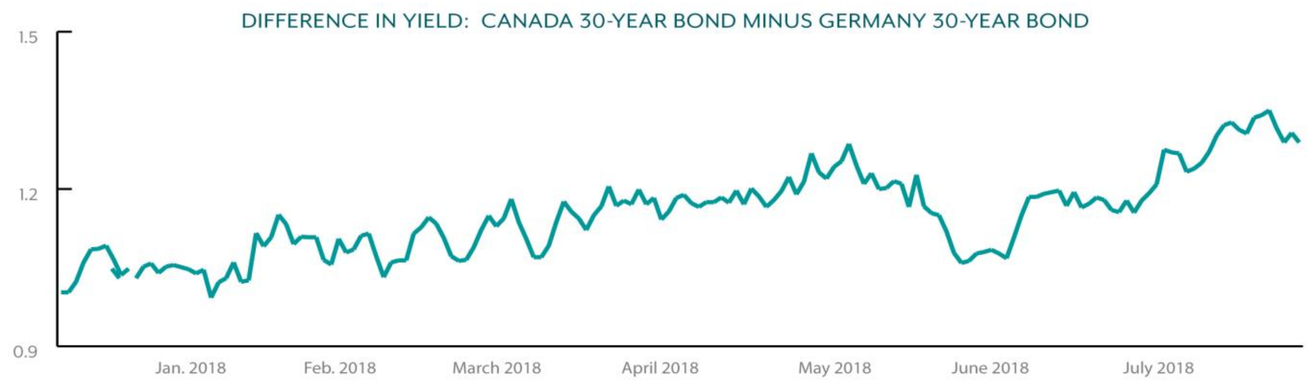


Source: Bloomberg Finance L.P., CI Investments Inc. as at August 20, 2018

At the start of 2017, interest rates on 5-year Canadian bonds were 1.2% lower than the interest rates of the 30-year Canadian bonds. As of August 27, 2018, the difference is only .06%. As a result of this flattening yield curve over this period, investors in the 5-year Canadian bond had a -1.2% return, while investors in the 30-year Canadian bond enjoyed a 4.1% return. This highlights the dynamic nature of the yield curve and how successfully forecasting changes can produce strong risk-adjusted results.

Credit selection: When selecting credit, we look for superior risk-adjusted returns, and balance the potential excess returns against the additional credit, volatility and liquidity risks that are introduced. When selecting corporate bonds, we focus on quality companies that have strong, stable credit profiles or have clear plans to improve their credit profile. In addition to dedicating significant resources to credit research within the Cambridge Fixed Income Team, we are also able to leverage Cambridge's equity research capabilities to find great credit investments. Understanding the financial profile of each company in detail, we also closely evaluate the structure of each issue. Favourable structures include securities that offer additional safety protections or potentially additional return.

Foreign holdings: Non-Canadian exposure consists of both foreign government and foreign corporate bonds. While holding non-Canadian securities does offer an opportunity to add additional return, its greatest advantage is the diversification it adds to the portfolio. Foreign corporate bonds allow the portfolio to diversify into industries that would not otherwise be available in a Canadian-only portfolio. In addition, it provides a broader range of opportunities to invest in corporations with potentially superior risk-adjusted returns not available in Canada. Similarly, having exposure to foreign government securities allows us to diversify our curve and interest rates exposure into global fixed-income markets. Government bond yields in different countries can diverge from one another, producing different returns across various bond markets. While the Canadian 30-year bond has returned 0.9% year-to-date as of August 27, 2018, the Germany 30-year bond returned 6.3% over that same time. This return difference was realized as the 30-year Canadian bond started the year 1% higher than the 30-year Germany bond, compared to its current level of 1.3% higher (see chart below). While exposure to foreign holdings is limited to 30% of the portfolio, we also have an additional limit of 10% currency exposure after hedging is applied.



Source: Bloomberg Finance L.P., CI Investments Inc. as at August 20, 2018

When combining these tools within the total portfolio we concentrate our portfolio exposures in the area in which we have the greatest conviction, rotating and combining these strategies to enhance returns while understanding the risks within the portfolio. This process for managing fixed income at Cambridge was adopted when I joined the team in June 2016. The annualized return of Cambridge Bond Fund has been 2.7% from June 2016 to June 2018*, versus a return of 0.4% for the FTSE TMX Universe Bond Index. We feel it is important for you to understand the goals, process and guidelines of our fixed-income strategies, and we wanted to build on that knowledge as we highlight Cambridge Bond Fund.

We appreciate your interest and look forward to sharing more information with you over the coming months.

Best regards,
Paul Marcogliese

Class I Performance as at July 31, 2018

Fund Name	YTD	1YR	2YR	3YR	Since Inception	Inception Date
Cambridge Bond Fund Class I	0.2	2.5	1.6	1.2	1.4	03/12/15
FTSE TMX Canada Universe Bond Index	-0.1	2.0	-0.4	1.2	N/A	

IMPORTANT INFORMATION