

THE ROLE OF FIXED INCOME IN A PORTFOLIO

Risk Management is an important process in managing an investment portfolio. Proper diversification will lower the overall risk in a portfolio, likely offering the investor a higher level of comfort. The result is a lower degree of fluctuations in the performance of the portfolio.

To achieve proper diversification, it is essential that components in the portfolio behave differently in changing environments. Simply put, it is important that not every item in a portfolio goes up and down together. When one asset class goes down, the other asset class should go up and offset the overall risk level.

Government bonds have negative correlations to equities and corporate bonds. As valuations in equities climb and corporate bond portfolios become more vulnerable, the case for re-balancing and buying insurance becomes stronger. As stock markets reach new highs, it is prudent to start buying insurance, such as government bonds.

THE OUTLOOK FOR GOVERNMENT BONDS

The Bank of Canada and the U.S. Federal Reserve have been raising short-term interest rates in an attempt to return them to more normal levels. They are not motivated by rising inflation, or robust economic growth. Inflation has been very tame and economic growth uneven. Central banks, however, have less and less control in longer-term interest rates, which are determined by growth and inflation expectations. Since these expectations are benign, longer-term interest rates have not risen commensurately with short-term interest rates. This is solid evidence of moderating demand for longer-term capital and, interest rates being the price of money. As the central banks get closer to the end of their interest rate increase campaigns, the prospect of lower longer-term interest rates becomes stronger, making longer-term government bonds more desirable, as lower interest rates means higher bond prices.

The 0.25% interest rate increase by the Bank of Canada on January 17, 2018 had little or no impact on longer-term interest rates. Judging from job losses due to the closing of Sears, the troubled Carillion, and the legislated hike in minimum wage, the employment picture could deteriorate in 2018. The elevated level of household debt in Canada (the highest among the major industrialized economies) will amplify the impact from the interest rate increases. Going forward, longer-term interest rates are more likely to decline meaning bond prices rise.

THE CALDWELL INCOME FUND

The Caldwell Income Fund (“the Fund”) is designed to invest only in AAA-rated Federal Government of Canada bonds, which have negative correlation to stocks and corporate bonds. Stocks and corporate bonds rise and fall in tandem. The Fund is actively managed to better protect investors during periods of rising interest rates. It is the only fixed income Fund in Canada of its kind and offers unique diversification for portfolios that already own stocks and corporate bonds. As valuations in stocks and corporate bonds approach historically high levels, AAA-rated Government of Canada bonds provide very effective, low-cost insurance for investment portfolios.

PORTFOLIO MANAGER



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William has an MBA in economics and international finance. He is the lead Portfolio Manager on the Caldwell Income Fund and Portfolio Manager for the fixed income portion of the Caldwell Balanced Fund. He also manages fixed income portfolios for Caldwell's separately managed account platform.

Mr. Chin assumed responsibility for managing the Caldwell Income Fund in November 2015. Following which, he repositioned the Fund's portfolio to invest in government bonds, rather than a balance of equities and fixed income securities. He also initiated the launch of the Fund's Series I units in July 2016.

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ABOUT CALDWELL

Established in 1980, and founded by Thomas S. Caldwell C.M., Caldwell Investment Management Ltd. ("Caldwell") provides full service investment management, advisory and custodial services to individual and institutional investors. For over 35 years, Caldwell has established and maintained its reputation for excellence in the investment management industry, providing innovative investment solutions to meet the requirements of individual and institutional investors. Caldwell practices "Thoughtful Investing", applying a disciplined and prudent long-term investment approach. Capital preservation is the key to investment success.



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