

PURPOSE STRATEGIC YIELD FUND – OCTOBER COMMENTARY

QUICK FACTS

SERIES F	LGQ802
MGMT FEE	0.80%
SERIES B (FE)	LGQ800
MGMT FEE	1.55%
INCEPTION DATE	August 19, 2011
CURRENT YIELD*	5.8%

*Series F, as at October 31, 2018



SANDY LIANG, CFA

Sandy Liang has more than 25 years of experience managing credit investments. He spent 17 years in Wall Street, leading fixed income for Cobalt Capital Management, and as a Senior Managing Director at Bear, Stearns & Co., where he was voted to Institutional Investor Magazine's All-America Fixed Income Research Team for seven consecutive years.

Market overview

By now the cat is out of the bag – October was a tough month across risk asset classes. Every major category lost money, with equities down 7% in the US and down 6% in Canada. Investment grade corporate debt and high yield debt markets both traded down a couple of percent, while in a surprise development, Canadian preferred equity even traded lower.

At the risk of oversimplifying, we attribute the sell-off to a number of factors including downshifting global and US growth expectations, higher government bond yields and global trade developments. On the whole, earnings season has not been disappointing. We believe markets are discounting events beyond near-term earnings.

Government bonds started the month with increasing yields but ended the month only slightly higher as negative correlation between bonds and equities re-appeared during late month volatility.

While we expect risk assets to be facing the headwind of peak growth combined with higher bond yields for some time, we are also sanguine on the prospects for the global economy, led by the US, not hitting stall speed. While expectations are downshifting, we do not believe a recession is imminent or within the market's near-term discount range. True bear markets are caused by recessions and we don't see one in the cards. While the current expansion has been long in age, it has been only average in growth from the trough of the expansion in 2009.

Fund performance and outlook

Purpose Strategic Yield Fund declined 1.2% in the month and remains up 2.7% YTD, roughly half the October market decline. For perspective, passive high yield strategies for Canadians returned to negative YTD after a 2.3% October decline in iShares ETF (XHY). The largest contributors to negative return in the month were recent new issues Curo (CURO) 8.25% of 2025, Enova International (ENVA) 8.5% of 2024 and Vine Resources (VRI) 9.75% of 2023. In the case of CURO the Fund previously owned its bonds which were called at a premium in September which had contributed positive P&L.

Our larger picture view is that government bonds are in a bear market and thus we expect rising coupon rates (adjusted upwards with bond yields) to bolster Fund returns over time. The current bond bear market began in July 2016 and we expect it to continue indefinitely. Most recently, the international benchmark US 10-year government bond yield reached a high of 3.23% (in early November), a level not seen since 2011 and up from 2.41% at the start of 2018. In the coming 12-24 months, we view supply and demand for government debt globally as skewed heavily in favour of higher bond yields, a change from the post-credit crisis norm. The demand for government debt that has been created by global central banks through quantitative easing will be fading at the same time US budget deficits increase supply of government debt. Meanwhile, inflation rates have been bottoming globally and may even be percolating upward for the first time in years, led by US wage inflation. We continue to position the Fund for a rising-interest-rate environment.

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Purpose Strategic Yield Fund	1 month	3 month	6 month	YTD	1 year	3 year	5 year	Since inception
Series F	-1.2%	-0.7%	0.7%	2.6%	3.3%	6.9%	4.7%	6.5%
Series B	-1.3%	-0.9%	0.3%	1.9%	2.4%	6.0%	3.8%	5.6%

All performance as at October 31, 2018

Redwood Asset Management Inc. amalgamated with its parent company, Purpose Investments Inc., on March 31, 2018. Purpose is a different kind of investment company, with an unrelenting focus on client-centric innovation. We offer a range of managed and quantitative investment products, with each product designed to have a clear purpose – to meet a specific goal in building resilient portfolios for our clients. Purpose Investments is a division of Purpose Financial, an independent technology-driven financial services company.

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