



Niagara Institutional Dialogue

FFTW Absolute Return Fixed Income

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June 21, 2016

Absolute Return Fixed Income: What It is, How It Works, and Who It is for

Context

Why do investors allocate to fixed income?

Definition

What is Absolute Return Fixed Income?

General Characteristics

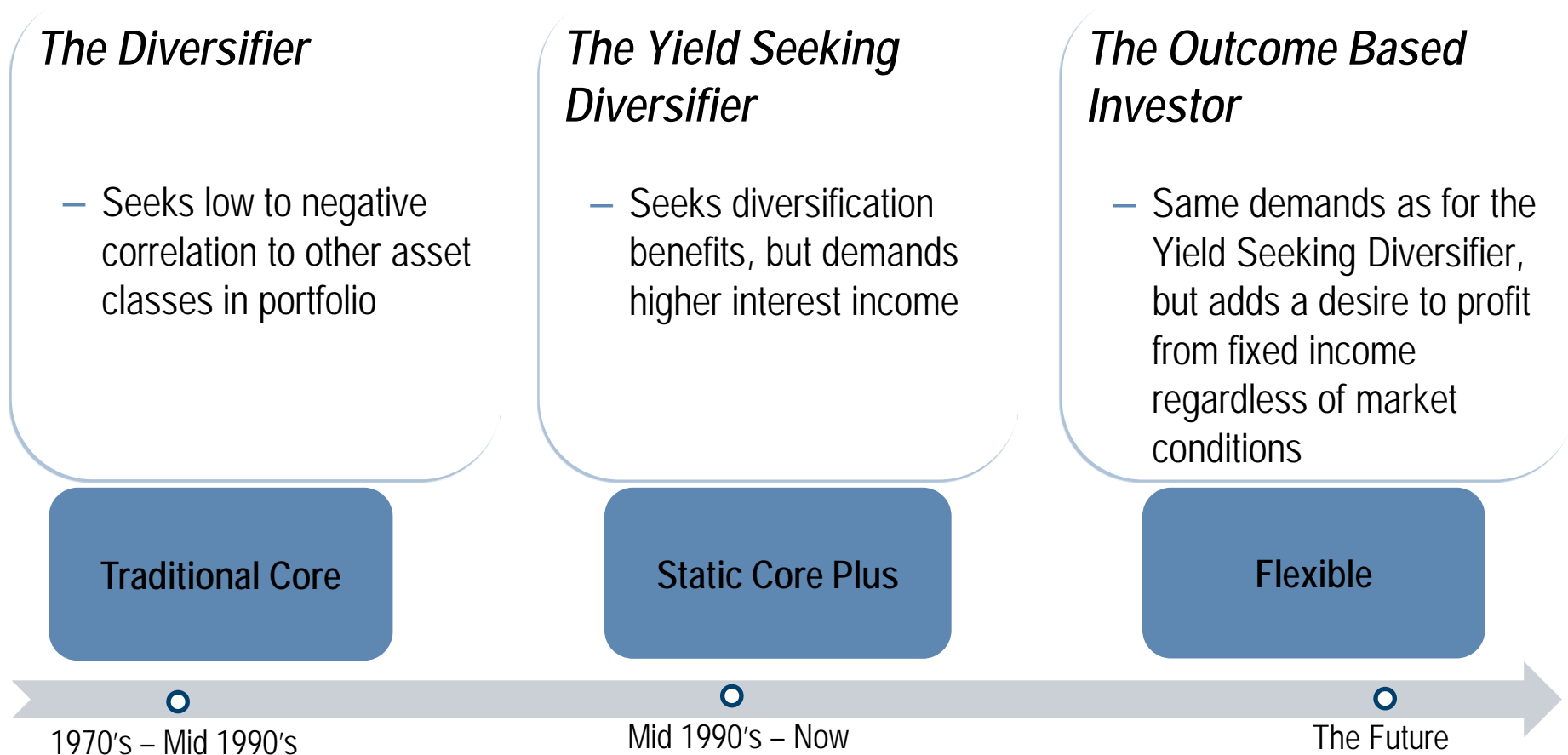
Long/Short
Diversified
Risk Management
Liquid

Uses

Generating Returns
Decorrelation
Diversification
Liquid Alternative
Portable Alpha

Why do Investors Allocate to Fixed Income?

The evolution of the traditional fixed income investor

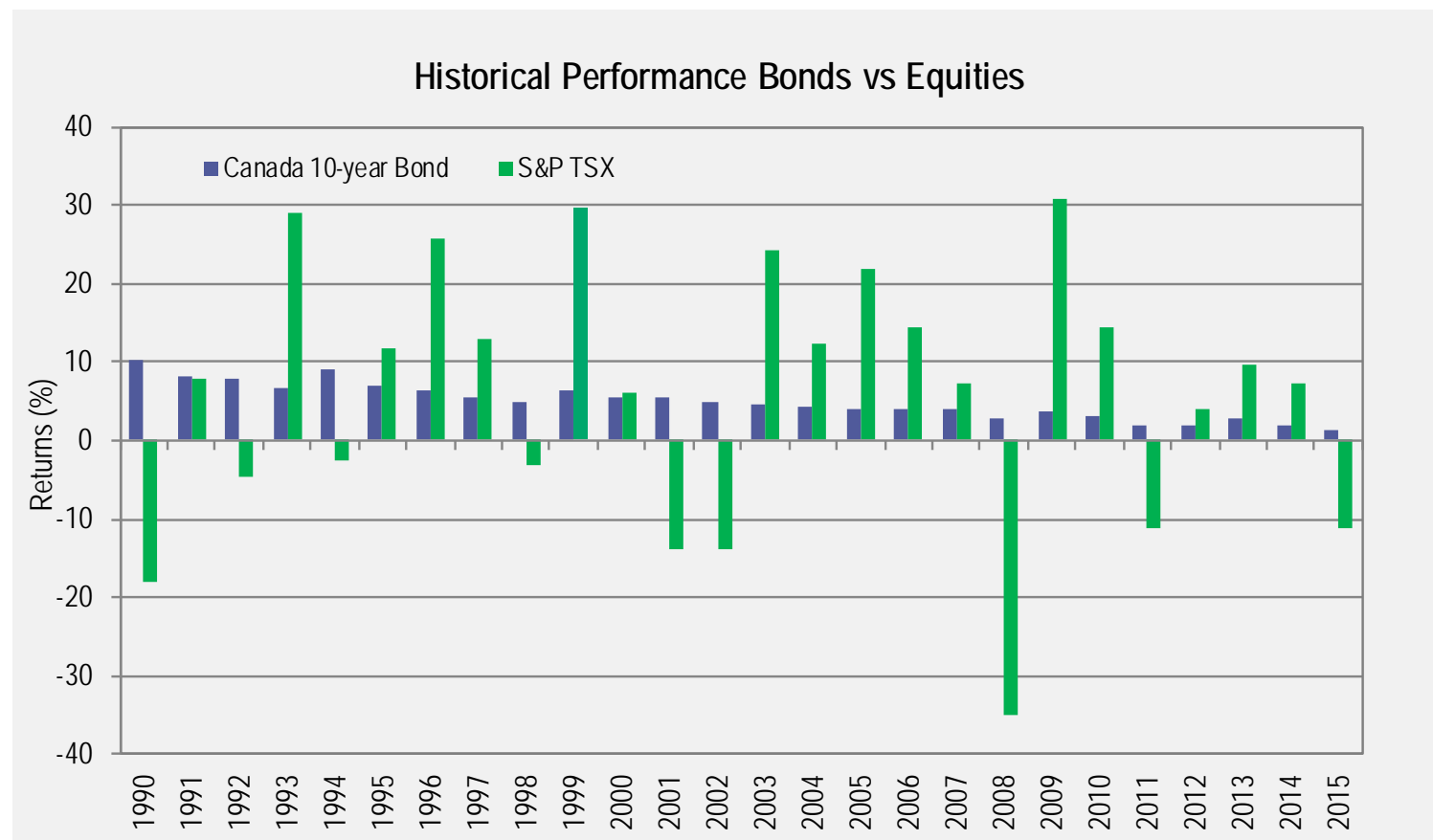


Traditional Role of Fixed Income

- **Diversification**
 - *Typically from equities, but also from other market betas*
- **Returns**
 - *“Fixed Income”: the clue is in the name...!*
- **Stability**
 - *Likely, the fixed income portion of your portfolios is there to pay retirees or other fixed liabilities, and so probably not where you are looking to source the “excitement and drama”...*

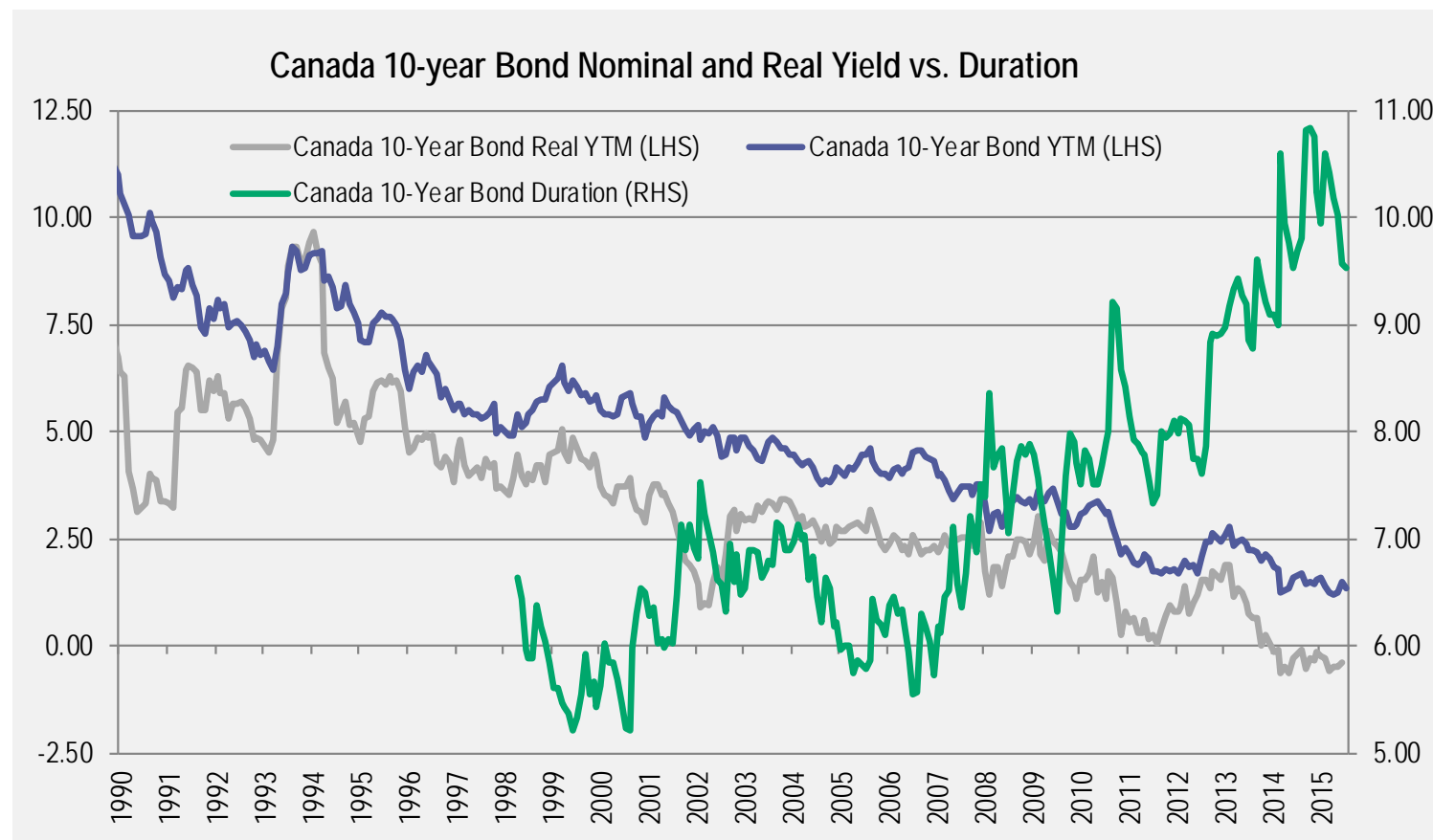
Diversification

Diversifier to equities? Really?



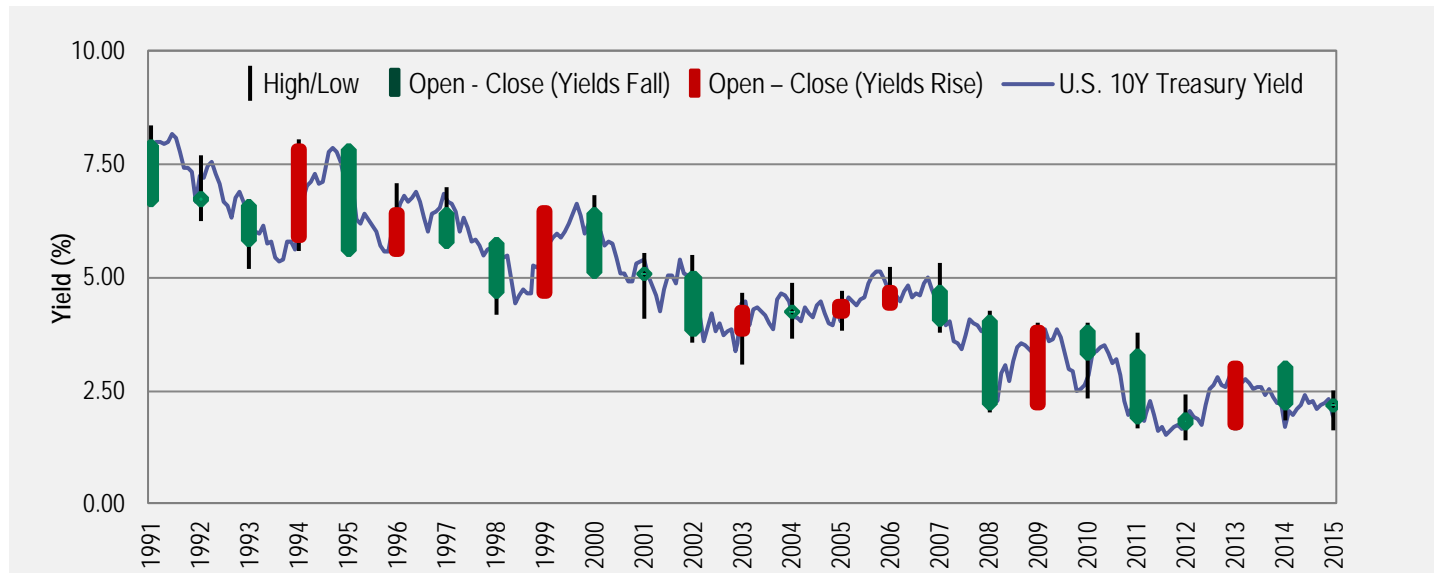
Correlation (over multiple periods) or only performance when equity negative?

Returns have Never Yielded Less... or been Riskier
 Risk-adjusted returns at all-time lows. Real yields close to negative.



Stability? Fixed Income is Vulnerable to Rising Interest Rates

Interest rate moves that offset carry gains are very low



Average annual range:
1.57%

	Yield (%)	Duration (yrs)	Rate rise to offset carry (%)	Return assuming 100bps rise in rates (%)	Average annual range since 1991 (%)
10-year U.S. Treasury	1.85	9.26	0.20	-8.80	1.57
10-year German Bund	0.14	7.81	0.10	-7.35	1.25
Barclays U.S. Aggregate	2.20	5.53	0.40	-5.55	1.39
Barclays Global Aggregate (USD Unhedged)	1.38	6.77	0.20	-6.44	1.09
Barclays U.S. Aggregate Corporate	3.15	7.33	0.43	-6.80	1.54
Barclays Global Aggregate Corporate Index (USD Unhedged)	2.60	6.55	0.40	-6.14	1.24

Source: Bloomberg, Barclays as of May 31, 2016 Yield for 10-year German Bund presented in EUR, all other yields presented in USD.

Traditional Role of Fixed Income

Recap:

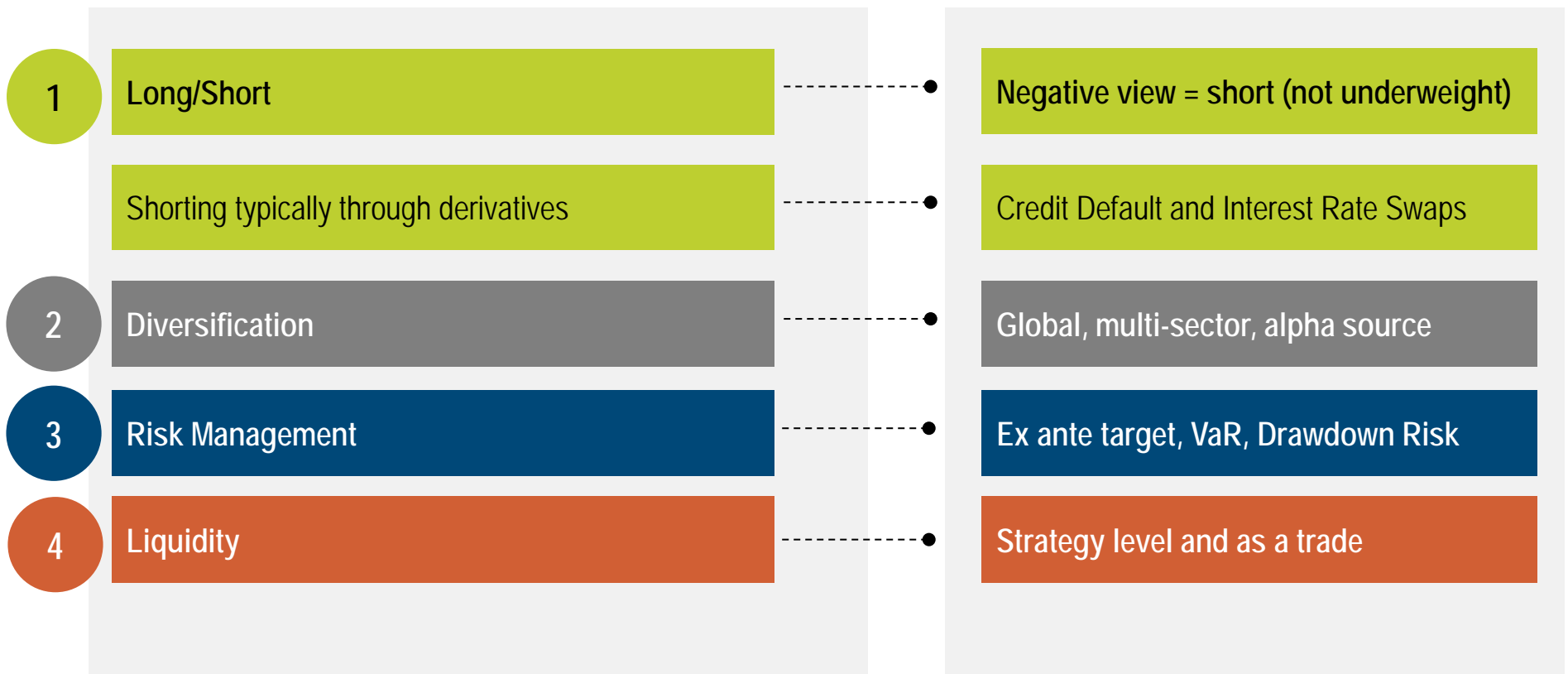
- Diversification?
- Returns?
- Stability?

0/3?

Defining Absolute Return Fixed Income

- ▶ No benchmark
- ▶ Returns derived solely from manager skill
- ▶ Low correlation with market direction
- ▶ Minimizing exposure to market beta
- ▶ Maximizing risk-adjusted returns
- ▶ Performance target 2% to 4% over cash

Requirements for Successful Managers



Performance Comes from Different Sectors over Time

Diversification is a better strategy than trying to pick winners

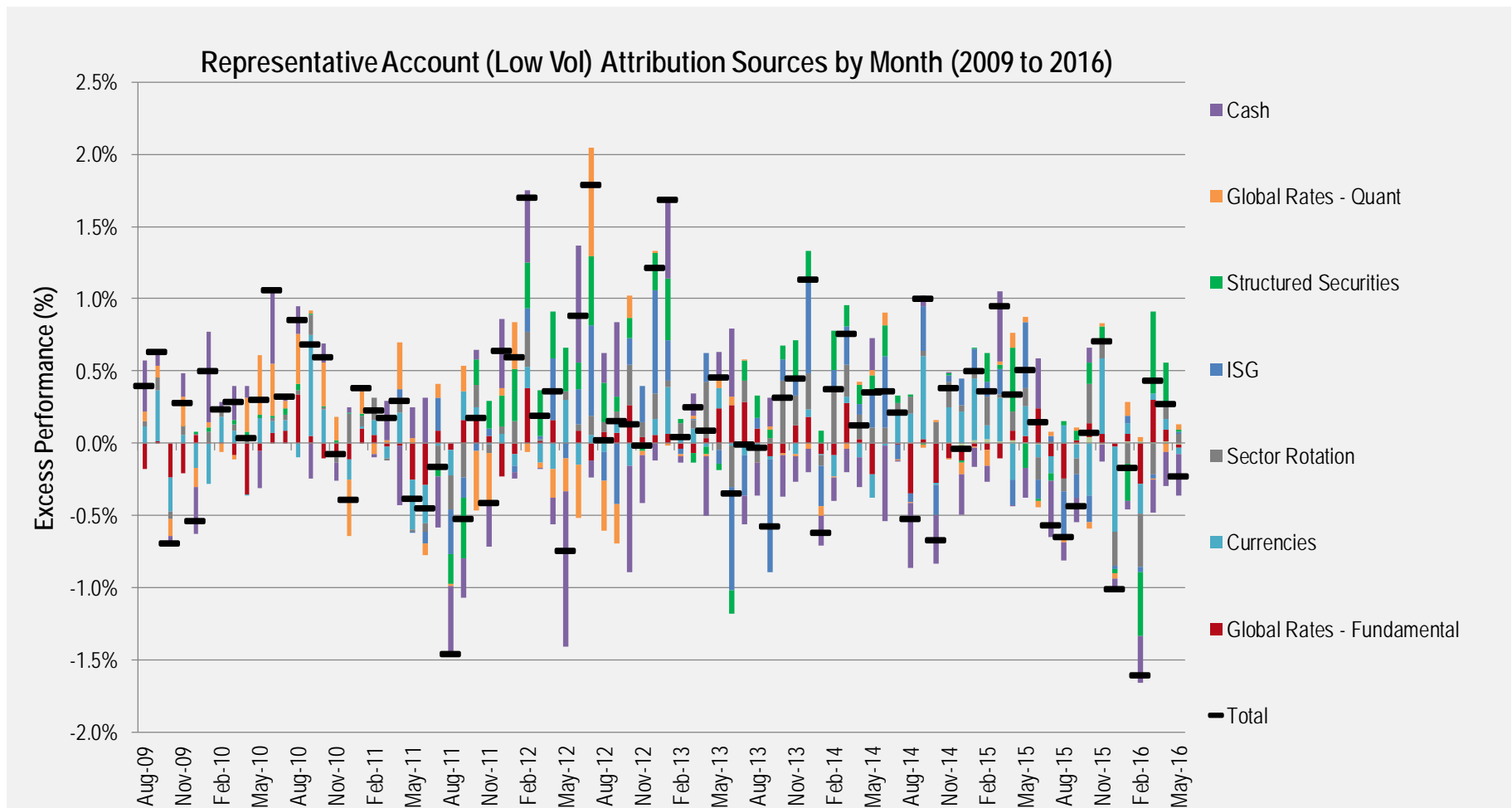
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Q1 2016
Best performing	US HY 29.0%	EMD Local 23.0%	S&P TSX 21.91%	EMD Local 15.2%	EMD Local 18.1%	US Treas 13.7%	US HY 58.2%	US CMBS 20.4%	US Treas 9.8%	EMD Hard\$ 17.4%	S&P TSX 12.48%	US Corp 7.5%	US MBS 1.51%	EMD Local 11.0%
	S&P TSX 24.29%	S&P TSX 12.48%	EMD Hard\$ 10.3%	S&P TSX 12.48%	US Treas 9.0%	US MBS 8.3%	Lev Loans 44.9%	EMD Local 15.7%	US Corp 8.2%	EMD Local 16.8%	US HY 7.4%	S&P TSX 12.48%	EMD Hard\$ 1.18%	EMD Hard\$ 5.04%
	EMD Hard\$ 22.2%	EMD Hard\$ 11.6%	EMD Local 6.3%	US HY 11.9%	S&P TSX 12.48%	US Agg 5.2%	S&P TSX 12.48%	US HY 15.1%	US Agg 7.8%	US HY 15.8%	Lev Loans 6.2%	EMD Hard\$ 7.43%	US CMBS 0.97%	US Corp 3.97%
	EMD Local 16.9%	US HY 11.1%	Lev Loans 5.7%	EMD Hard\$ 9.9%	US Agg 7.0%	US Corp -4.9%	EMD Hard\$ 29.8%	S&P TSX 12.48%	EMD Hard\$ 7.4%	US Corp 9.8%	US CMBS 0.2%	US MBS 6.1%	US Treas 0.84%	S&P TSX 12.48%
	Lev Loans 11.0%	Lev Loans 5.6%	US Treas 2.8%	Lev Loans 7.3%	US MBS 6.9%	EMD Local -5.2%	US CMBS 28.5%	EMD Hard\$ 12.2%	US MBS 6.2%	US CMBS 9.7%	US MBS -1.4%	US Agg 6.0%	US Agg 0.55%	US CMBS 3.61%
	US Corp 8.2%	US Corp 5.4%	US HY 2.7%	US MBS 5.2%	EMD Hard\$ 6.2%	EMD Hard\$ -12.0%	EMD Local 22.0%	Lev Loans 10.0%	US CMBS 6.0%	Lev Loans 9.4%	US Corp -1.5%	US Treas 5.1%	Lev Loans -0.4%	US HY 3.35%
	US CMBS 4.7%	US MBS 4.7%	US MBS 2.6%	US CMBS 4.7%	US CMBS 5.6%	US CMBS -20.5%	US Corp 18.7%	US Corp 9.0%	US HY 5.0%	US Agg 4.2%	US Agg -2.0%	US CMBS 3.9%	US Corp -0.68%	US Treas 3.20%
	US Agg 4.1%	US Agg 4.3%	US Agg 2.4%	US Agg 4.3%	US Corp 4.6%	US HY -26.2%	US Agg 5.9%	US Agg 6.5%	Lev Loans 1.8%	S&P TSX 12.48%	US Treas -2.8%	US HY 2.5%	US HY -4.47%	US Agg 3.03%
	US MBS 3.1%	US CMBS 4.1%	US CMBS 1.8%	US Corp 4.3%	Lev Loans 1.9%	Lev Loans -28.8%	US MBS 5.9%	US Treas 5.9%	EMD Local -1.8%	US MBS 2.6%	EMD Hard\$ -5.3%	Lev Loans 2.1%	S&P TSX 12.48%	US MBS 1.98%
	US Treas 2.2%	US Treas 3.5%	US Corp 1.7%	US Treas 3.1%	US HY 1.9%	S&P TSX 12.48%	US Treas -3.6%	US MBS 5.4%	S&P TSX 12.48%	US Treas 2.0%	EMD Local -9.0%	EMD Local -5.7%	EMD Local -14.9%	Lev Loans 1.33%
Worst performing														

Source: BNP Paribas Investment Partners, FFTW, Barclays Capital Indices, JP Morgan Indices, Thomson Reuters Indices, as of March 31, 2016.

"EMD" stands for Emerging Market Debt, "MBS" for Mortgage-Backed Securities, "IG" or Investment Grade, "HY" for High Yield, "Europ." for European, "Convert." for Convertible Bonds. Indices returns hedged in euro. Past performance is not indicative of future results which may vary.

Monthly Contribution by Alpha Source

No one theme dominates

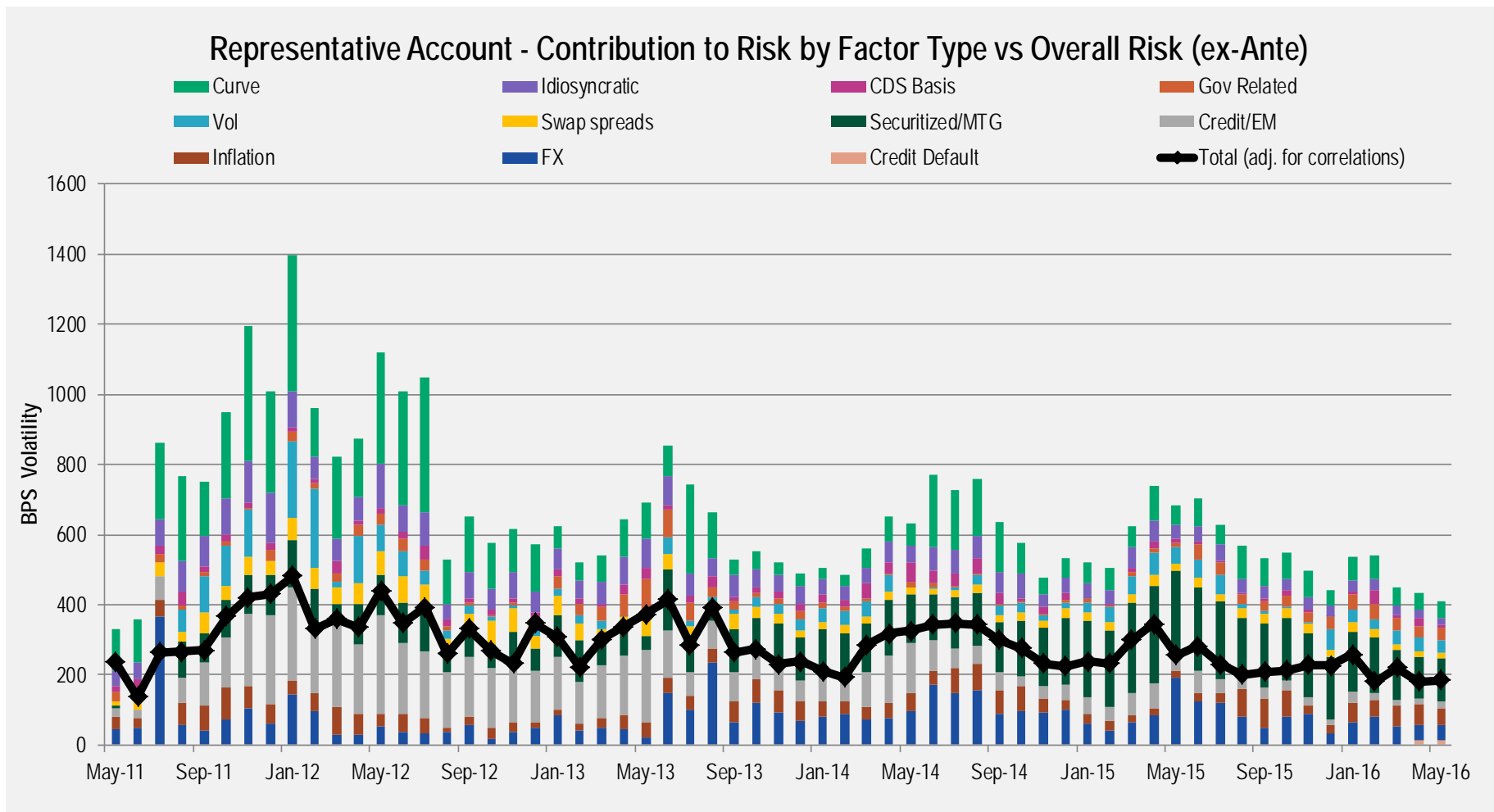


Source: FFTW, as at 31 May 2016.

Returns are presented gross of fees. Past performance is not indicative of current or future performance. Returns presented are gross of all fees and expenses other than trading expenses. Portfolio returns will be reduced by those fees and expenses that are charged to such portfolio. These returns may be presented by consultants to clients (or prospective clients) only in accordance with applicable law. Please see Additional Disclosures for further information, including an illustration of the effect of fees on portfolio returns.

Diversification *Halves* Portfolio Risk

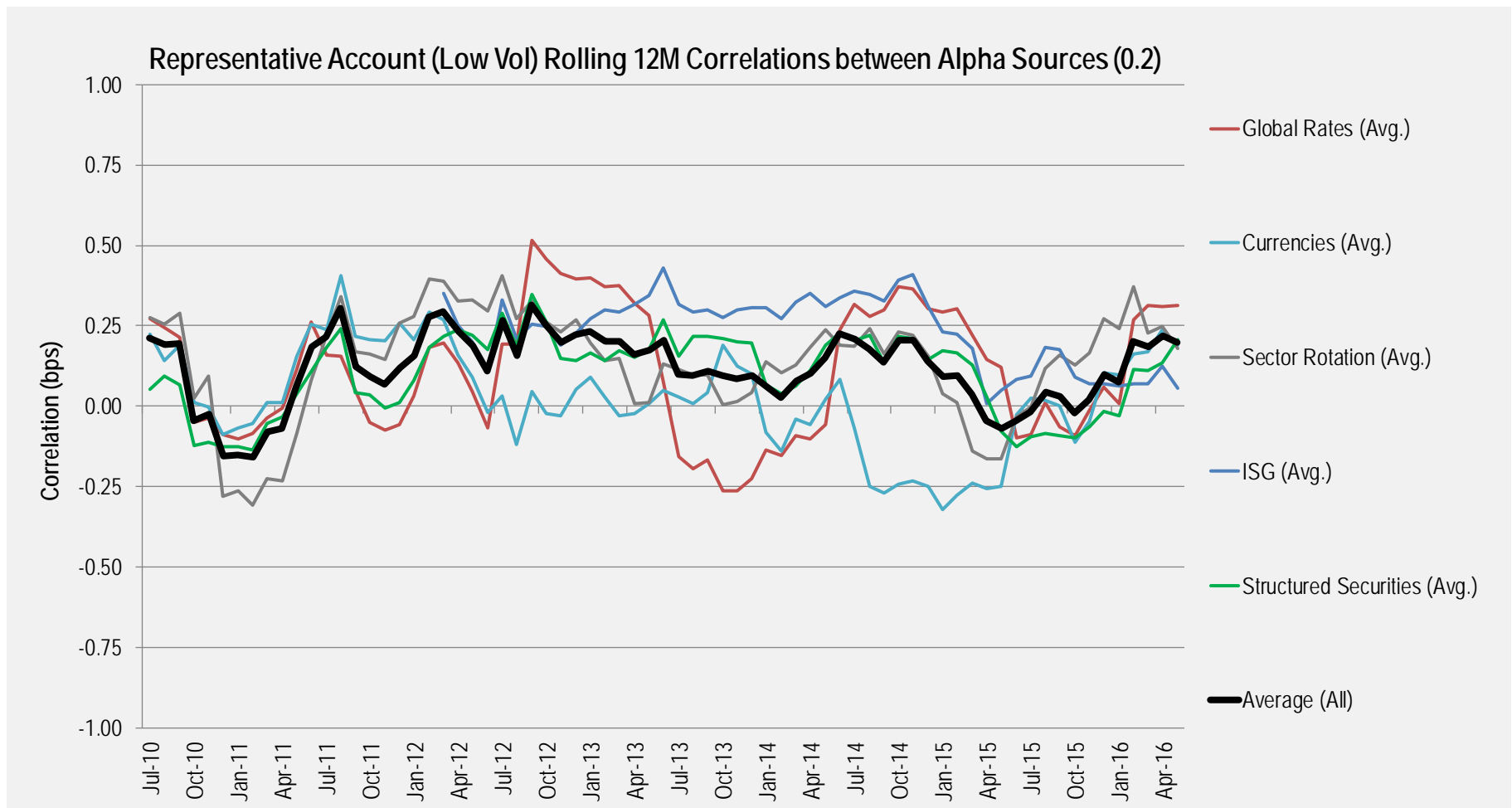
Removing factors may counter-intuitively reduce returns even while increasing risk



Source: FFTW, 31 May 2016

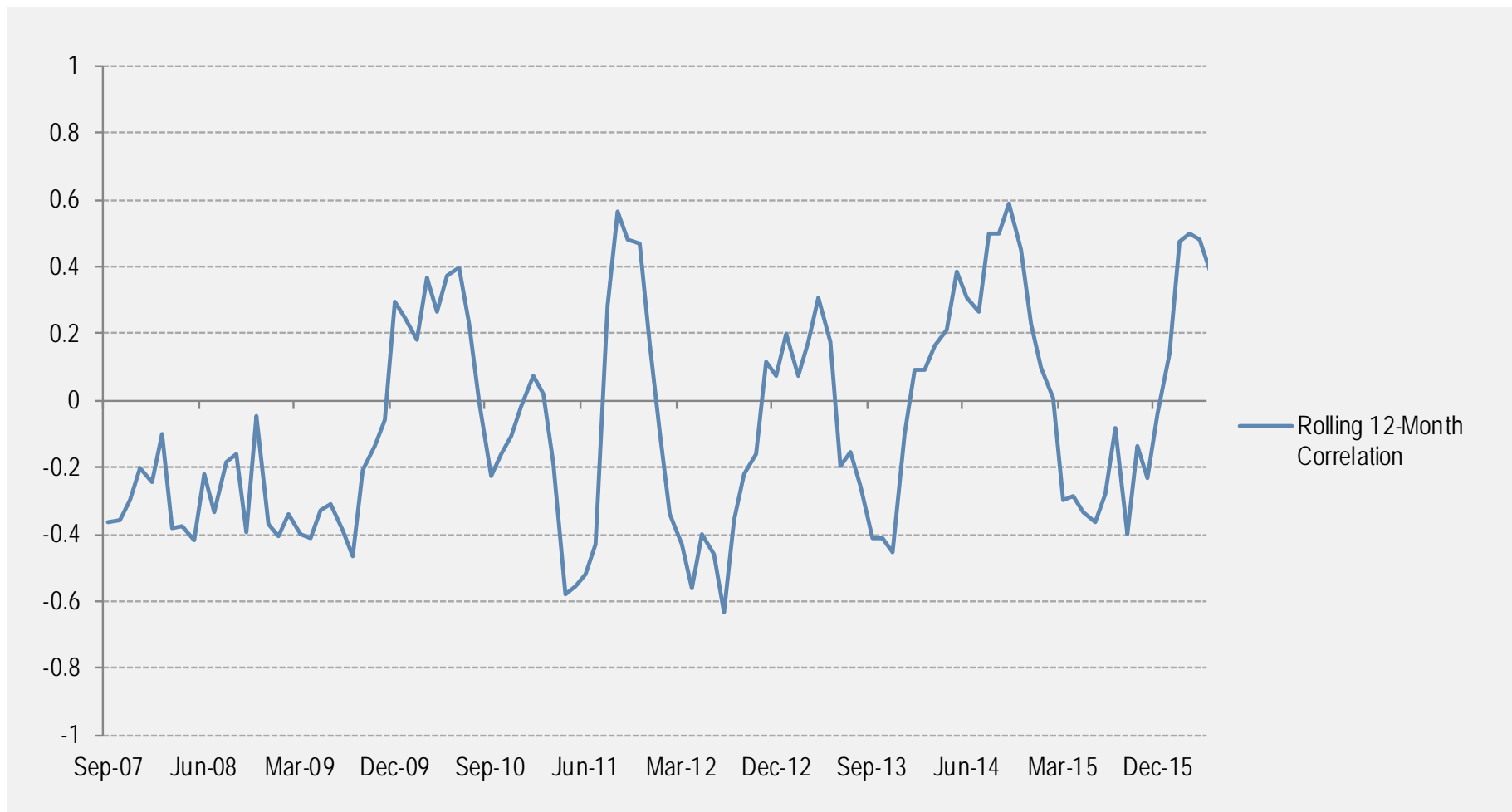
Low Correlation Between Alpha Sources

No one theme dominates – so the negative impact of any one strategy is minimized



Correlation Analysis

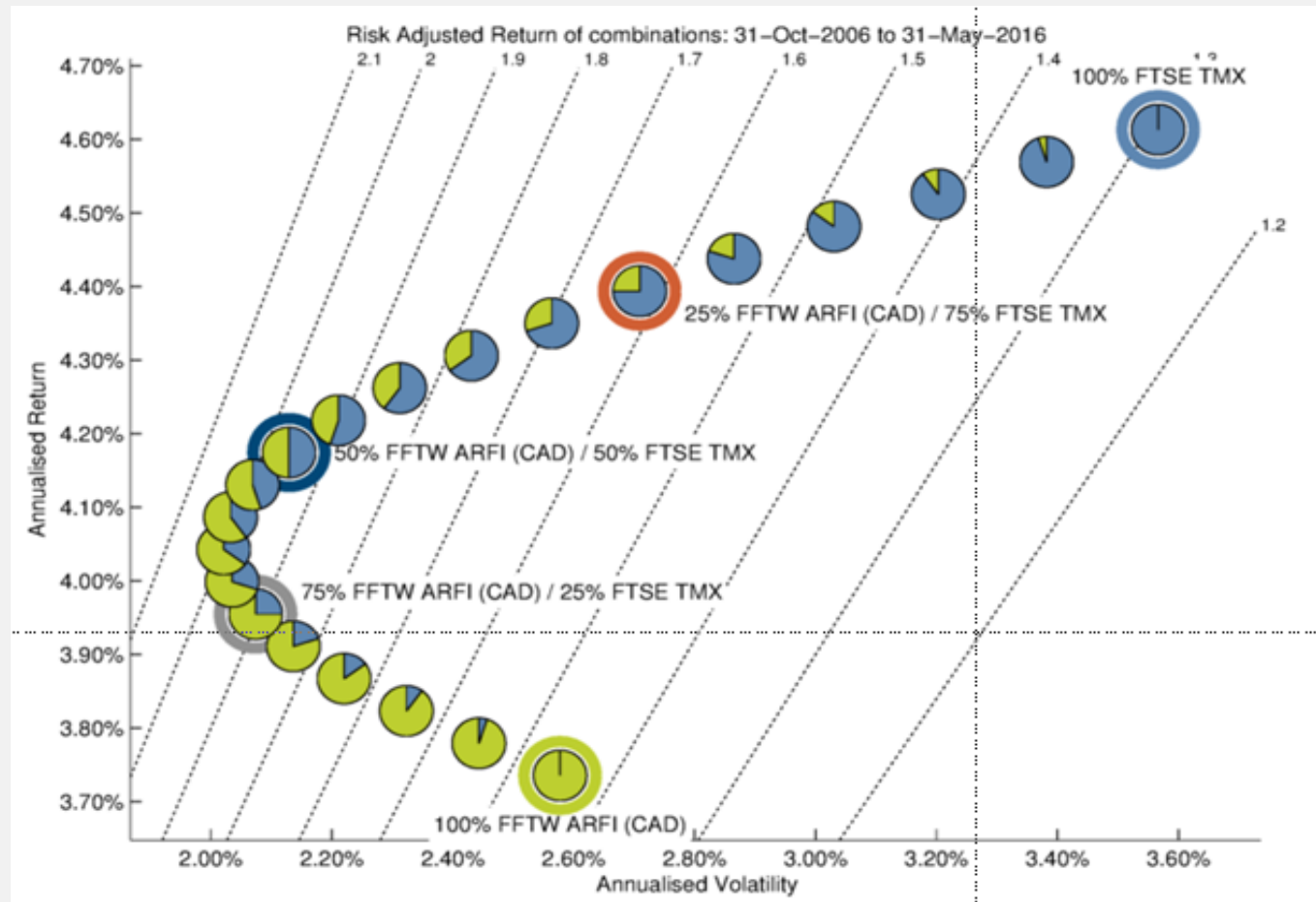
FFTW Absolute Return rolling 12-month correlation with Canadian 10-year Bond



Maximizing Risk-adjusted Returns



At an allocation of:
 75% Barclays
 Global Aggregate
 and
 25% ARFI, risk-
 adjusted returns
 for the
 representative
 portfolio increase
 significantly



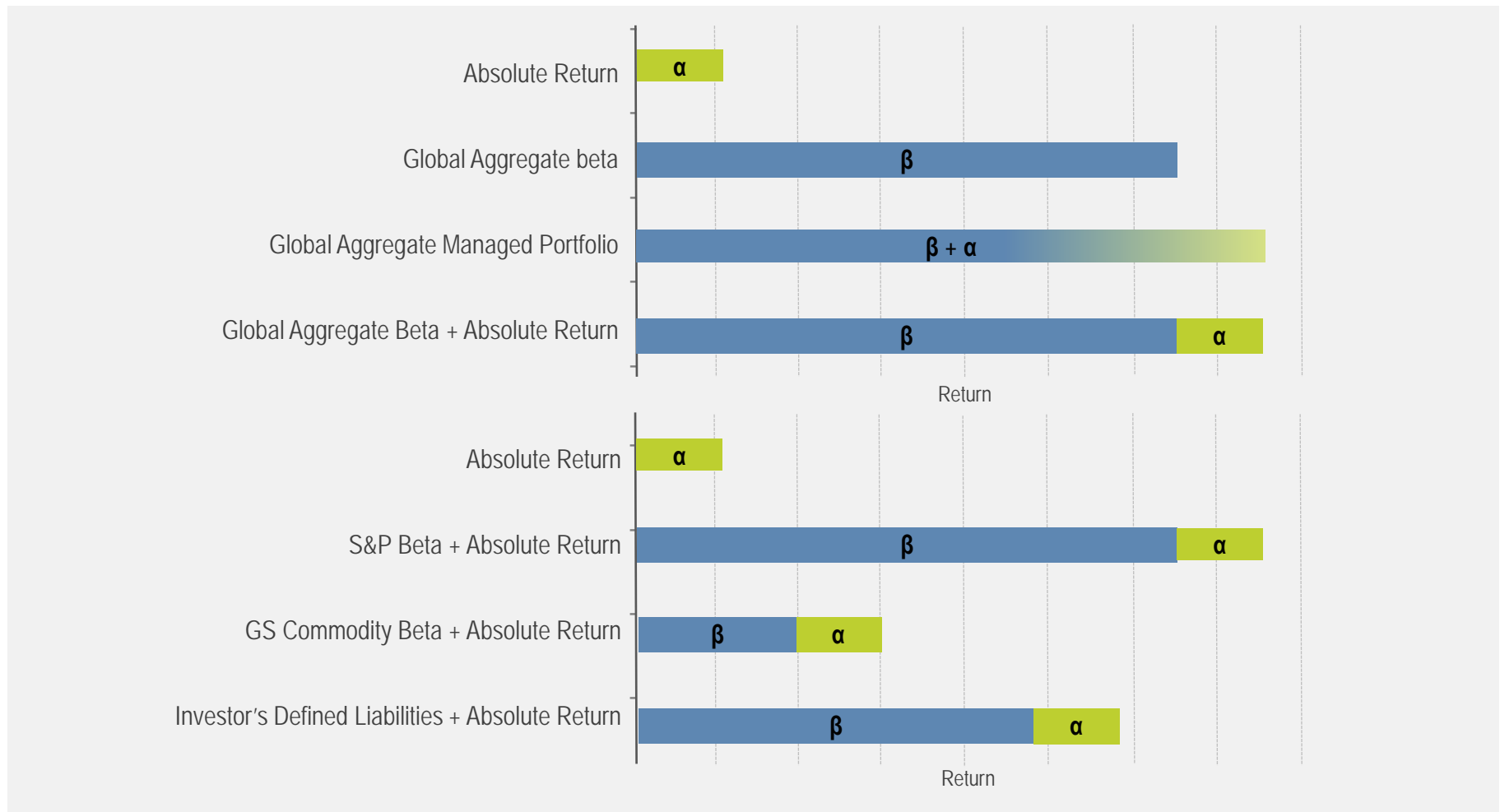
Source: FFTW, Bloomberg, May 31, 2016.

CN 10yr yield: "GCAN10YR Index". Source: Bloomberg. Dates: 31-Oct-2006 to 31-May-2016

FTSE TMX: "XBB CN Equity". Source: Bloomberg. Dates: 31-Oct-2006 to 31-May-2016 Composite internal name: "Multi Strategy Alpha (CAD)". Source: FFTW (Prism). Dates: 31-Oct-2006 to 31-May-2016

Past performance is not indicative of current or future performance

Absolute Return as a Discrete Alpha Source

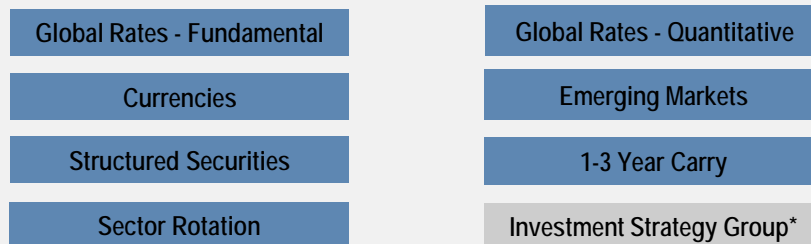


Questions?

Three-Step Investment Process

Risk budgeting is at the core

1 IDEA GENERATION

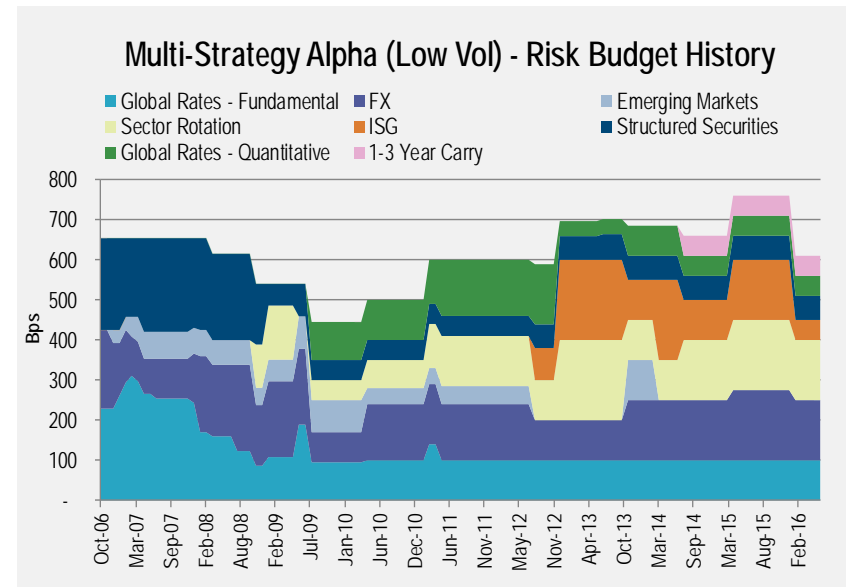


2 COMBINATION

- Quantitative:
 - ▶ Factors in losses as much as returns
- Qualitative:
 - ▶ Building balanced portfolios
 - ▶ Recognizing opportunity and where it is more constrained

3 MONITORING & REVIEW

- Formal review:
 - ▶ Monthly, Quarterly, and Annually

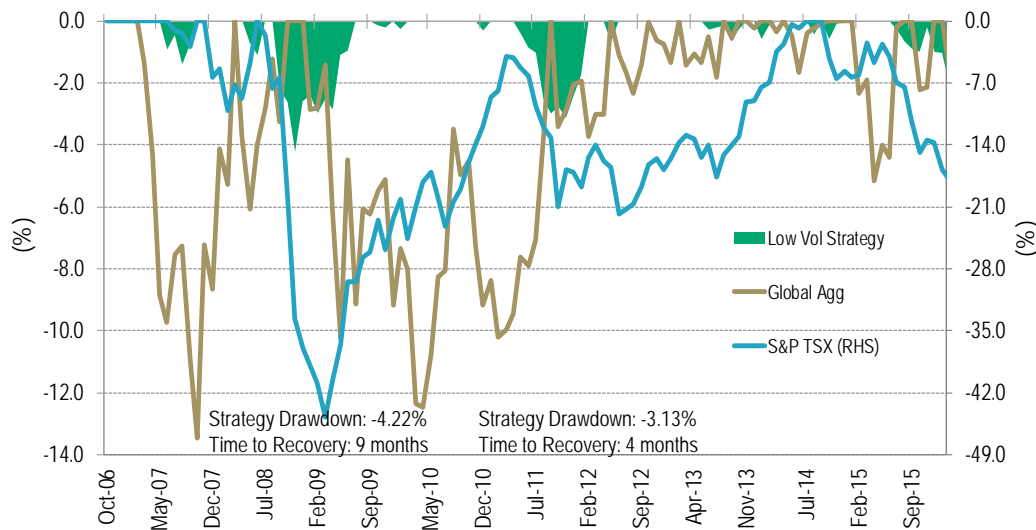
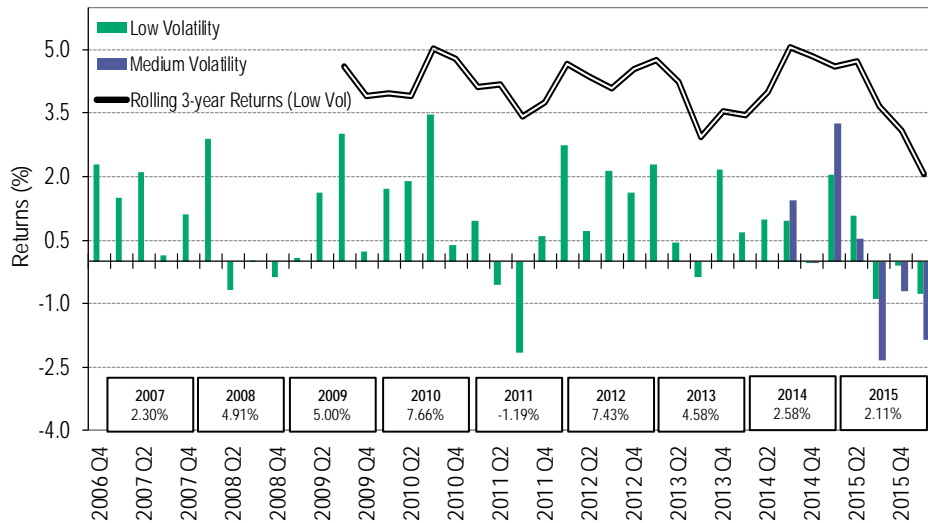


	Current Risk Allocation (bps)	
	Low Vol	Medium Vol
Global Rates - Fundamental	100	200
Currencies	150	300
Sector Rotation*	150	300
Investment Strategy Group*	50	100
Structured Securities	60	60
Global Rates - Quantitative	50	100
1-3 Year Carry	50	100
Total (Adjusted for Correlations)	350	700

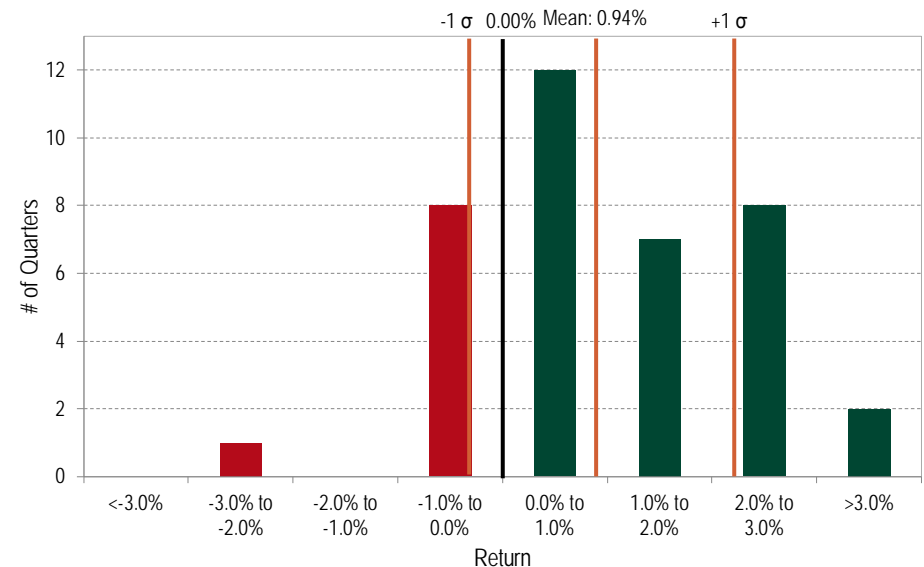
Source: FFTW, May 31, 2016. Data calculated on quarterly basis. These figures are indicative and not guaranteed, but illustrative of the approach and risk control philosophy. *Incorporates emerging markets

Performance

Quarterly returns (CAD), as of March 31, 2016



	One-Year	Three-Years	Since Inception	
			April 2014	October 2006
Return (Medium Vol)	-4.30	N/A	0.42	-
Volatility	3.44	N/A	3.47	-
Sharpe Ratio	-1.51	N/A	-0.18	-
Return (Low Vol)	-0.71	2.05	-	3.79
Volatility	1.92	1.85	-	2.60
Sharpe Ratio	-0.83	0.50	-	0.77



Source: for all graphs shown, FFTW, March 31, 2016. Past performance is not indicative of future results which may vary, past or current yields are not indicative of future returns. There can be no assurance that the investment objectives of any portfolio will be achieved. Please see Additional Disclosures for further information.

Our Expertise in Managing Absolute Return

Team & Experience

- Average 20 years of experience
- 6 distinct global alpha (strategy) teams providing diversification of idea generation
- Track-record dating back to 2006

Well-Defined Process

- Risk-targeted approach (customizable risk levels)
- Emphasis on diversification of ideas (by trade and alpha team)
- Quantitative and qualitative risk-budgeting approach

Performance

We are aiming to offer a solution that addresses:

- Diversification: from equity and other market betas. Functionally no correlation to the fixed income market
- Returns: 3.79% over 9 years with an IR of 0.77
- Risk control: only one negative return year and superior risk control

Biographies



Alex Johnson, Head of Absolute Return Fixed Income

Alex is the Head of Absolute Return Fixed Income for FFTW. He is responsible for the management, growth and development of global absolute return strategies, and he is the portfolio manager for multi-strategy absolute return portfolios. Prior to his current role, Alex served as Co-Head of Global Fixed Income for FFTW, having previously been Head of Portfolio Management. Prior to this, he was employed as a Senior Portfolio Manager at Fortis Investment Management, which was integrated into FFTW in 2010. Alex is based in New York.

Before joining the firm, Alex was on the Global Fixed Income team at BlackRock having spent the previous four years at FFTW in London and New York where he was the Market Specialist responsible for short duration interest rate strategies across the major currency blocs. Alex came to FFTW from Paribas Asset Management, where he worked as a Portfolio Manager for UK and European funds. Collectively, Alex has over 12 years within the BNP Paribas organization and over 20 years of global fixed income portfolio management experience.

Alex received an MA in Law from Balliol College, University of Oxford and an LLM in Law from the University of Virginia.