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Cidel Fixed Income Strategy

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Senior Vice President, Portfolio Manager,
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Q&A with Ron Patton

By James Porter, EVP, Canadian and Institutional Business

Earlier this month, I sat down with Ron Patton, Head of Cidel's Fixed Income Investment Team, to discuss our approach to managing bonds and preferred shares. Ron, a leader in the investment industry, has been managing assets and an investment team for decades and holds the Chartered Accountant (CA), Certified Public Accountant (CPA) and Chartered Financial Analyst (CFA) designations.

James Porter – **Ron, tell us about Cidel's approach to managing bonds.**

Ron Patton – We focus our efforts on where we believe the most value can be added for clients. This value is largely seen in the credit research approach and less from correctly forecasting rate changes. To us, while understanding possible directional changes in rates is critical, it is the least predictable part of the decisions we can make. Instead, we look at the universe of bond issues available and determine where there is relative value. For Canada, that might mean the relative yield differences between federal bonds, provincial bonds and corporate issues. It also may mean taking advantage of the market when a particular issue is not as liquid at a given time. Overall, our goal is to protect client capital – not to take a lot of risk in the search for yield and capital appreciation.

James Porter – **What role do you feel fixed income can play in a client portfolio?**

Ron Patton – Traditionally, bonds served to provide income, protect a balanced portfolio in downturns and provide some liquidity for clients, if needed. With low interest rates, it has simply become much more difficult to look at bonds as a provider of income. With 10-year government bond rates in Canada below 1.5%, there is little return to be had. When one takes inflation and taxes into account, bonds may offer next to no return. Interestingly, however, Canada is actually a higher yield country than many other developed nations. Germany and Switzerland, for example, currently have negative yields, so Canada and U.S. bond investors are still relatively well off in that respect. What this all means is that in building a balanced portfolio, we have to focus on the other roles bonds can play in providing capital protection and liquidity when needed. Preferred shares, on the other hand, can be a great way of generating income in portfolios. They experience more volatility than most other types of income investments, so Cidel strives to dampen volatility while providing a strong dividend yield.

James Porter – **Bonds have had a great return in the past number of months. How do you see things playing out in the months to come?**

Ron Patton – We do anticipate returns moderating. The decline in interest rates in recent months has caused considerable price increases. We encourage investors to work with their Wealth Consultant to make sure that their asset allocation is appropriate for their circumstances. Bonds, in particular, can really dampen volatility in equity market drawdowns. They can also provide a reliable source of liquidity for clients.

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