



The Choice is Yours | October 2017

“Choices are the hinges of destiny.”

Pythagoras

Amidst all the catchy click-here headlines, several contenders vie for the title of ‘the most important investment decision you’ll ever make.’ Setting aside the hyperbole of ‘the most important ever’ and filtering for common themes, we arrive at a set of choices that drive investment success.

Questions such as what career path to follow, how much to save, what asset mix to have, and who should steward your portfolio are at the top of most lists. But underlying and influencing all of these is a life choice that is often made without any thought of the financial outcome.

A choice that Warren Buffet considers the biggest decision you will ever make: your choice of spouse/partner or the lack thereof.

Now, this might seem terribly unromantic and hark back to days when marriages were arranged for political, economic, and social convenience. To be clear, our intention is not to advocate for such considerations to influence a choice of this magnitude, but instead, to shed some light on the direct and indirect affects one’s partner will have on significant financial decisions.

Take for example asset allocation. The question of what assets to own, in what proportions, and when to change the mix. There is a host of evidence pointing to this as the single largest determinant of a portfolio’s performance, having a more significant impact than the selection of individual securities. The right asset mix will be based on your needs, objectives, and risk tolerance, all of which are determined and defined as a couple.

Now there are those that say the most critical thing isn’t where or how you invest, but how much. As preached to young folk, saving early and often harnesses the power of compound returns. How much you tuck away depends heavily on your and your spouse’s spending habits. Whether you’re both spendthrifts or savers or a combination of the two will largely determine how much you’re able to put into your investment portfolio. And as all parents can attest, so will the number of kids you have.

One step further down the ladder is what drives the savings rate for most of us; household income. Beyond the combined salary and earning potential of the couple, there is also the support that they will provide each other towards achieving career goals. As Facebook COO Sheryl Sandberg wrote in her book *Lean In*, “the single most important career decision that a woman makes is whether she will have a life partner and who that partner is.”

If you do choose to have a life partner, the romantics in us hope that your investment portfolio is not top of mind in the selection process. But the pragmatists in us do feel, while it may be unexciting and unromantic, that couples should engage in open dialogue about setting and achieving financial goals. And an important part of this is understanding the influences, both positive and negative, that each person has.

Now, as prudent money managers, we invariably seek to manage and mitigate downside risks. With that in mind, we would like to conclude by saying to our spouses/partners, that being with them is by far the best decision we’ve ever made.

The Fund

October brought the credit markets more treats than tricks. A healthy earnings season combined with a very manageable \$8B in domestic new issuance and continued demand for corporate bonds, saw credit spreads tighten throughout the month. The lack of alarming geopolitical headlines also contributed to the positive tone. In the end, corporate spread indices were lower by 5bps in Canada and 6bps in the US.

Amongst the new deals, Disney brought a C\$1.25B 7-year issue, as the 'Maple' market continues to offer Canadians unique and diversified exposure through foreign issuers. In general, there is substantial demand for new corporate bonds with order books significantly oversubscribed.

While the Fund was positioned more conservatively, we were able to capture some of the performance in credit, especially through actively managed exposures to higher-beta names. Narrowing spreads combined with carry resulted in a gain of 0.83% on the month.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	1.73%	1.30%	0.44%	1.03%	(0.22%)	0.53%	0.94%	(0.09%)	0.70%	0.83%	-	-	7.42%
2016	0.19%	1.49%	5.32%	3.51%	0.60%	0.54%	1.73%	1.63%	1.01%	1.86%	1.60%	1.62%	23.15%
2015	-	2.29%	2.51%	1.27%	2.46%	0.25%	0.73%	(0.25%)	1.68%	1.71%	1.37%	0.87%	15.86%

The Algonquin Debt Strategies Fund LP was launched on February 2, 2015. Monthly returns are based on 'Series 1 X Founder's Class' NAV as calculated by SGGG Fund Services Inc. and are shown in Canadian dollars, net of all fees and expenses.

Credit

It appears that the robust demand for corporate debt will persist a little longer, with cash available to digest what appears to be a reasonable issuance calendar ahead. Opportunistic borrowers such as the banks and provinces will likely take advantage of the current environment. While there are geopolitical concerns rumbling in the background with the chance of sudden escalation, economic conditions are supportive for corporations.

On the other hand, from time to time, signs of “froth” in the market surface. As a result, we continue to maintain modest positions, batting for singles and protecting the plate.

Rates

The Bank of Canada not only opted to hold rates steady but also signaled their intention to move cautiously. Their tone suggests that policy-makers prefer to allow time to pass before assessing how the recent hikes affect the economy. This prudent approach to reducing stimulus, soothed bond traders, prompting a 10bps to 15bps decline in yields.

The noise surrounding the selection of a new Chair to the Board of Governors of the Federal Reserve can often roil fixed income markets. While there were a few jitters, the appointment of Jerome Powell promises subdued volatility as he favours a continuation of the snail-like pace of monetary tightening.

Given the ‘steady as it goes’ approach by central banks, bond investors will face few difficult choices in the coming weeks.



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