Talking investments with Thomas Goggins – Manulife Strategic Income Fund

The portfolio's unique in a Canadian mutual fund space because it's an unconstrained benchmark agnostic portfolio which means we can buy any fixed income instrument on a global basis and within a corporate balance sheet any, uh, fixed income sheet that a corporation can issue.

The only restraint we have is that the overall portfolio has to be investment grade. Uh, we have a five step investment process for the fund. Uh, the first step is a macro analysis of what's taking place in the global fixed income markets, taking a look at trends and monetary and fiscal policy for example, geopolitical trends.

Second, probably most important is sector allocation. Determining which sectors within the global fixed income markets to overweight and underweight.

Third, would be security selection; picking the right bonds to, uh, to put in the portfolio. Fourth would be analyzing where we should be in terms of duration managing that interest rate risk and, and along with, uh, managing the currency risk and positioning the portfolio to, uh, be enhanced through currency management. And last would be risk management and we take a holistic approach to the management of, of the risk of the portfolio.

We generate ideas many different ways, both internally and external sources. First on internal, uh, methodology, we do two daily meetings with our traders and our credit analysts.

So we often gets, I get ideas through the analyst's credit work in the new issues that they're working on. We access our global network of offices primarily in Asia through three weekly conference calls that we do.

One on Tuesday and two on Thursday. So again, that allows us to stay on top of what's taking place in the global fixed income markets and of course there's external sources from Wall Street that we can access also.

We have four significant risks that we have to manage within the fund; there's interest rate risk, credit risk, foreign exchange risk and liquidity risk.

Interest rate risk is actually fairly straightforward although a lot of bond funds struggle with that. We can manage the, uh, interest rate risk pretty effectively.

For instance in two thousand thirteen when interest rates went up we were actually produced a positive total return that year. Two thousand fourteen interest rates went down and we again produced a positive total return because of the way we position the portfolio.

Credit risk is pretty straightforward; we're always playing defense because as a bond investor the best thing that can happen to you is you get your principle and coupon back. So we're always looking at what can go wrong.

Currency, we're really fortunate through the expertise of Dan Janis and [Keaston] Park, who both have thirty years of experience managing currencies to really add alpha to the portfolio through currency management and liquidity risk really has to go to the, uh, point that we use a hundred percent cash bonds.

Every instrument in the portfolio produces a coupon for the portfolio so we don't use credit default swaps or interest rate swaps or ETS or any other esoteric derivatives.