SSQ AlphaFixe Bond and Bank Loan GIF

Investment

Who is the manager?

Founded in 2008, **AlphaFixe Capital Inc.** is a dynamic Montreal-based investment management firm specializing in fixed income investments. As a signatory of the United Nations Principles for Responsible Investment, this firm is committed to integrating environmental, social and governance factors into its analytical and decision-making investment process. AlphaFixe Capital Inc. is also the largest corporate bank loan manager in Canada.

Management process

In addition to considering the macroeconomic environment, bond selection is based on fundamental analysis with an emphasis on the preservation of capital. This is backed by rigorous risk management, which is bound by AlphaFixe's risk budget. Through the strategic diversification of assets, the fund gives a fresh perspective on the world of fixed income management.

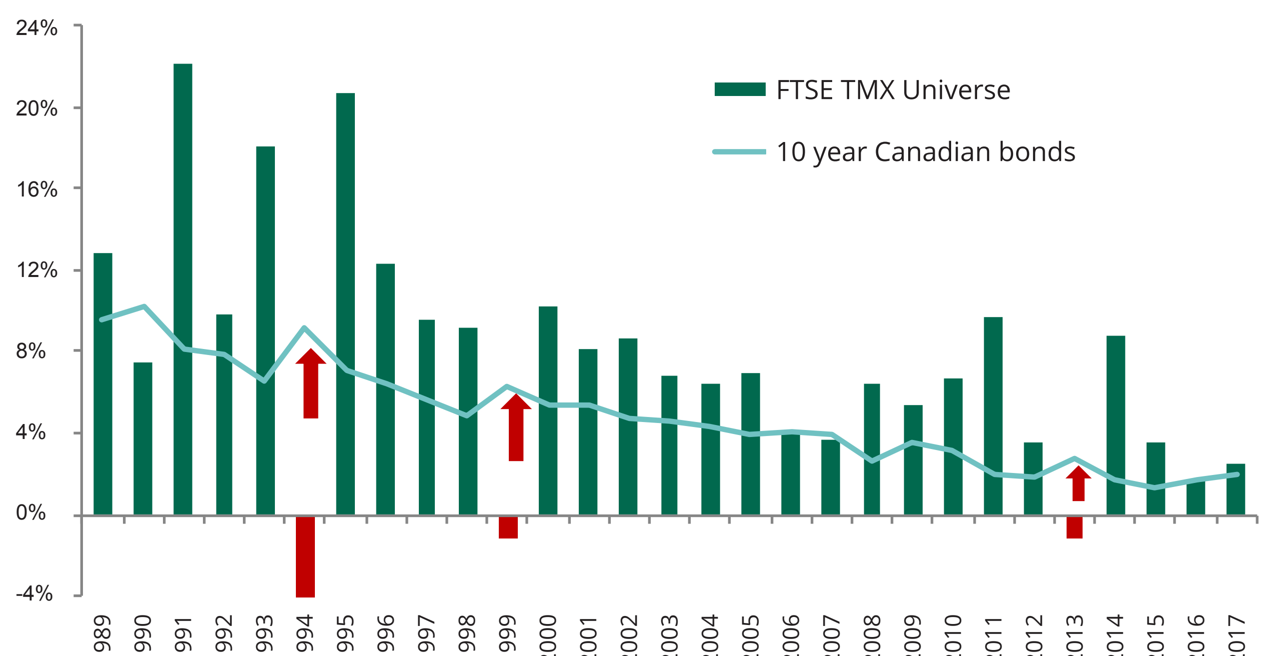
Management team

Lead manager Sébastien Rhéaume has over 25 years' experience in investment management. One of the specifics of this fund is that it can allocate a portion of its net assets to bank loans. The management of the bank loan fund is led by senior director Diane Favreau who has nearly 30 years' experience in the credit market. To help them manage this strategy is a team of over 15 investment professionals.

A fund that adapts to all interest rate environments

From the early 1980s until recently, bonds have been blessed with low interest rates. This period was very beneficial for bonds because it enabled them to generate an annualized return of 8.70%. However, with the prospect of an interest rate hike looming over this low interest rate environment, a wind of change would cause the overall returns of fixed income investments to drop over the next few years.

FTSE TMX Universe return versus 10 year Canadian bonds



Characteristics and advantages of bank loans

The fund is designed to generate positive total returns, regardless of the interest rate environment, by combining asset classes with high rates of return and low sensitivity to interest rate fluctuations. It stands out due to its exposure to bank loans. These are debt securities with a priority ranking over other securities and with diverse guarantees on the company's assets, favouring a high recovery rate. In the event of default, the company's assets may be sold off and proceeds are distributed to holders of bank loans first.

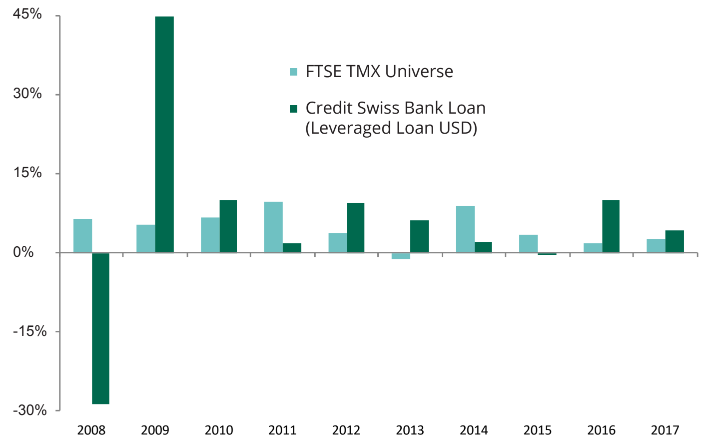
The bank loan pays out a coupon comprising a variable reference rate and an additional fixed spread. For example, if the variable reference rate is 2% and the fixed spread is 2.75%, the coupon rate would be 4.75% for the period. The coupon rate varies based on the reference rate, which is reset every 3 months, on average. This attribute makes it an instrument that offers protection against inflation and that reaps the benefits of interest rate hikes; unlike bonds, whose returns are negatively impacted by a hike.

Bank loan risks

Investing in bank loans has a certain level of risk. The indebtedness of bank loan issuers means that most of the time, they borrow from a credit rating below BBB. Rating agencies estimate that their risk of defaulting is higher than Canadian Universe Bonds. However, all loans in the portfolio must have a minimum credit rating of B- at the time of purchase.

Investing in bank loans is mainly done in American dollars, which tacks on the risk of a poor exchange rate. To mitigate this risk, the fund employs foreign currency hedging.

Since bank loans are credit instruments, their value varies according to the market's perception of the risk. If the risk is perceived as growing, their value drops. This was observed in 2008 during the global financial crisis when the bank loan index had a negative performance (-29%). Performance rebounded the following year thanks to investor confidence with a positive performance of +45%.



The underlying strategy of the AlphaFixe bond and bank loan is to allocate up to 40% of net assets to bank loans. Since the distribution of assets is managed strategically, if the risk-return relationship is no longer positive, exposure to bank loans can be significantly reduced. AlphaFixe's bank loan strategy is also characterized by its bias for loans with a credit rating of BB, which offer good liquidity, and companies working in non-cyclical industries. The goal of this strategy is to limit performance volatility without sacrificing return.

The advantages of the SSQ AlphaFixe Bond and Bank Loan GIF

Active management

The manager can count on a flexible investment policy that lets him strategically manage asset allocation and the portfolio so as to capitalize on market opportunities.

Low sensitivity to interest rate fluctuations

The fund has a relatively short duration and some of its assets are in variable income securities, which reduces sensitivity to interest rate hikes by nearly 60%. This attribute is very attractive when the prospect of rising interest rates is looming.

High current yield

The securities in this fund offer a high current yield, which reduces performance volatility, and offers additional capital protection compared to Universe Bonds.

Advantageous credit ranking

In the event that a bank loan issuer defaults, the capital recovery rate has historically been higher because they are backed by the company's assets and have priority over other debts.

Low exchange rate risk

The fund hedges foreign currency to reduce portfolio volatility.