When Yields Are Low But Income Needs Are High

These are taxing times for retirees and those in the planning stages of retirement. With interest rates near all-time lows, it has become more difficult to find ways to create enough cash flow to meet one's retirement needs.

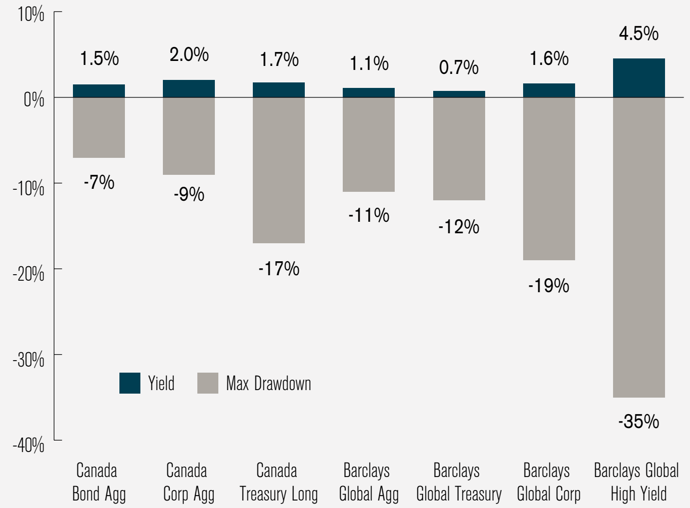
This environment has led some investors to search for new sources of income, some of which have the potential for large and unexpected losses. However, there are opportunities to enhance yield, without taking on significantly more risk.

Stretching for Income Increases Potential Loss

Yield scarcity has forced some investors into products or asset classes that are riskier than they realized. Asset-backed securities, leveraged loans, emerging market bonds, and high-yield corporate bonds are a few examples of fixed-income securities that often carry higher than average yields but can, at times, experience significant drawdowns. Yet, the demand for these products has increased as bond yields around the world have evaporated.

Drawdown risk is an important consideration for investors. It is a measure which reflects how long it might take for an investor to make back a loss in a particular investment. Historically speaking, drawdown risk is something that equity investors have been more concerned about, but, with investors taking on more risk in order to enhance yield, it has become a tool more frequently used for fixed-income investing. With yields so low, even for higher risk fixed-income assets, a large drawdown could keep the position under water for a relatively long period of time. It is important to consider the trade-offs between higher-yielding fixed income and its potential for capital loss.

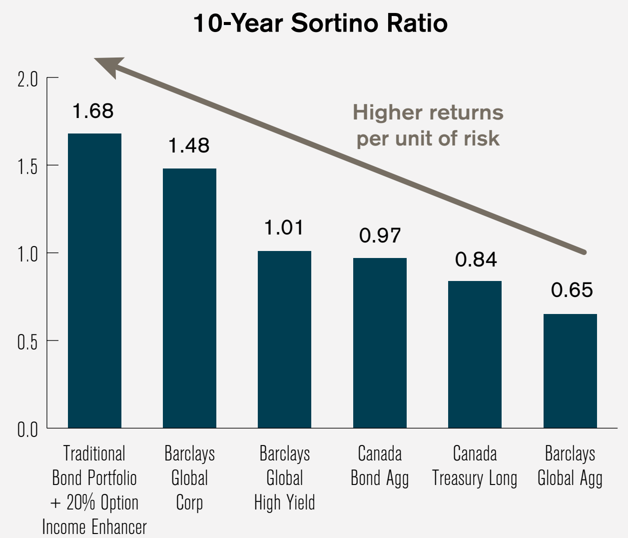
Current Yields and Max Drawdowns (Past 15 years)



Source: 1832 Asset Management, Morningstar March 2021

Our Solution: Enhance Yield Via Options Income

In order to strike the right balance between yield and risk, investors need to think about including assets that offer attractive yields without worsening the fixed-income portfolio's downside risk profile. This balance can be achieved by allocating a portion of the portfolio to a higher-yielding asset which behaves differently than the rest of the fixed-income portfolio. Options income can offer one such solution. By allocating a small portion of the traditional bond portfolio to this income variant, the potential is there to not only enhance yield but also to dampen the downside risk of the overall portfolio. It means that investors have the potential to receive attractive cash flow to meet their retirement needs without assuming unwanted risk. Adding different sources of income, such as options income, into a traditional bond portfolio can lead to higher returns per unit of risk, as measured by the Sortino Ratio. The Sortino Ratio helps an investor determine an investment's return relative to bad risk.



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A Different Approach to Bond Investing to Meet Income Demands

Dynamic Premium Bond Private Pool Class offers a one-ticket, high-quality, fixed-income solution with a 20% allocation to an options-writing strategy. The overall pool combines three fixed-income mandates with distinct investment styles and a comprehensive range of risk mitigation strategies, with the performance characteristics augmented via options income. The options component adds a unique element of diversification. The Pool also provides the benefits of tax-efficiency within a corporate class structure.

Portfolio Managers

Romas Budd, MBA, BSc. Hons
Vice President & Senior Portfolio Manager

Derek Amery, BA (Hons.), MA, CFA
Vice President & Senior Portfolio Manager

Domenic Bellissimo, MBA, CFA
Vice President & Portfolio Manager

Bill Lytwynchuk, MBA, CFA
Portfolio Manager

Damian Hoang, BASc., MBA
Vice President, Portfolio Manager & Senior Derivatives Strategist

For more information, please contact your Financial Advisor.

dynamic.ca/PrivatePools

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