December 2023

Purpose
INVESTMENTS

Trade Rationale

Purpose Active Portfolios

FUND CODE/TICKER

Fund		
PURPOSE ACTIVE BALANCED	ETF TICKER	PABF
	MGMT FEES	0.20%
	SERIES F	PFC22101
	MGMT FEES	0.20%
	SERIES A	PFC22100
	MGMT FEES	1.20%
PURPOSE ACTIVE GROWTH	ETF TICKER	PAGF
	MGMT FEES	0.20%
	SERIES F	PFC22201
	MGMT FEES	0.20%
	SERIES A	PFC22200
	MGMT FEES	1.20%
PURPOSE ACTIVE CONSERVATIVE	ETF TICKER	PACF
	MGMT FEES	0.20%
	SERIES F	PFC22001
	MGMT FEES	0.20%
	SERIES A	PFC22000
	MGMT FEES	1.20%

Portfolio Management Team

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TRADE

Purpose Active Balanced Fund

Sold	5.7% SPDR® Portfolio TIPS ETF (SPIP)
Bought	5.7% iShares Core U.S. Aggregate Bond ETF (AGG)

Purpose Active Conservative Fund

Sold	6.8% SPDR® Portfolio TIPS ETF (SPIP)
Bought	6.8% iShares Core U.S. Aggregate Bond ETF (AGG)

SOURCE: PURPOSE INVESTMENTS & BLOOMBERG

Inception date: October 24, 2023

Did you know the first inflation-indexed bonds were issued in 1780? While TIPS were first auctioned in 1997, the concept of inflation-protected bonds dates back hundreds of years as the loss of purchasing power has been a concern for centuries. Interestingly, the original basket of consumer goods was made up of corn, beef, sheep's wool, and leather.

Treasury inflation-protected securities play a very specific role in a portfolio. They help protect against inflation since the principal value of TIPS adjusts with the changes in CPI. Unlike regular bonds, TIPS aim to maintain purchasing power by adjusting to changes in inflation. They also improve diversification, since the performance of TIPS may not always align with other fixed income assets, providing a potential counterbalance.

While they have their benefits, it's best to avoid them during periods of low-stable inflation, disinflation, or deflation since the benefit can become a hindrance. We've been long TIPS within our multi-asset portfolios since before the pandemic. This was before inflation became a concern for all Canadians. Initially entering the position when real yields were hovering around zero, the original thesis was that TIPs were cheap relative to nominal bonds given where inflation expectations were. Valuations made them an attractive source of income and diversification within a portfolio. We didn't foresee skyrocketing inflation; however, even moderately higher inflation expectations would have made it a good trade relative to nominal bonds.

The chart below over the past sixteen years plots the relative total returns of TIPS to mid-duration(7 to 10) year Treasury bonds. TIPS largely underperformed for most of the time culminating in a brief period of underperformance during the COVID crash. The post-COVID TIPS vs Treasuries trade worked out very well up until early 2022 when the ratio peaked. The ratio remained relatively flat for some time but has now recently nearly risen back near previous highs. Looking back, TIPS have done their job, however, the issue is that inflation expectations are now more or less normalized. Current inflation expectations are just slightly ahead of the longer-term average.

Inflation has moderated, settling in around 3%, still a ways off central targets but what matters more is the expectations. Breakevens are back to around the upper end of longer-term averages. If we're still in a higher inflation regime, it still favors owning inflation-linked bonds. But with real rates at 2.12%, just below 10-year breakevens, valuations are fair. We no longer believe current conditions warrant a dedicated inflation hedge within a portfolio, which is why we've sold our position in SPDR Portfolio TIPS ETF (SPIP) and used the proceeds to purchase iShares Core U.S. Aggregate Bond ETF (AGG).

The iShares Core U.S. Aggregate Bond ETF (AGG) provides exposure to the broad U.S. investment-grade bond market. It includes government, corporate, and mortgage-backed securities. It's extremely cheap with a 3-bps management fee and extremely liquid with an AUM of nearly $100 billion. We wanted to maintain our U.S. fixed income exposure and going broad market vs strictly government bonds also provides a slight yield boost, without adding meaningful credit risk. With a duration of 6.1 years, the fund has a slightly lower duration compared to SPIP, however, the overall portfolio duration remains little changed.

One lesson we have all learned over the past few years is that inflation is difficult to predict. Recessions however are reliably disinflationary. Recessions even a mild one would likely differ substantially from a soft-landing path. As a recession remains our base case looking ahead, this calls into question the role of inflation protection within a portfolio.

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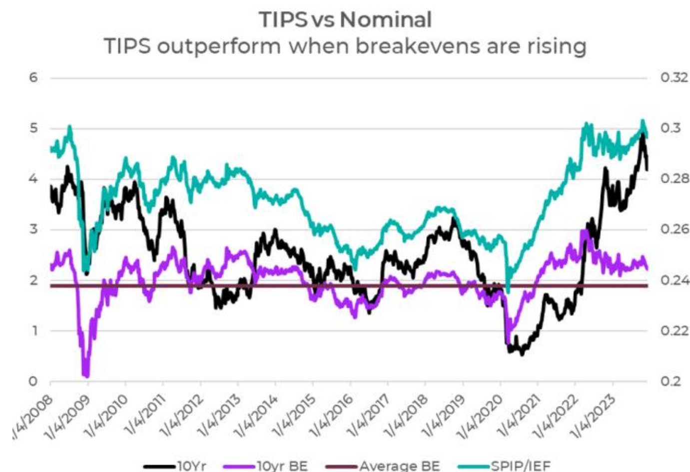

SOURCE: PURPOSE INVESTMENTS & BLOOMBERG

DISCLAIMER

All data sourced from Bloomberg unless otherwise noted.

Commissions, trailing commissions, management fees and expenses all may be associated with investment fund investments. The prospectus contains important detailed information about the investment fund. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share/unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. As with any investment, there are risks to investing in investment funds. There is no assurance that any fund will achieve its investment objective, and its net asset value, yield, and investment return will fluctuate from time to time with market conditions. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. The opinions expressed are provided by the portfolio manager responsible for the management of the Fund's investment portfolio, as specified in the Fund's prospectus. Unless otherwise stated, the source for data cited in any commentary is the portfolio manager. Nothing in any commentary should be considered a recommendation to buy or sell a particular security. The Fund may sell these securities at any time, or purchase securities that have previously been sold. The securities may increase or decrease in value after the date hereof, and the Fund may accordingly gain or lose money on the investment in the securities. The statements by the portfolio managers in their commentaries are intended to illustrate their approach in managing the funds, and do not necessarily reflect the views of Purpose Investments Inc. All data sourced from Bloomberg and Purpose Investments, unless otherwise noted.