

## Decision announced for outstanding NVCC Debt

FTSE Russell recently conducted an extensive market consultation to determine what should be done with respect to NVCC debt, a significant and growing portion of the Canadian fixed-income landscape. On June 5, 2017, FTSE Russell announced that newly issued (settled on or after July 1, 2017) NVCC bonds will become eligible for inclusion for the FTSE TMX Canada Universe Bond Index effective July 1, 2017. At the time of the announcement, NVCC bonds issued prior to July 1, 2017 were not be immediately added to the index.

FTSE Russell has now concluded its market consultation on the treatment of the remainder of the outstanding NVCC debt (issued prior to July 1, 2017) and announced that **all investment grade NVCC bonds will be included in the Universe Bond Index**, provided other inclusion criteria are met. Moreover, FTSE Russell intends to add securities issued prior to July 1, 2017 to the index with approximately 6 months lead time - currently targeted for February 7, 2018.

### Our thoughts

For active fixed income strategies, the merits to own a bond are determined based on credit research and value – we will continue to be selective in this process which extends to NVCC debt, and soon, Bail-in issues. For passive fixed income strategies, we view the decision as having minimal impact in the near-term. We will develop a plan to implement the securities into the eligible passive strategies to ensure we continue to meet fund objectives of delivering index-like returns.

### Impact of inclusion

The table on the following page shows how the FTSE TMX Canada Universe Index would change if the total amount of NVCC bonds currently outstanding in the market was included in the market as of June 30, 2017, both overall and corporate. Given the current size of the market (\$16 billion), the inclusion would have minimal impact on key characteristics when combined with the \$1.5 trillion Canadian fixed income market.

We stress that this is only a hypothetical scenario given the market values as at June 30, 2017. The more important consideration is how the market evolves once full conversion to the new NVCC bonds has occurred.



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June 30, 2017	FTSE TMX Canada Universe Bond Index with NVCC	FTSE TMX Canada Universe Bond Index	Difference
Market Value	\$1,570.8	\$1,554.9	\$15.9
Yield to Maturity	2.18	2.17	0.00
Duration (Modified)	7.52	7.56	-0.04
Coupon	3.41	3.41	0.00
Combined Rating	AA-	AA-	
Term To Maturity	10.37	10.44	-0.07
<b>Term</b>			
1-5 Yr	45.77%	45.31%	0.46%
5-10 Yr	22.82%	22.96%	-0.14%
10-20 Yr	11.44%	11.56%	-0.12%
20+ Yr	19.97%	20.17%	-0.20%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>
<b>Ratings</b>			
AAA	40.30%	40.71%	-0.41%
AA	33.79%	34.14%	-0.35%
A	14.84%	14.50%	0.34%
BBB	11.07%	10.65%	0.42%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

  

June 30, 2017	FTSE TMX Canada All Corporate Bond Index with NVCC	FTSE TMX Canada All Corporate Bond Index	Difference
Market Value (Billions)	\$439.6	\$423.7	\$15.9
Yield to Maturity	2.67	2.68	-0.01
Duration (Modified)	6.26	6.37	-0.10
Coupon	3.84	3.86	-0.02
Combined Rating	A-	A-	
Term To Maturity	9.08	9.28	-0.20
<b>Term</b>			
1-5 Yr	54.45%	53.08%	1.37%
5-10 Yr	19.43%	19.82%	-0.39%
10-20 Yr	8.99%	9.33%	-0.34%
20+ Yr	17.13%	17.77%	-0.64%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>
<b>Ratings</b>			
AAA	3.37%	3.50%	-0.13%
AA	13.67%	14.18%	-0.51%
A	43.39%	43.23%	0.16%
BBB	39.57%	39.09%	0.48%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

Source: TDAM, FTSE TMX. For illustrative purposes only

For more information on NVCC debt and the impact of these changes, please contact your TDAM Relationship Manager.



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