

RIDGEWOOD CANADIAN INVESTMENT GRADE BOND FUND

Price: \$16.45¹

TSX: RIB.UN

Yield: 3.9%¹

Bond Market Outlook

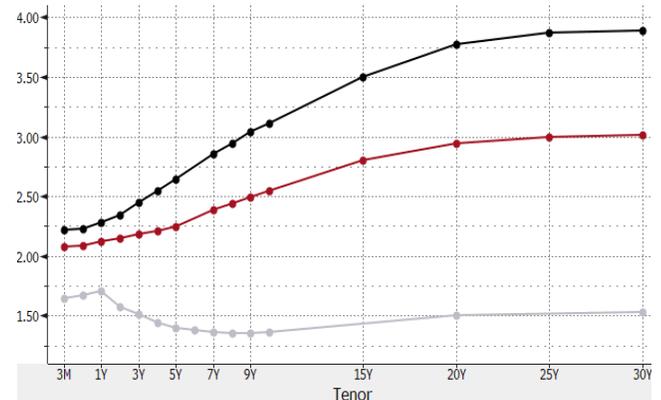
- The usual flurry of new issues post summer arrived with a bang and kept going. It was the busiest September on record with \$16.4B of primary issuance for the month. YTD issuance remains behind 2018 however we are expecting that gap to continue narrowing as the fourth quarter last year was not particularly issuance friendly.
- Global central banks remain in full-on easing mode. As expected, the US Fed cut rates 25bps to 1.75%-2% as a second insurance cut. The ECB cut 0.1% to -0.5% and added a QE program (previous QE was phased out in December). The ECB will buy EUR20 billion a month of eurozone debt starting November and will continue to run “as long as necessary”.
- The OECD lowered their growth forecasts for most major economies as protectionist measures take their toll on confidence and investment. Expecting the weakest annual growth rates since the financial crisis, the OECD projects that the global economy will grow by 2.9% in 2019 and 3% in 2020. Although the consumer has been holding up the economy, persistent weakness would weigh on the labour market, household income and spending. The consumer & manufacturing are things to watch.

OECD Economic Outlook Projections September 2019

| | 2018 | 2019 | 2020 |
|-----------------------|------|------|------|
| World | 3.6 | 2.9 | 3.0 |
| Australia | 2.7 | 1.7 | 2.0 |
| Canada | 1.9 | 1.5 | 1.6 |
| Euro Area | 1.9 | 1.1 | 1.0 |
| Germany | 1.5 | 0.5 | 0.6 |
| France | 1.7 | 1.3 | 1.2 |
| Italy | 0.7 | 0.0 | 0.4 |
| Japan | 0.8 | 1.0 | 0.6 |
| Korea | 2.7 | 2.1 | 2.3 |
| United Kingdom | 1.4 | 1.0 | 0.9 |
| United States | 2.9 | 2.4 | 2.0 |

Source: Organization for Economic Cooperation and Development

Canadian Yield Curves¹



Source: Bloomberg

- Canada Corporate BBB+, BBB, BBB-
- Canada Corporate A+, A, A-
- Canada Sovereign Curve

- The U.S. repo market experienced a huge jump in rates midmonth. Unlike 2008 when the root cause was related to the credit crisis, the turmoil is more temporary. There was a corporate tax deadline, treasury auctions resulting in large amount of U.S. debt settling and the capital rules put in place post crisis all at once. This constrained liquidity to create a perfect storm. Amid a shortage of cash available to lend, the imbalance of supply and demand forced the Fed to inject liquidity into the market to stabilize rates. The commitment to continue daily support until Oct 10th calmed the market.
- Given ultra low rates and negative yielding debt, Japan’s Government Pension Investment Fund adjusted its framework to expand its investment of foreign bonds. Demand for yield, both domestic and foreign, is supportive of credit spreads in North America.
- After a solid drop in yields the previous month, rates rose in September. The markets ability to digest the large supply demonstrates the resiliency of the secondary market. Equity risk, as well as political noise (impeachment, trade war and the never ending Brexit saga to name a few) will continue to support flows into fixed income.

¹ as at September 30, 2019

Portfolio Update

- Corporate BBB bonds returned -0.5% vs. -0.9% for Canada bonds in September
- Added to long corporates position
- Portfolio fully invested
- Unitholder approval received for indefinite extension of term of Fund.

NAV Performance (net of fees) ¹

| | RIB.UN | FTSE Universe | Value Added |
|--------------|--------|---------------|-------------|
| One Month | -0.7% | -0.8% | 0.1% |
| Year to Date | 14.0% | 7.8% | 6.2% |

RIB.UN Re-openings

- June 2019 deal for \$5.6mm at \$15.50
- February 2019 deal for \$7.3mm at \$14.75

Fund Facts

- A unique opportunity for retail investors to access the **investment grade bond** market
- Focus on **Canadian issuers**, with up to 25% in non-Canadian investment grade bonds
- **Actively managed** with prudent use of leverage, up to 35% of the total assets of the fund may be borrowed
- **Attractive monthly distribution** yielding 3.9%¹
- **Experienced portfolio manager** with over 20 years of fixed income experience, Mark J. Carpani, CFA has been responsible for managing the fund since its inception in 2009

Ridgewood Capital Asset Management

- Ridgewood was founded in 2008 and manages \$1.2 billion for high net worth individuals and institutional clients
- A top quartile fixed income manager specializing in corporate bonds; fixed income assets represent 80% of total AUM
- The inception date of the Ridgewood Canadian Investment Grade Bond Fund (RIB.UN) was December 18, 2009

For further information visit www.ridgewoodcapital.ca or contact John H. Simpson (416) 479-2751