GUARDIAN CAPITAL™ | GuardBonds™

GuardBonds™ rollover process explainer

Having an open-ended investment fund with a pre-defined termination date is something that many investors are probably not used to.

This maturity feature associated with the GuardBonds™ Funds is a crucial aspect of the appeal of these bond strategies as it allows investors to hold bonds to maturity and receive their par value at maturity within a convenient mutual fund product. This feature effectively allows investors to reduce the risk of owning a bond fund, since if there is substantial decline in bond valuations during the term of ownership, investors have the option to hold to maturity, which effectively allows them to preserve their invested capital.

Guardian Capital LP has built the following process to ensure an efficient termination of the GuardBonds™ Fund, as well as the associated exposure in the GuardBonds™ 1-3 Year Laddered Investment Grade Bond Fund.

How the termination works:

The first GuardBonds™ Fund to terminate will be the GuardBonds™ 2024 Investment Grade Bond Fund (GBFA) which terminates on November 29, 2024. Each GuardBonds™ Fund has a termination date set for on or about November 30 in its associated maturity year.

The majority of the GuardBonds™ 2024 Fund's underlying bond holdings have a maturity date between September 30, 2024, and November 29, 2024. During these two months, as these bonds mature, the capital proceeds will be reinvested into cash and/or cash alternatives, such as short-term Treasury-Bills (T-Bills) or investment funds holdings T-Bills. Throughout the final months of the GuardBonds™ Fund, it effectively becomes a cash-alternative or money-market strategy.

The GuardBonds™ Fund is expected to execute all of its final liquidation trades into cash on or before November 27, 2024, so that it is entirely cash upon the November 29, 2024, termination date. For clarity, there are no bond holdings in the GuardBonds™ 2024 Fund that have a maturity date past November 19, 2024.

Should an investor hold the Fund to maturity?

In our view, the difference in return between holding the GuardBonds™ 2024 Fund to maturity and selling before its maturity should be relatively negligible but is subject to many factors, including subscriptions and redemptions, and market risks if an investor sells their units prior to the Fund maturity date. The main difference we would anticipate in the valuation of the Fund would be a small accrual of income from the cash holdings in the final quarter prior to termination. Most of the capital appreciation from the maturity of the underlying bonds will already be reflected in the net asset value of the Fund as a result of the "pull-to-par" effect of holding the bonds to their maturity date. Pull-to-par refers to the phenomenon of bonds trading at their maturity value as they near maturity, which reflects the marked-to-market price, and the maturity price are effectively interchangeable from a risk/reward perspective.

If an investor chooses to hold GuardBonds™ 2024 Fund to maturity, they would effectively have their investment in the Fund liquidated and redeemed on their behalf. The proceeds from the termination of the Fund would then be deposited into the investor's associated brokerage account, expected during the first week of December. Investors would be responsible for paying any associated income or capital gains tax earned in the 2024 calendar year if the GuardBonds™ 2024 Fund is held in a non-registered account.

In this final period leading up to the termination date, if an investor chooses to redeem their investment in the GuardBonds™ 2024 Fund in advance of its termination date, they could potentially be selling the Fund at a higher value than their adjusted cost-base and would receive the associated capital appreciation with this Fund, which would be more or less the same as they would if they held to maturity. In this case, they would still be required to pay any capital gains tax for that calendar year if the Fund is held in a non-registered account.

So, to summarize, as the termination date nears, it is very much a personal preference if the unitholder sells the GuardBonds™ 2024 Fund before it terminates, as the outcome would be expected to be very similar.

How does GuardBonds™ termination impact the GuardBonds Laddered Fund?

Currently, approximately one-third of the GuardBonds™ 1-3 Year Laddered Investment Grade Bond Fund is invested in GuardBonds™ 2024 Fund. When this GuardBonds™ Fund terminates, the GuardBonds™ Laddered Fund will need to “roll” this exposure to the next longer-dated GuardBonds™ 2027 Investment Grade Bond Fund (GBFD).

The Fund manager anticipates that GuardBonds™ Laddered Fund will be fully invested in GuardBonds™ 2027 Investment Grade Bond Fund by approximately December 5, 2024.

Timeline of Termination and Communication of Notices:

Date	Event
03 Sep to 30 Nov	• Investment Grade Bonds in GBFA mature • Upon each underlying bond maturing, the cash proceeds are invested into money market securities • Target is to liquidate portfolio entirely to cash by the delisting date • GBLF will hold its ETF Units of GBFA until the termination date
27 Nov	GBFA PMs enter final liquidation trades for T+1 settlement
28 Nov	GBFA portfolio is entirely in cash
28 Nov	TSX de-listing date for ETF units (at the close of the Exchange; 4:01 pm)
28 Nov	Final net asset value of GBFA is known
29 Nov	Payment date for November monthly distribution
29 Nov	Termination date (12:01 a.m.)
03 Dec	Termination proceeds paid to unitholders, including GBLF
05 Dec	GBLF buy of GBFD settles

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Where to allocate?

With the fund maturing and winding up, investors in the GuardBonds™ 2024 Investment Grade Bond Fund are expected to receive the cash proceeds within their accounts on or about December 3, 2024.

With bond yields declining, as central banks look set for further rate cuts, investors may wish to consider getting ahead of these cuts and position their fixed income exposure further out the yield curve. We offer options to utilize other GuardBonds™ Funds that mature in 2025, 2026 or 2027, respectively, allowing investors to essentially lock in today's bond yields over the defined time horizon of your choice.

Investors can always get up-to-date information on the yields and maturities of the GuardBonds™ Funds here: GuardBonds™ Weekly Portfolio Disclosure.

This weekly characteristics data showcases the attractive yields and discount to par value (which provides tax-efficient capital gains) across each of our GuardBonds™ solutions. If you prefer not to manage this rollover process in any given year, our GuardBonds™ 1-3 Year Laddered Investment Grade Bond Fund might be the right solution for you, as it does not mature, but perpetually and automatically keeps you invested in underlying bonds maturing in 1-, 2- and 3-years in roughly equal proportion.

FOR MORE INFORMATION, CONTACT YOUR ADVISOR OR VISIT OUR WEBSITE:
guardiancapital.com/investmentsolutions

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the Toronto Stock Exchange.

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