glc asset management

A focus on generating income in an all-Canadian conservative balanced portfolio

What's the strategy?

The Income Balanced portfolio strategy is a pure Canadian investment approach of high-quality securities, both fixed income and equity. The fixed income component enhances yield through exposure to investment-grade corporate credit, while the equity component provides the opportunity for capital appreciation as well as the benefits of compounding dividend income over time.

What's the approach?

The GLC Asset Mix Committee leverages the broad skill set of a multi-disciplinary team to make tactical and strategic moves within asset classes and regional exposures of the portfolio. The portfolio managers identify current risks and opportunities within each asset class, as well as macro trends in economic and market cycles to guide the longer term asset mix positioning.

The overall asset mix is actively managed as are the underlying securities. The long-term target exposure is 30% dividend-paying equities and 70% bonds and short-term investments, with maximum equity exposure of 40%.

Why invest in this portfolio strategy?

This income strategy offers a pure Canadian investment approach of high-quality securities, both fixed income and equity. The fixed income component enhances yield through exposure to investment-grade corporate credit while the equity component provides the opportunity for capital appreciation as well as the benefits of compounding dividend income over time.

Typical portfolio characteristics

The income-oriented composition and active security selection for each of the portfolio's asset class components means this Income Balanced portfolio can offer:

- The potential to add value through various market conditions and reduce volatility during times of market turbulence
- A track record of historically lower volatility versus the benchmark and a tendency to outperform in down equity markets
- Investment-grade fixed income holdings and high-quality dividend-paying equity holdings
- Pure Canadian equity exposure

It is a low risk Canadian balanced strategy that is focused on income generation. This portfolio is designed to provide long-term investors with capital appreciation, dividend and interest income opportunities.

Strategy snapshot

Asset class
Balanced

Inception date
1994

Assets in mandate
$1,253.2 million

Benchmark
70% FTSE Canada Universe Bond Index

30% S&P/TSX Composite Index

Investment team
GLC Asset Mix Committee

About GLC

GLC Asset Management Group Ltd. (GLC) is a leading investment management firm that manages more than $50 billion in assets.

GLC has 5 investment management divisions:

- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management
- Portfolio Solutions Group

Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

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Income Balanced

GLC Asset Mix Committee

Q3 2018

As at September 30, 2018

Portfolio Attributes

	Yield
Portfolio[1]	3.1%
Benchmark[2]	3.0%

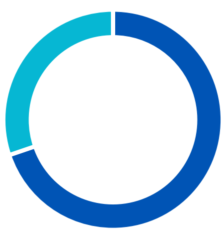
Portfolio Breakdown	Yield
Fixed Income	3.0%
Equity	3.7%
Cash	1.2%

Asset Mix Range and Current Positioning

Fixed Income (%)

Equity (%)

Asset Mix

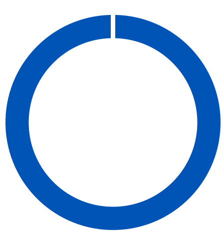


Fixed Income	70%
Equity	30%

Underlying Asset Allocation

	%
Fixed Income	67.3
Canadian Equity	30.1
Cash	2.5

Geographic Mix



Canada	100%

Fixed Income Attributes

Sector Allocation %

	Portfolio[1]	Bond Index[3]
Canada	20.7	35.6
Provincial	36.5	34.0
Municipal	3.0	1.9
Corporate	39.7	28.5
Total	100.0	100.0

Corporate Credit Quality %

	Portfolio[1]
AAA	2.3
AA	11.6
A	16.3
BBB	8.8
BB	0.7
	39.7

Equity Attributes

Sector Allocation %

	Portfolio[1]
Communication Services	13.7
Consumer Discretionary	7.9
Consumer Staples	8.7
Energy	10.7
Financials	49.0
Health Care	0.0
Industrials	1.4
Information Technology	0.0
Materials	3.1
Real Estate	1.0
Utilities	4.7
Total	100.0

Source: GLC, S&P, FTSE Global Debt Capital Markets Inc. | 1. Fund: LL Income Fund | 2. Benchmark: 70% FTSE Canada Universe Bond Index, 30% S&P/TSX Composite Index | 3. FTSE Canada Universe Bond Index

Portfolio manager's quarterly commentary

As at September 30, 2018

Market review

The FTSE Canada Universe Bond Index returned -0.96% (total return) for the third quarter of 2018. North American bond yields moved higher, with both central banks hiking rates during the quarter. The Bank of Canada hikes rates by 0.25% in July, bringing the overnight rate to 1.50%. The U.S. Federal Reserve continued their quarterly rate hike cycle, lifting rates by 0.25% in September, bringing the Federal Funds rate to a range between 2.0% and 2.25%. Robust economic growth and signs of firming inflation in the U.S. pushed long-term yields higher. Canadian 10-year bond yields finished the quarter

0.26% higher, while U.S. 10-year yields were 0.20% higher. The rise in yields resulted in long-term bonds underperforming relative to short-term bonds. All sectors finished with losses, with provincial bonds underperforming the broad index due to their longer duration profile. Corporate and provincial spreads were slightly narrower.

The S&P/TSX Composite posted a modest negative return in the third quarter, down 0.57% (total return). The index started the quarter strongly, building on solid momentum from the prior quarter. Sentiment toward Canadian equities waned on the back of trade uncertainty in August and September. NAFTA (now USMCA) talks dragged on into quarter end, with Canada seeking to join the U.S. and Mexico in a new deal. Commodity stocks were the main source of weakness for the S&P/TSX Composite Index. Soft gold and copper prices weighed on the Materials sector while a shift in oil price momentum and rising Western Canadian Select differentials were headwinds for the Energy sector. The Financials sector was the main contributor to index returns, with bank stocks benefitting from rising interest rates and robust quarterly financial results. The Health Care sector led gains on an absolute basis, up 31% largely due to outsized returns from cannabis stocks.

Portfolio performance

The fund modestly outperformed the blended benchmark (70% FTSE Canada Universe Bond Index and 30% S&P/TSX Composite Index) on a gross return basis for the quarter. Within the fixed income component of the fund, positioning with a shorter duration versus the index contributed to performance. Our allocation within equity sectors (overweighting in Financials) and selection within those sectors (in both Industrials and Materials) both contributed positively to equity performance. Within those, the largest contributors to performance were holdings of Canadian National Railways and Nutrien Ltd. Focusing on incoming-oriented equities, the fund outperformed a benchmark that struggled during Q3. Our neutral weight positioning in corporate fixed income allocations matched the benchmark, though detracted from total returns slightly.

Positioning & outlook

Within fixed income, we expect yields to move higher and continue to pressure overall bond returns. We anticipate the moves should take some time to unfold (4 to 6 quarters in our view), and will continue with the ‘fits and starts’ type of volatility we have seen thus far in 2018. Our general outlook for the Canadian equity markets is positive. We anticipate positive earnings growth in 2018 and 2019 from almost all the sectors within the S&P/TSX Composite Index. Overall market valuation for the S&P/TSX composite remains attractive, with the Canadian market trading at discounted multiples relative to both historical levels and US and global peers.

We feel the current asset mix, which has a 30% allocation to equities and 70% allocation to fixed income, captures our views.

The diversified nature of this portfolio, with its actively managed underlying fixed income and equity components, can provide opportunities for enhanced income, while mitigating capital market volatility.