Balancing opportunities for global growth with diversified income

What's the strategy?

The Diversified Core (GLC) institutional-style portfolio strategy invests in Canadian, U.S. and international equities, and Canadian bonds, mortgages and short-term investments. This highly diversified and balanced portfolio is designed to capture growth opportunities with an eye to mitigating volatility.

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. Each underlying component of this portfolio is actively managed by the experienced and proven investment professionals within GLC's respective investment divisions, and the specific expertise of external managers is leveraged for the portfolio's international exposure. The long-term target asset mix and asset mix ranges of the portfolio are: 55% equities (with an ability to move 10% over the target or 15% under the target); 45% fixed income securities (with an ability to move 15% over or 10% under the target).

Why invest in this portfolio strategy?

The Diversified Core (GLC) portfolio strategy is designed to capture additional return opportunities through global and domestic equity exposures. In addition, this institutional-style portfolio has well defined risk parameters and offers the advantage of increased diversification of fixed income allocations through non-bond alternatives like residential and commercial mortgage investments. Active management of both the underlying portfolio components and the asset mix offer additional opportunity for strong investment results to help boost gains while mitigating volatility.

Typical portfolio characteristics

Here's what you can expect to see from GLC's Asset Mix Committee's Diversified Core strategy:

- Diversification into a multi-style, multi-asset class investment portfolio
- Investment-grade fixed-income holdings, such as mortgages and high-quality bonds

Strategy snapshot

Asset class
Balanced

Inception date
1987

Assets in mandate
$1,037.9 million

Benchmark
5% FTSE Canada 91 Day T-bill Index
40% FTSE Canada Universe Bond Index
30% S&P/TSX Composite Index
12.5% S&P 500 Index
12.5% MSCI EAFE 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.

glc asset management

Diversified Core

GLC Asset Mix Committee

Q2 2019

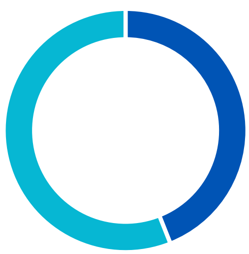
As at June 28, 2019

Portfolio Attributes

	Yield
Portfolio[1]	2.4%
Benchmark[2]	0.9%

Asset Mix Range and Current Positioning

Asset Mix

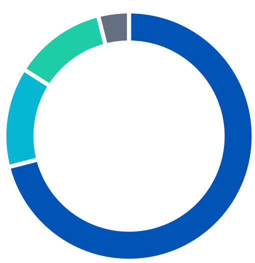


Fixed Income	44%
Equity	56%

Underlying Asset Allocation

	%
Fixed Income	34.3
Canadian Equity	28.2
US Equity	13.5
Foreign Equity	12.3
Residential	4.8
Commercial	3.4
Cash	3.6
	100.0

Geographic Mix



Canada	71%
United States	13%
International	12%
Cash	4%

Geographic Breakdown

Fixed Income	%
Canada	44.1
	44.1

Equity	%
Canada	29.2
United States	13.9
International	12.8
	55.9

Source: GLC, S&P, FTSE Global Debt Capital Markets Inc., MSCI | 1. Fund: LL Diversified Core Fund | 2. Benchmark: 5% FTSE Canada 91 Day T-bill Index, 40% FTSE Canada Universe Bond Index, 30% S&P/TSX Composite Index, 12.5% S&P 500 Index, 12.5% MSCI EAFE Index

Portfolio manager's quarterly commentary

As at June 28, 2019

Market review

World equity markets produced modest positive returns in the second quarter of 2019. Stocks were supported by dovish central banks and falling interest rates. With inflation remaining contained, markets are pricing in U.S. Federal Reserve rate cuts due to continued trade tensions and decelerating economic growth. Equity markets ebbed and flowed with trade developments – evident in May when markets sold off after U.S.-China trade talks broke down. The S&P/TSX Composite Index returned 2.6% (total return) and the S&P 500 gained 4.3% total return in U.S. dollars (2.3% in Canadian dollar terms). Financials and Information Technology were notable strong contributors in both Canada and the U.S., while the Energy sector was a drag on returns. European equities produced returns roughly in line with their North American peers. On a regional basis, German equities produced strong returns while Spain and Italy underperformed. Japanese equities and emerging market equities underperformed their global peers, largely due to trade and Chinese growth concerns. The FTSE Canada Universe Bond Index returned 2.5% (total return) for the second quarter of 2019. North American bond yields moved lower, continuing a trend that began in October 2018. Canadian 10-year bond yields were down 15 basis points (bps), while U.S. 10-year bond yields fell 40 bps. The fall in bond yields coincided with a policy shift from various central banks, most notably the U.S. Federal Reserve, which abruptly shifted to a rate-cutting bias after hiking rates a quarter point last December. The Bank of Canada left rates unchanged during the period. The move in bond yields saw Canadian long-term bonds significantly outperform relative to short-term bonds. Canadian corporate bonds slightly outperformed government bonds. Provincial and municipal bonds outperformed within the government sector.

Portfolio performance

The fund slightly underperformed its blended benchmark on a gross return basis during a quarter where markets faced trade headwinds. Bond and money market fixed-income holdings matched their FTSE Universe benchmark with positive returns. Canadian mortgage holdings also contributed positive returns to add a measure of risk-mitigation. International and emerging markets equity components contributed positively to returns with a sizable outperformance of its EAFE benchmark. Canadian and U.S. equity allocations were a drag on performance. An overweight exposure to the Canadian Energy sector, particularly to exploration and production companies, traded lower on the back of weakening oil prices. Meanwhile, global growth fears negatively impacted U.S. holdings within the Materials sector and increased political focus on drug pricing affected Biotechnology and Pharmaceuticals. Positive offsets in U.S. equities included an overweight positioning in Communication Services as well as strong performance from the Consumer Staples group.

Positioning & outlook

Equity and bond markets continue to be buffeted by the dominant issues of Fed policy, China and trade/tariff concerns. On the Fed policy front, investor sentiment was buoyed by Fed Chair Powell's commentary regarding escalating trade tensions: "We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion". A global easing cycle is once again afoot. This accommodative policy is clearly a recognition of the deleterious effects of the trade war(s) being waged by the U.S. administration. This is bound to have an impact on domestic growth.Markets feel range-bound. We see reasonable economic growth, low inflation, accommodative central bankers and better earnings momentum on the "asset" side of the equity market balance sheet. The "liabilities" are clearly the prospects of a deteriorating trade situation with China and a U.S. market that is, in segments, richly valued. Given these variables and the prospect of possible flare-ups in volatility, our current neutral position within equities continues to be appropriate.