Diversification into global growth opportunities with moderate capital protection on the downside

What's the strategy?

The Equity/Bond (GLC) portfolio strategy is a more aggressive balanced portfolio that invests in Canadian, U.S. and international equities, and Canadian bonds and short-term investments.

What's the approach?

The portfolio has a more aggressive asset mix designed to generate capital appreciation over time from the growth-oriented equity components. At the same time the portfolio benefits from exposure to more stable fixed income investments. 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. With a nod to its more aggressive stance, the long-term target asset mix and asset mix ranges of the portfolio are: 65% equities (with an ability to move 10% over the target or 30% under the target); and 35% fixed income securities (with an ability to move 30% over the target or 10% under the target).

Why invest in this portfolio strategy?

This balanced portfolio strategy tends to be more aggressive and is designed to capture strong growth opportunities through solid global and domestic equity exposure, supplemented by moderate exposure to fixed income investments to dampen volatility. Active management of both the underlying portfolio components and the asset mix offer additional opportunity for strong investment results while helping to protect against market downturns.

Typical portfolio characteristics

Here's what you can expect to see from the Equity/Bond balanced strategy:

- Diversification into a growth-focused, multi-asset class investment portfolio designed to grow while still offering some volatility mitigation
- Exposure to investment-grade fixed-income holdings, issued by strong companies offering good value
- A focus on global equity holdings with excellent growth opportunities

Strategy snapshot

Asset class
Balanced

Inception date
1988

Assets in mandate
$201.4 million

Benchmark
35% FTSE Canada Universe Bond Index
40% S&P/TSX Composite Index
15% S&P 500 Index
10% MSCI World 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.

As at June 28, 2019

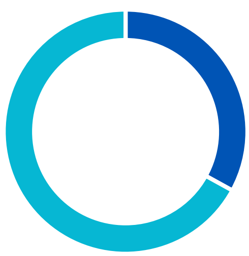
Portfolio Attributes

	Yield
Portfolio[1]	2.2%
Benchmark[2]	0.7%

Portfolio Breakdown	**Yield**
Fixed Income	2.2%
Equity	2.3%
Cash	1.7%

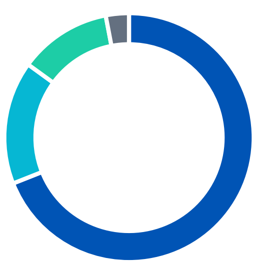
Asset Mix Range and Current Positioning

Asset Mix



Fixed Income	33%
Equity	67%

Geographic Mix



Canada	69%
United States	16%
International	12%
Cash	3%

Underlying Asset Allocation

	%
Canadian Equity	37.6
Fixed Income	32.4
US Equity	15.6
Foreign Equity	11.8
Cash	2.7

Fixed Income Attributes

Sector Allocation %

	Portfolio[1]	**Bond Index**[3]
Canada	28.2	34.8
Provincial	24.7	35.5
Municipal	5.1	2.0
Corporate	42.0	27.7
Total	**100.0**	**100.0**

Corporate Credit Quality %

	Portfolio[1]
AAA	1.5
AA	8.1
A	15.2
BBB	15.6
<BBB	1.6
	42.0

Equity Attributes

Sector Allocation %

	Portfolio[1]
Communication Services	7.3
Consumer Discretionary	7.4
Consumer Staples	6.0
Energy	9.2
Financials	27.4
Health Care	5.6
Industrials	13.8
Information Technology	13.8
Materials	5.1
Real Estate	3.9
Utilities	0.6
Total	**100.0**

Source: GLC, S&P, MSCI, FTSE Global Debt Capital Markets Inc. | 1. Fund: LL Equity Bond Fund | 2. Benchmark: 35% FTSE Canada Universe Bond Index, 40% S&P/TSX Composite Index, 15% S&P 500 Index, 10% MSCI World Index | 3. FTSE Canada Universe Bond 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 gained 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 posted a positive return for the quarter that matched its blended benchmark on a gross return basis. Canadian equities (making up 38% of the fund) outperformed the S&P/TSX Composite Index and contributed positively, as did international equities that impressively outpaced the MSCI World Index. The U.S. equity component, on the other hand, underperformed due to selection in the Materials, Health Care and Information Technology sectors based on global growth fears and trade concerns during a challenging period. The fixed income portion of the portfolio outperformed its relevant benchmark during this period.

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.