Exposure to attractive growth opportunities; strengthened and stabilized by Canadian bonds

What's the strategy?

The North American Balanced (GLC) portfolio strategy focuses on a diversified portfolio of North American equities, complemented by solid exposure to a diversified core bond portfolio.

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 55% equities and 45% fixed-income and short-term investments, with maximum equity exposure of 65%.

Why invest in this portfolio strategy?

The North American Balanced (GLC) portfolio strategy provides investors with attractive Canadian and U.S. growth-oriented equities, supplemented by broad exposure to the Canadian bond market to dampen risk.
Active management of both the underlying portfolio components and the asset mix offer additional opportunity for strong investment results.

Typical portfolio characteristics

Here's what you can expect to see from the North American balanced strategy when compared to its benchmark:

- Diversification into a multi-style, multi-asset class investment portfolio
- An actively managed asset mix allowing you to participate in the growth opportunities of American and Canadian equity markets while helping protect you against market downturns
- Investment-grade fixed income holdings, such as high-quality bonds from companies with attractive valuation and earnings profiles

Strategy snapshot

Asset class
Balanced

Inception date
1998

Assets in mandate
$84.1 million

Benchmark
45% FTSE Canada Universe Bond Index
35% S&P/TSX Composite Index
20% S&P 500 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

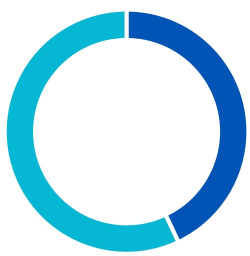
Portfolio Attributes

	Yield
Portfolio[1]	2.4%
Benchmark[2]	1.0%

Portfolio Breakdown	**Yield**
Fixed Income	2.2%
Equity	2.6%
Cash	1.7%

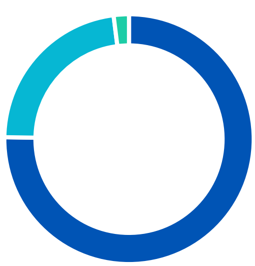
Asset Mix Range and Current Positioning

Asset Mix



Fixed Income	43%
Equity	57%

Geographic Mix



Canada	76%
United States	23%
Cash	2%

Underlying Asset Allocation

	%
Fixed Income	42.0
Canadian Equity	34.6
US Equity	21.7
Cash	1.7

Fixed Income Attributes

Sector Allocation %

	Portfolio[1]	Bond Index[3]
Canada	24.6	34.8
Provincial	33.2	35.5
Municipal	0.0	2.0
Corporate	42.3	27.7
Total	**100.0**	**100.0**

Corporate Credit Quality %

	Portfolio[1]
AAA	1.2
AA	13.5
A	15.9
BBB	11.1
<BBB	0.5
	42.3

Equity Attributes

Sector Allocation %

	Portfolio[1]
Communication Services	6.9
Consumer Discretionary	5.6
Consumer Staples	5.5
Energy	14.5
Financials	30.9
Health Care	5.3
Industrials	9.6
Information Technology	11.6
Materials	7.2
Real Estate	2.8
Utilities	0.0
Total	**100.0**

Source: GLC, S&P, FTSE Global Debt Capital Markets Inc. | 1. Fund: LL North American Fund | 2. Benchmark: 45% FTSE Canada Universe Bond Index, 35% S&P/TSX Composite Index, 20% S&P 500 Index | 3. FTSE Canada Universe Bond Index

Portfolio manager's quarterly commentary

As at June 28, 2019

Market review

The FTSE Canada Universe Bond Index returned 2.5% (total return) for the second quarter of 2019. North American bond yields moved lower with Canadian 10-year bond yields down 15 basis points (bps) and U.S. 10-year bond yields down 40 bps. The fall in bond yields coincided with a policy shift from various central banks, 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. World equity markets produced modest positive returns with the support of dovish central banks and falling interest rates. Inflation remained contained, so markets are pricing in anticipated U.S. Federal Reserve rate cuts from 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). Information Technology was the top performing Canadian sector, largely due to strong returns from Shopify. The heavyweight Financials sector outperformed the broad market despite mixed earnings from the Canadian banks. The Materials sector was under pressure but bounced back with a June rally in gold stocks. Gold prices spiked higher on the prospect of lower U.S. policy rates and continued geopolitical tensions. Health Care was the worst performing sector, due to a pull-back in cannabis stocks. The Energy sector also underperformed, hurt by weaker oil and gas prices. 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, while Energy was the only sector that produced a negative quarterly return.

Portfolio performance

The fund posted a positive return that underperformed its blended benchmark on a gross return basis. Its fixed-income component, a diversified mix of short-, mid- and long-term Canadian government and corporate bonds, surpassed the FTSE Universe to contribute positive returns and stability. The fund's Canadian equity holdings underperformed. An overweight exposure to the Energy sector, particularly to exploration and production companies, traded lower on the back of weakening oil prices. Poor selection within the Industrial and Information Technology sectors were a drag on performance, despite solid returns from its other value-oriented holdings. For the fund's U.S. equity portion, global growth fears negatively impacted holdings within the Materials sector and increased political focus on drug pricing affected Biotechnology and Pharmaceuticals. Semiconductors and Equipment within the Information Technology sector were negatively influenced by the fallout from of the lack of progress in the U.S./China trade deal. Positive offsets 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.

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