# A highly diverse mix of global value opportunities and fixed income reliability

## What's the strategy?

The Balanced (GLC) portfolio strategy invests in Canadian, U.S. and international equities, and Canadian bonds and short-term investments. This highly diversified and well-balanced portfolio focuses on value-style equities to capture capital appreciation opportunities with an eye to mitigating volatility.

## What's the approach?

The Global Multi-Asset Strategy (GMAS) team 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 long-term target asset mix and asset mix ranges of the portfolio are: 60% domestic and foreign equities (with an ability to move 10% over or under the target); 40% Canadian fixed income securities (with an ability to move 10% over or under the target).

## Why invest in this portfolio strategy?

The Balanced (GLC) portfolio strategy is designed to capture additional return opportunities through value-oriented global and domestic equity exposure with a complement of domestic and foreign fixed-income investments to help mitigate volatility. 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 global exposure.

## Typical portfolio characteristics

- Here's what you can expect to see from the Global Multi-Asset Strategy (GMAS) team's Balanced strategy:
- Diversification into a growth-focused, multi-asset class investment portfolio designed to grow and help mitigate volatility
- Exposure to investment-grade domestic and foreign fixed-income holdings, issued by strong companies offering good value
- Global equity growth opportunities with a yield-oriented income focus

## Strategy snapshot

**Asset class**
Balanced

**Inception date**
1993

**Assets in mandate**
$209.9 million

**Benchmark**
5% FTSE Canada 91 Day T-bill Index
35% FTSE Canada Universe Bond Index
35% S&P/TSX Composite Index
12.5% S&P 500 Value Index
12.5% MSCI EAFE Index

**Investment team**
Global Multi-Asset Strategy (GMAS) team

## About GLC

GLC Asset Management Group Ltd. (GLC) is a leading investment management firm that manages more than $55 billion in assets.

GLC has 5 investment management divisions:

- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management
- Global Multi-Asset Strategy (GMAS) team (including 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.

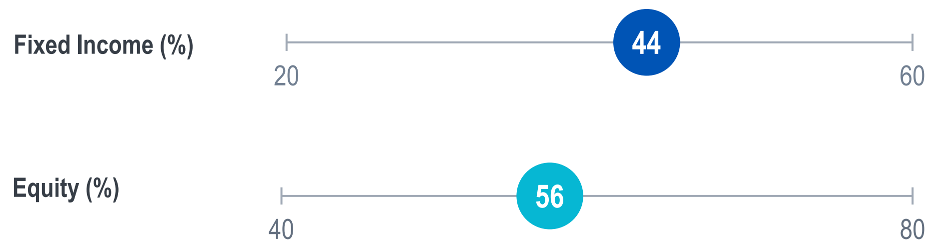
As at June 30, 2020

## Portfolio Attributes

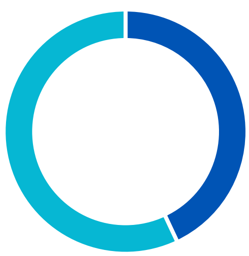
| | Yield |
|---|---|
| **Portfolio[1]** | 2.6% |
| **Benchmark[2]** | 2.3% |

| **Portfolio Breakdown** | **Yield** |
|---|---|
| Fixed Income | 1.8% |
| Equity | 3.5% |
| Cash | 0.2% |

## Asset Mix Range and Current Positioning

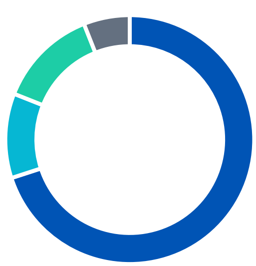



## Asset Mix



| | |
|---|---|
| Fixed Income | 44% |
| Equity | 56% |

## Geographic Mix



| | |
|---|---|
| Canada | 70% |
| United States | 11% |
| International | 13% |
| Cash | 6% |

## Underlying Asset Allocation

| | % |
|---|---|
| Fixed Income | 40.5 |
| Canadian Equity | 31.0 |
| US Equity | 11.4 |
| Foreign Equity | 11.2 |
| Cash | 6.0 |

### Fixed Income Attributes

**Sector Allocation %**

| | Portfolio[1] | Bond Index[3] |
|---|---|---|
| Other | 0.0 | 0.0 |
| Canada | 16.6 | 33.0 |
| Provincial | 25.8 | 37.6 |
| Municipal | 4.8 | 2.1 |
| Corporate | 52.9 | 27.2 |
| **Total** | **100.0** | **100.0** |

**Corporate Credit Quality %**

| | Portfolio[1] |
|---|---|
| AAA | 4.2 |
| AA | 6.0 |
| A | 17.8 |
| BBB | 22.6 |
| <BBB | 2.3 |
| | **52.9** |

### Equity Attributes

**Sector Allocation %**

| | Portfolio[1] |
|---|---|
| Communication Services | 5.4 |
| Consumer Discretionary | 3.3 |
| Consumer Staples | 10.3 |
| Energy | 9.0 |
| Financials | 28.0 |
| Health Care | 8.1 |
| Industrials | 11.2 |
| Information Technology | 8.7 |
| Materials | 10.3 |
| Real Estate | 2.6 |
| Utilities | 3.1 |
| **Total** | **100.0** |

Source: GLC, S&P, FTSE Global Debt Capital Markets Inc. | 1. Fund: LL Balanced Fund | 2. Benchmark: 5% FTSE Canada 91 Day T-bill Index, 35% FTSE Canada Universe Bond Index, 35% S&P/TSX Composite Index, 12.5% S&P 500 Value Index, 12.5% MSCI EAFE Index | 3. FTSE Canada Universe Bond Index

# Portfolio manager's quarterly commentary

As at June 30, 2020

## Market review

Global equity markets bounced back sharply, posting one of the strongest and quickest recoveries in history. Unprecedentedly large monetary and fiscal support from world governments and central banks, improving economic data in May and June and global economies reopening have stocks closing in on their previous all-time highs set earlier this year prior to the coronavirus crisis. Gains were broad-based, as all major regions enjoyed positive double-digit returns in the period. U.S. equities outperformed their developed market peers in the quarter, benefitting from its favourable sector composition. In particular, having large weights in the information technology sector and to a lesser extent, consumer discretionary drove performance. Canadians equities had a strong quarter, mainly attributable to a sizeable advance in information technology stocks; spearheaded by Shopify's 136% gain, alongside a rebound in precious metal and oil prices. EAFE equities rose 14.2%, led by German stocks jumping almost 24% in the period. Emerging market equities marched 17.3% higher, benefitting from a risk-on environment as equity markets began pricing in a v-shaped recovery. The FTSE Canada Universe Bond Index returned 5.9% (total return) in the second quarter, the third largest quarterly return since 2000. Sovereign bond yields continued their descent to new historic lows, anchored by global central banks keeping their policy rates near zero. Canadian bond yields fell in the quarter, particularly on the longer end of the curve, which resulted in longer term bonds outperforming its shorter-term counterparts. Canadian corporates outperformed relative to government bonds, strengthened by narrowing credit spreads as economies slowly reopened. High yield bonds slightly lagged investment-grade bonds, while provincial bonds outperformed within the government sector.

## Portfolio performance

The fund's strong absolute return trailed its blended benchmark on a gross return basis. In April, the decision was made to increase the portion of cash by 3% to 5% in favour of equity (56% of the fund) to match the benchmark. This decreased risk but was disadvantageous in the quarter due to a surge in equity markets. The overweight fixed income allocation (39% of the fund) outperformed the strong return from the FTSE Canada Universe Bond Index due mainly to an overweight to corporate bonds during the quarter. The large-cap Canadian equity allocation detracted value relative to the S&P/TSX Composite Index; challenging positioning within the materials and information technology sectors was the key driver of underperformance. Within foreign equities, the value style was a relative laggard overall as growth led the way higher in the quarter.

## Positioning & outlook

Equity markets are euphoric on initial reopening success – the extent of the recovery seems unrealistic given the vast extent of the unknowns that remain and lie ahead. Capital markets are functioning, supported by monetary and fiscal authorities flooding the system with liquidity. This has fueled asset prices, both risky and safe, leaving equity markets expensive and sovereign bond yields low. This combination delivers a muted return outlook for the time being. We recommend an overweight to high-quality fixed income over equities. Within fixed income, we recommend a neutral position in sovereign bonds and favour investment-grade (I.G.) corporate bonds over high yield bonds. With respect to our views toward equities, we see N.A. equities in today's environment as being less sensitive to weaker global economic conditions than emerging markets and with fewer longer-term domestic structural issues than many international markets. We believe the fund is well positioned to generate capital appreciation over time from the growth-oriented equity components, while at the same time benefiting from the exposure to more stable fixed income investments and reduced volatility during times of market turbulence.