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 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 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
1998

Assets in mandate
$1,025.0 million

Benchmark
70% FTSE Canada Universe Bond Index
30% S&P/TSX Composite 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]	2.2%
Benchmark[2]	1.9%

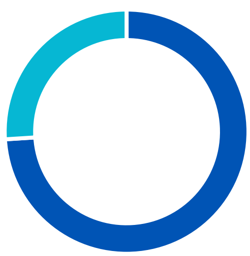
Portfolio Breakdown	**Yield**
Fixed Income	1.4%
Equity	4.7%
Cash	0.2%

Asset Mix Range and Current Positioning

Fixed Income (%) 74 (range 60 – 100)

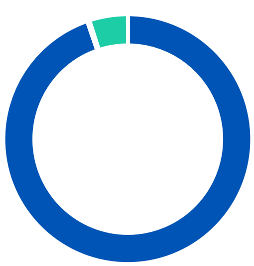
Equity (%) 26 (range 0 – 40)

Asset Mix



Fixed Income	74%
Equity	26%

Geographic Mix



Canada	95%
United States	0.3%
Cash	5%

Underlying Asset Allocation

	%
Fixed Income	70.1
Canadian Equity	24.8
Cash	5.1

Fixed Income Attributes

Sector Allocation %

	Portfolio[1]	**Bond Index[3]**
Canada	21.8	33.0
Provincial	37.6	37.6
Municipal	2.6	2.1
Corporate	38.0	27.2
Total	**100.0**	**100.0**

Corporate Credit Quality %

	Portfolio[1]
AAA	1.05
AA	11.28
A	16.02
BBB	8.94
<BBB	0.73
	38.01

Equity Attributes

Sector Allocation %

	Portfolio[1]
Communication Services	14.5
Consumer Discretionary	6.4
Consumer Staples	10.1
Energy	11.3
Financials	44.0
Health Care	0.0
Industrials	3.6
Information Technology	0.0
Materials	4.5
Real Estate	2.5
Utilities	3.1
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 June 30, 2020

Market review

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. 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.

Portfolio performance

The fund's strong absolute return trailed its blended benchmark on a gross return basis. In April, the decision was made to further increase the tactical overweight to cash by 3% to 5% in favour of equity (25% of the fund). This decreased risk but was disadvantageous in the quarter due to a surge in equity markets. The fixed income allocation 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.

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. 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.