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 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 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
$76.2 million

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

North American Balanced
Global Multi-Asset Strategy (GMAS) team

Q2 2020

As at June 30, 2020

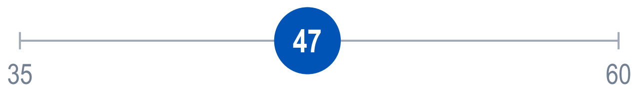
Portfolio Attributes

	Yield
Portfolio[1]	2.1%
Benchmark[2]	2.0%

Portfolio Breakdown	**Yield**
Fixed Income	1.4%
Equity	2.8%
Cash	0.2%

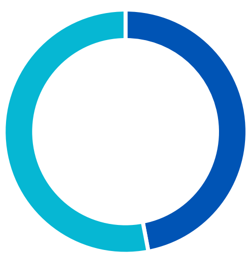
Asset Mix Range and Current Positioning

Fixed Income (%)



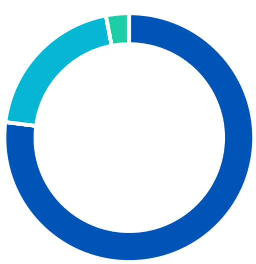
Equity (%)

Asset Mix



Fixed Income	47%
Equity	53%

Geographic Mix



Canada	77%
United States	20%
Cash	3%

Underlying Asset Allocation

	%
Fixed Income	44.9
Canadian Equity	32.3
US Equity	19.4
Cash	3.5

Fixed Income Attributes

Sector Allocation %

	Portfolio[1]	**Bond Index[3]**
Canada	23.8	33.0
Provincial	36.6	37.6
Municipal	0.0	2.1
Corporate	39.6	27.2
Total	**100.0**	**100.0**

Corporate Credit Quality %

	Portfolio[1]
AAA	0.49
AA	9.80
A	17.05
BBB	11.72
<BBB	0.52
	39.57

Equity Attributes

Sector Allocation %

	Portfolio[1]
Communication Services	6.7
Consumer Discretionary	5.2
Consumer Staples	6.4
Energy	9.2
Financials	26.4
Health Care	7.3
Industrials	9.6
Information Technology	14.9
Materials	10.4
Real Estate	2.3
Utilities	1.6
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 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. 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.

Portfolio performance

The fund's strong high single-digit 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 (50% 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 Canadian equity allocation (32% of the fund) 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. The U.S. equity allocation beat the S&P 500 Index, led by stock selection in the financials sector.

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.