An actively managed, globally diversified income-focused strategy

What's the strategy?

The Global Monthly Income portfolio strategy is actively managed and diversified across fixed income and equity assets around the world – in a single investment.

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 portfolio management of the underlying fund components focuses on high-quality holdings that generate attractive income and growth opportunity for the portfolio, while the active portfolio management approach of the GLC Asset Mix Committee allows for asset mix shifts that target a low-to-moderate risk profile.

The asset mix will vary between 50-70% equities and 30-50% fixed income depending on forward-looking market views of the GLC Asset Mix Committee.

Why invest in this portfolio strategy?

The Global Monthly Income portfolio strategy provides exposure to diverse income options from around the world – a portfolio with a broad mix of global income generating assets, attractive especially in low interest rate environments – in a single investment with high liquidity.

Typical portfolio characteristics

Here is what you can expect to see from the Global Monthly Income portfolio strategy when compared to its peers, or its blended benchmark:

- Broad global diversification across asset classes and geographic regions, reducing risk and volatility, moderating currency risk through broad country diversification and/or currency hedging when appropriate.
- The income generating aspect of the portfolio and broad global diversification by geographic region, type of security and asset class combine to create an attractive risk/return profile.
- A higher yield than its blended benchmark and exposure to a range of yield-oriented assets including investment-grade and high-yield fixed income and equities
- An actively managed asset mix allowing you to participate in the growth opportunities of equity markets while helping protect you against market downturns

Strategy snapshot

Asset class
Balanced

Inception date
2015

Assets in mandate
$119.3 million*

Benchmark
15% FTSE Canada Universe Bond Index
25% FTSE World Government Bond Index
15% S&P/TSX Composite Index
45% MSCI World Index

Investment team
GLC Asset Mix Committee

*Represents total assets in the Global Monthly Income mandate across the mutual and segregated fund versions.

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.

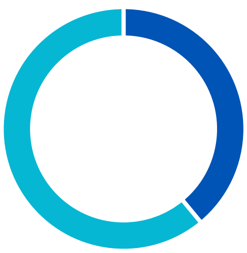
As at December 31, 2018

Portfolio Attributes

	Yield
Portfolio[1]	3.5%
Benchmark[2]	0.9%

Asset Mix Range and Current Positioning

Asset Mix

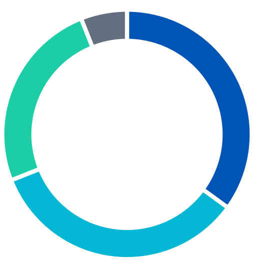


Fixed Income	39%
Equity	61%

Underlying Asset Allocation

	%
Fixed Income	36.5
Foreign Equity	21.1
US Equity	20.2
Canadian Equity	16.0
Cash	6.2
	100.0

Geographic Mix



International	35%
Canada	34%
United States	25%
Cash	6%

Geographic Breakdown

Fixed Income	%
Canada	18.8
United States	5.9
International	14.2
	38.9

Equity	%
United States	20.6
Canada	17.2
International	23.3
	61.1

Source: GLC, S&P, FTSE Global Debt Capital Markets Inc., MSCI │1. Fund: LL Global Monthly Income Fund │2. Benchmark: 15% FTSE Canada Universe Bond Index, 25% FTSE World Government Bond Index, 15% S&P/TSX Composite Index, 45% MSCI World Index

Portfolio manager's quarterly commentary

As at December 31, 2018

Market review

Concerns of slowing global growth and continued trade tensions between the U.S. and China resulted in a sharp selloff for global equities during the quarter. The MSCI World (Net) Index for global equities fell 13.4% in U.S. dollar terms (-8.5% in Canadian dollar terms, total return). Technology stocks weighed on U.S. equity markets, with the sector showing signs of weakness following a sustained period of outperformance. Energy was another notable detractor, with producers suffering from a 38% collapse in U.S. WTI oil prices during the period. Signs of waning economic momentum and continued political tensions in Europe weighed on European equity markets. Disagreements over a proposed Italian budget highlighted the challenges in the region. The coalition government eventually ceded ground on fiscal policy in order to appease European Union guidelines. Elsewhere, Germany's Angela Merkel announced she would not seek re-election following the loss of key political support while French president Emmanuel Macron was confronted with protests as he struggled to follow through on his reform program. Britain and the European Union made progress in their negotiations but an array of possible Brexit outcomes remained on the table as 2018 drew to a close. Japanese equities couldn't escape the global equity selloff and finished at the bottom of the pack amongst developed markets. The Japanese Yen strengthened during the global 'risk-off' period, which hampered Japanese equities. Emerging markets continued to struggle, weighed down by trade uncertainty and continued U.S. dollar strength. The MSCI Emerging Markets Index (EM), having entered 'bear market' territory in the prior quarter, fell 7.5% in U.S. dollar terms (total return) in the fourth quarter. Information Technology stocks were a notable area of weakness within the MSCI EM Index. The S&P/TSX Composite posted a double digit negative return in the fourth quarter, down 10.11% (total return). The U.S., Mexico and Canada reached a tentative agreement on a revised NAFTA (now called USMCA) but sentiment toward Canadian equities remained depressed.

The FTSE Canada Universe Bond Index returned 1.76% (total return) for the fourth quarter of 2018, bringing the calendar year return back into positive territory at 1.41% (total return). North American bond yields fell sharply as investors embraced a 'risk-off' stance. This coincided with a broad global equity selloff amid concerns of slowing global growth and continued trade tensions between the U.S. and China. The U.S. Federal Reserve (Fed) hiked rates in December for the fourth time in 2018 but bond yields fell as the Fed signaled it may adopt a slower, more gradual path going forward. The Bank of Canada also hiked rates in October, bringing the total number of hikes to three in 2018. However, Canadian interest rates fell across the curve in the quarter, weighed down by dovish commentary from Governor Poloz and mirroring the fall in U.S. bond yields. Canadian government bonds outperformed relative to corporates. Corporate bonds produced a positive return despite spreads widening during the quarter. Federal bonds beat provincial and municipal bonds within the government sector. On a term basis, mid-term bonds led the way, followed by long-term bonds and then short-term bonds.

Portfolio performance

Despite a volatile December, the fund significantly outperformed its blended benchmark on a gross return basis for the quarter. On the fixed income side, Canadian, international and corporate bond holdings all posted positive returns demonstrating their value as a risk-mitigating tool. The Canadian fixed-income component underperformed the FTSE Bond Universe Index as a result of its Canadian corporate bond exposure and international fixed-income holdings underperformed against their respective benchmarks. The fund's dividend-paying equity holdings all surpassed their benchmarks (especially the U.S. and global ones, which contributed greatly) despite returning negative values. An overweight in U.S. income-oriented equities (i.e., the U.S. dividend-focused allocation) represented most of the gains compared to the underweighted Canadian dividend-paying equity holdings that outperformed to a lesser extent. Additional investment in global infrastructure equities posted positive returns to contribute to the fund's overall performance.

Positioning & outlook

The world economy and financial markets continue to progress through the later stage of the business cycle. We believe acceleration is followed by moderation, before eventually giving way to decline, with moderation being a normal, albeit less desirable stage. This means growth may have peaked, but it will not immediately give way to decline. With lower growth prospects, a neutral stance (risk-tolerance aligned) that is neither overweight in bonds or equities is recommended. Striking a balance between risks and opportunities can best be achieved with our neutral stance regarding Canadian, U.S. and foreign equities with a slight bias for North American equities. Although the outlook for fixed income remains challenging, that component of this well-diversified fund remains a valuable risk-mitigating tool. We feel the current asset mix, which has a 60% allocation to equities and 40% allocation to fixed income, is appropriate. The diversified nature of this portfolio, with its actively managed underlying fixed income and equity components, provides exposure to income options from around the world – a portfolio with a broad mix of global income-generating assets, attractive especially in low interest rate environments – in a single investment with high liquidity.