

An actively managed, globally diversified income-focused strategy

What's the strategy?

The Monthly Income portfolio strategy combines active management, diversification, and fixed income and income-oriented equity assets – 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 strategy is designed to seek out high income-yielding assets wherever they are. 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 long-term target portfolio exposure is 50% equity and 50% fixed income, with maximum equity exposure capped at 60% to ensure a well balanced portfolio without excessive risk.

Why invest in this portfolio strategy?

The Monthly Income portfolio strategy provides access to diverse income options – a portfolio with a broad mix of income generating assets from around the globe, 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 Monthly Income portfolio strategy when compared to its peers, or its blended benchmark:

- Broad diversification across asset classes and geographic regions, reducing risk and volatility, with limited currency risk through broad country diversification and/or currency hedging when appropriate.
- 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

2010

Assets in mandate

\$305.0 million*

Benchmark

50% FTSE Canada Universe Bond Index

30% S&P/TSX Composite Index

20% MSCI World Index

Investment team

GLC Asset Mix Committee

* Represents total assets in the 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	3.6%
Benchmark ²	2.4%

Asset Mix Range and Current Positioning



Asset Mix

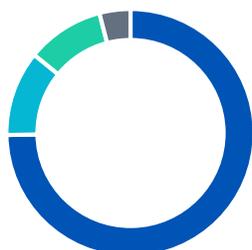


Fixed Income	49%
Equity	51%

Underlying Asset Allocation

	%
Fixed Income	47.1
Canadian Equity	30.0
US Equity	10.1
Foreign Equity	8.7
Cash	4.2
	100.0

Geographic Mix



Canada	74%
United States	11%
International	10%
Cash	4%

Geographic Breakdown

Fixed Income	%	Equity	%
Canada	46.2	Canada	31.4
United States	2.0	United States	10.0
International	1.0	International	9.4
	49.2		50.8

Source: GLC, S&P, FTSE Global Debt Capital Markets Inc., MSCI | 1. Fund: LL Monthly Income Fund | 2. Benchmark: 50% FTSE Canada Universe Bond Index, 30% S&P/TSX Composite Index, 20% 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 modestly outperformed its blended benchmark on a gross return basis for the quarter. The fixed-income allocation produced positive returns to add stability during a tough December period. Our corporate bond holdings underperformed the FTSE Bond Universe Index modestly. Dividend-paying equity holdings in Canada, the U.S. and internationally, on the other hand, all outperformed their benchmarks despite posting negative returns. Good stock selection within the Communication Services and Information Technology made a constructive difference. Positive returns from global infrastructure holdings were another example of how maintaining a diversified blend of investments is a strong approach throughout market cycles.

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 toward 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 our current asset mix, which has a 50% allocation to equities and 50% allocation to fixed income, captures our views. The diversified nature of this portfolio, with its actively managed underlying fixed income and equity components, can provide opportunities for both income and growth, while mitigating capital market volatility.

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