Market Overview

Equities

The S&P/TSX Composite Index, the broad equity benchmark for Canada, declined 4.5% in the first quarter of 2018. Companies posting a negative Q1 return outnumbered those with positive return by 2 to 1 and almost 30% of companies posted a loss of more than 10%. Information Technology (up 10.1%) was the noticeable stand-out performer amongst its sector peers in the first quarter, with Shopify and Constellation Software two of the top positive outliers, gaining 26% and 15% respectively. Energy, Financials and Materials, which dominate the TSX Index by weight, were the largest contributors to the market’s decline in the quarter. During Q1, there were few places for investors to hide from a style perspective. Of particular note was the relatively significant underperformance of dividend strategies, which have been the darling of the market for some time.

The S&P 500 Composite Index, representing US Large Caps, peaked in January, then reversed direction and continued on a downward trend through February and March. By quarter’s end, the US Index was 0.8% below year-end levels. On the stock front, Q1 gainers outpaced losers by a small margin. As to sectors, only Information Technology and Consumer Discretionary enjoyed positive Q1 returns, up 3.5% and 3.1% respectively. Telecomm (-7.5%) and Consumer Staples (-7.3%), were the biggest losers, followed by resource sectors, Energy (-5.9%) and Materials (-5.5%).

The MSCI EAFE index represents 85% of the market capitalization of developed markets in Europe, Australia, Asia and the Far East. Overall, these regions averaged a decline of over 4% in their local currencies. The U.K. (down over 7%) and Japan (down almost 5%) represent the largest country exposures in the index and were the largest contributors to it’s decline in the quarter. Index exposure to Italy and Finland managed to post moderately positive returns, however represent only 3% of the countries in this index.

Fixed Income

The FTSE/TMX Canada Universe combines both government and corporate investment grade bonds over a range of maturities from 1 to 25 years. This index's return was up 0.10% in the period. Shorter term bonds are less sensitive to interest rate changes, and therefore mitigate the potential for downside should the consensus expectation of rising interest rates become reality. The representative benchmark in Canada for short-term bonds is the Bloomberg Barclays Global Aggregate Canadian Government/Credit 1–5 year Float Adjusted Bond Index. It measures the investment return of investment-grade securities issued in Canada—including government, government-related and corporate products—all with maturities between one and five years. In contrast to the longer-term benchmark, the short-term index was slightly better, up 0.17% in Q1.

The representative US bond index includes over 8000 investment grade bonds with an average maturity of approximately 5 years. The representative global bond index includes almost 9,000 investment grades bonds with an average maturity of approximately 9 years. In Q1, the US index declined 1.6%, while the International index gained 0.6% (stated in USD). The divergent returns in the period highlight the benefits of diversification within this asset class.

18 AM Balanced Strategy Highlights

The 18 AM Balanced Strategy is designed to provide growth and capital preservation at a low cost, using both active and passive management. The asset mix is approximately 60% equity and 40% fixed income. We incorporate small tactical shifts in asset mix utilizing a risk-based methodology. In addition, the strategy utilizes currency hedging based on set policy parameters.

The 18 AM balanced portfolio declined 0.5% in the first quarter. Declines in both domestic and global equities were the primary contributors to the portfolio return. Offsetting the equity market declines were gains in the portfolio's exposure to US currency due to the appreciation of the US dollar versus the Canadian dollar of 2.4%. Currently the currency exposure for the portfolio's non-domestic holdings is approximately 50% hedged.

Relative to the strategy's benchmark, the portfolio outperformed by 0.5%. Positive contributions to the portfolio's relative performance for the quarter came from outperformance of the 18 AM Canadian Equity strategy relative to the TSX Composite Index. Within that strategy, the portfolio benefited from exposure to growth and momentum factors, and security selection within the Information Technology sector. Detracting from the relative return, was the fact that the portfolio only participated in 50% of the currency gains, whereas the benchmark is 0% hedged and benefited from 100% of the currency gains.

Quarterly Performance *

		Portfolio		Benchmark	
Asset Class		**Weight**	**Return**	**Weight**	**Return**
Equities	Canada	23.4%	-1.5%	30.0%	-4.5%
	Global:			30.0%	1.0%
	US	22.4%	1.6%		
	International	14.4%	-3.5%		
Fixed Income	Canada	19.5%	0.0%	35.0%	0.1%
	US	7.6%	-1.6%		
	International	7.7%	0.6%		
Cash & Equivalents		5.0%	0.3%	5.0%	0.3%
		100.0%	-0.5%	100.0%	-1.0%

*The chart depicts performance data for the asset classes and is for information purposes only.

For our actively managed Canadian equities, we believe a focus on company fundamentals and a style diversified portfolio provides an attractive opportunity to add value. For our passive asset class allocations, we utilize risk-based approach to strategically rebalance asset class exposure. We have time-tested our disciplined, systematic process through interest rate cycles, growth and retraction phases, and through our share of stock market shocks.

The 18 AM balanced portfolio is designed to fit a low-medium risk tolerance. Our balanced strategy is delivered via a separate account solution, allowing us to provide a low-cost, globally diverse portfolio that is customizable to each client's investment policy guidelines.

**Performance is shown gross of all fees and is stated in Canadian dollars unless otherwise noted. Performance data is historical and not indicative of future performance. Returns are annualized for periods greater than 1 year. The benchmark is a linked index consisting of monthly rebalanced blend of 30% S&P/TSX Composite Index / 30% MSCI World Index (Net) / 35% FTSE TMX Canada Universe Bond Index / 5% FTSE TMX Canada 91 Day TBill Index. This document is for information purposes only.*