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. For our actively managed Canadian equity allocation, 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 carefully selected index funds to represent chosen asset classes. In addition, the strategy utilizes currency hedging based on set policy parameters to manage the overall portfolio risk. The 18 AM Balanced Strategy is delivered via a separate account solution. This allows us to provide a low-cost, globally diverse portfolio customizable to each client's investment policy risk and return objectives.

Performance of the asset classes included in the strategy is displayed in the table below.

Asset Class Performance *			
		18 AM Balanced Strategy	
Asset Class		Q1	1 Year
Equities	Canada	14.5%	7.0%
	US	11.7%	13.2%
	International	10.9%	3.3%
Fixed Income	Canada	3.3%	4.6%
	US	2.7%	3.4%
	International	2.8%	3.6%
Cash & Equivalents		0.4%	1.5%

*The chart depicts performance data for the asset classes and is for information purposes only. Returns are stated in Canadian dollars.

Highlights of the fourth quarter:

- As can be seen in the table above, all major equity markets had significant gains in the quarter, delivering the bulk of the positive performance in the strategy in Q1.
- The strategy's actively managed allocation to Canadian equities gained 14.5% in Q1, ahead of the benchmark TSX index. Within that allocation, the Offence style (growth and momentum) dominated the Defence style (income and low risk) in the period. The relative outperformance of the Canadian equity allocation was impacted primarily by security selection in the Information Technology and Industrials sectors.
- The Bank of Canada, in concert with many other central banks globally including the US, changed course with respect to interest rate policy. Near term interest rate hikes that were expected as recently as Q4 have now been stalled for the foreseeable future. This resulted in fixed income allocations having the best quarter performance in over two years.
- Currently, the strategy has currency exposure solely on the US Equity allocation as all other non-domestic currency exposures are hedged. The US dollar depreciated 2.1% versus the Canadian dollar in Q1, detracting from the return of this allocation.

**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 S&P/TSX Composite Index / MSCI World Index (Net) / FTSE TMX Canada Universe Bond Index / FTSE TMX Canada 91 Day TBill Index. This document is for information purposes only. Data sources: Thomson Reuters, Standard & Poors, Morningstar/CMPS and 18 AM.*

Market Overview

Equities

Most major global equity markets garnered strong gains in Q1 2019. This followed a period of significant declines for those same regions in the second half of 2018. The swift turnaround in performance is a reminder to investors yet again of the capricious nature of equity markets. Such dramatic swings underscore the challenges of market timing, and how prudent, steady investment discipline serves investors in navigating market volatility. The rally materialized, despite macro market narratives that continue to hold the spotlight on political uncertainty surrounding China/US trade tensions, anxious Brexit negotiations and indicators of slowing global growth.

For Q1, the TSX Index was up 13.3. Over 80% of companies in the TSX posted gains in Q1, with over half of those rising more than 10%. Four of the top 5 performing stocks were cannabis companies, each gaining over 50%. MEG Energy was the worst performer, down 34% following a failed takeover bid by Husky Energy. SNC Lavalin's share price fell 26% in the quarter, plagued by heightened uncertainty over ongoing legal issues. All 11 sectors were positive in the quarter. Health Care was up 49% driven in large part by large gains in the cannabis sector. Information Technology rose 25.9% boosted by solid year end earnings results within the sector. Interest sensitive sectors Real Estate (+17.5%) and Utilities (+16.1%) also performed well. Materials was the laggard, gaining only 8.5%, held back by relatively weak returns in the gold sector. The Offence style was the leader, besting both the overall market and its style counterpart Defence. As to Canadian market fundamentals, 2019 earnings are expected to grow at 3.8% year over year while TSX valuations have risen from 12.3 times current year earnings at the outset of the year to 15.8 times at the end of Q1.

After dropping 19% from a peak in October 2018 to a low in December, the S&P 500 has since rebounded strongly to end the first quarter within sight of the 2018 peak. Over 90% of stocks in the index had Q1 gains. Winning stocks were led by Coty Inc. (cosmetics), which was up 77.3% on takeover news. Chipotle Mexican Grill (restaurants) rose 64.5%, while Xerox (print and digital document services) was the leading tech company, up 63.1%. Notable losers were PG&E (utility), which fell more than 75% due to its role in the devastating California wildfires before being removed from the S&P500 index, and Kraft Heinz (food and beverage) which was down 23.2%. As to industry sectors, all 11 industry sectors in the S&P 500 experienced gains in Q1. Information Technology (+19.9%), Real Estate (+17.5%) and Industrials (+17.2%) were the top performing sectors. Health Care (+6.6%) and Financials (+8.6%) had the lowest returns in Q1.

The MSCI EAFE index represents 85% of the market capitalization of developed markets in Europe, Australia, Asia and the Far East. Overall, the regions represented by this index averaged double digit gains of 10.7% in their local currencies. In CAD, the index was gained 7.8%. The index's 4 largest exposures comprise 60% of the index and generated healthy gains including Japan up 7.6%, UK up 10.1%, France up 11.9% and Germany up 8.7%. China, which has a smaller weight in the index had the strongest returns, up 22.4%.

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 3.9% in the period. 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. The short-term index had a 1.7% return 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. Both US and International fixed income allocations appreciated in Q4, in line with Canadian Universe bonds.