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		**Q2**	**1 Year**
Representative Portfolio Total		2.5%	5.8%
Equities	Canada	3.3%	3.5%
	US	1.9%	9.4%
	International	3.3%	4.0%
Fixed Income	Canada	2.1%	6.1%
	US	2.9%	6.8%
	International	2.6%	6.3%
Cash & Equivalents		0.4%	1.7%

Highlights of the second quarter:

- The 18 AM representative balanced portfolio, which utilizes a 60% Equity/40% Fixed Income mix, gained 2.5% in the second quarter. As can be seen in the table above, each of the asset classes in the 18 AM Balanced Strategy generated positive returns in Q2. The amount of contribution from each asset class depends on the weight of each allocation within the portfolio.
- The strategy's actively managed allocation to Canadian equities gained 3.3% in Q2, 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 Energy sector was the weakest in the quarter.
- 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 solid performance in the first two quarters of 2019.
- 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 1.9% versus the Canadian dollar in Q2, 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

At the half-way point of 2019, most major global equity markets have rebounded strongly from the sharp declines experienced in the fourth quarter of 2018. Despite evidence of slowing global growth, and uncertainty surrounding global trade and political environment, the fundamental profile of the market remains relatively stable, which is supportive of equities.

The broad Canadian Equity market, as represented by the TSX Index, rose 2.6% in Q2, and 16.2% year-to-date. Individual stock performance in Q2 was more varied relative to Q1, with only 54% of companies posting positive returns, versus 80% in the prior period. Information Technology was the top performing sector, up 14.3%, more than doubling the next best sector, Materials, which was up 5.5% from a rebound in gold stocks. Energy was down 2.9% and the largest detractor from the overall return due to its larger weight in the index. Top performers included WestJet, up 58.9% on news of the acquisition of the company by Onex Corp., Shopify (+42.8%) a commerce technology company, and gold companies Semafo (+39.1%) and Kirkland Lake Gold (+39.0%). Worst performers were Peyto Exploration & Development (-43.2%) and NuVista Energy (-39.3%). For the third consecutive quarter, Growth outperformed Value within the broader market by a substantial margin. This is a departure from the longer-term style performance since the 2008 financial crisis, a period characterized by outperformance of low volatility, conservative styles.

The S&P 500 index added an additional 4.5% in the second quarter to the over 13% generated by the market in Q1. 10 of the 11 industry sectors in the S&P 500 experienced gains in Q2. Financials (+8.0%), Information Technology (+6.1%) and Materials (+5.9%) were the top 3 performing sectors. Health Care (+1.3%) and Energy (-2.8%) had the lowest returns in the quarter. Almost 2/3 of stocks in the index had gains in the second quarter, as compared to 90% of stocks in the previous period. In Q2, winning stocks were led by Anadarko Petroleum (energy), up 55.8%, Arconic (engineering) which rose 35.2%, while Total Systems Services (payment solutions provider) was the leading tech company, up 35.1%. Notable losers were Mylan (pharmaceutical), which fell more than 33%, as well as several clothing retailers, including Gap (-30.7%), Foot Locker (-30.4%) and Nordstrom (-27.3%).

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 further gains in Q2 of 3.1% in addition to the 10.7% from Q1 (in their local currencies). In CAD, the index gained 2.0% in the second quarter. The index’s 4 largest exposures comprise 60% of the index and generated healthy gains including France up 5.8%, Australia up 8.7%, UK up 9.9% and Germany up 6.4%. Japan, which has the largest country weight in the index, was flat in the period.

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 2.5% 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 2.7% return in Q2. 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 Q2, in line with Canadian Universe bonds.