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		**Q3**	**1 Year**
Equities	Canada	-1.6%	7.3%
	US	5.7%	21.8%
	International	2.9%	5.8%
Fixed Income	Canada	-0.7%	1.3%
	US	-0.2%	-2.2%
	International	-0.5%	1.1%
Cash & Equivalents		0.4%	1.4%

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

Highlights of the third quarter:

- As can be seen in the table above, both US and International equities performed well, and as a result combined to drive the bulk of the gains in the strategy in the quarter.
- The Canadian equity benchmark index, the TSX Composite, failed to keep pace with global equities in Q3, declining 0.6%. The strategy's actively managed allocation to Canadian equities was down 1.6% in Q3. Within that allocation, the Offence style (growth and momentum) lagged the Defence style (income and low risk) in the period. The relative underperformance of the Canadian equity allocation was impacted by being underweight the strong Financials and Health Care sectors versus the index.
- Rising interest rates in the quarter resulted in a decline of 1.0% for the Canadian universe of investment grade bonds. The fixed income allocation in the balanced strategy fared slightly better (less negative) by incorporating exposures to global bonds, as well as domestic short-term bonds which are impacted less by rising rates.
- 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 1.8% versus the Canadian dollar in Q3, reducing 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.*

Market Overview

Equities

For Q3, the TSX Composite Index was down 0.6%. Key events took place during Q3 that impacted equity investor experience. First, early in the period, the Bank of Canada announced its second rate hike of the year. While serving to reinforce a strong economy, the rate increase also causes concern around the ability of consumers to service their debt and to continue to fuel the economy. Second, the NAFTA negotiations, one of the major market overhangs in 2018, culminated in the completion of a new agreement, now called USMCA. The initial reaction by the Canadian stock market was positive due to the removal of the uncertainty of whether an acceptable agreement would be reached at all. Despite these events, the fundamental profile of the Canadian market has continued to improve. Year over year earnings growth is now estimated to reach 12%. With the strong earnings growth and moderate price performance, the market's valuation has also improved. Currently, the current Price/Earnings ratio of the TSX is attractively priced at 13.8 times, versus 15.3 times at the start of the year.

The total return of the S&P 500 Index was 7.71% in USD for Q3. Earnings growth remains strong in the United States. Q2 operating earnings (reported in July and August) for the S&P 500 of $38.65 were the highest quarterly earnings level ever recorded. This was the fifth record-setting quarter in a row. These quarterly earnings represent a 27% increase versus levels achieved in Q2 2017. S&P 500 earnings for Q3 2018 (to be reported in October and November) are forecast to be $39.97, another record quarterly level. In fact, Wall Street analysts are expecting Q4 earnings to jump to $42.06 to establish yet another new quarterly earnings record. Earnings forecasts for 2018 project a 26% growth rate over calendar 2017. There are oft cited concerns about the market's valuation levels. However, the S&P 500 is trading at a price to earnings ("PE") multiple of 17.6 times using 2018 expected earnings and 15.7 times using 2019 expected earnings. These valuation levels compare favourably to the 25-year average PE for the S&P 500 of 16.1 times, suggesting that the market is not critically overvalued at present levels.

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 a gain of 2.4% in their local currencies European countries were flat overall, with positive contributions from Switzerland (+5.7%) and France (+2.9%) offset by declines in the U.K. (-2.1%). Japan, which comprises almost 25% of the index and the majority of the Asian exposure, was up 3.6% 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 down 1.0% in the period, impacted by the Bank of Canada rate increase in the period. Shorter term bonds are less sensitive to interest rate changes, and therefore mitigate the potential for downside should interest rates continue to risey. 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 0.0% return in Q3.

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 declined slightly in the third quarter.