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	
		Q3	**YTD**
Representative Portfolio Total		2.4%	14.0%
Equities	Canada	3.4%	22.3%
	US	2.9%	17.2%
	International	2.4%	17.3%
Fixed Income	Canada	1.5%	7.1%
	US	2.0%	6.8%
	International	2.6%	8.2%
Cash & Equivalents		0.5%	1.5%

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

The representative 18 AM Balanced portfolio, which utilizes a 60% Equity/40% Fixed Income mix, gained 2.4% in the third quarter. As can be seen in the table above, each of the asset classes in the 18 AM Balanced Strategy generated positive returns in Q3. The amount of contribution from each asset class is a function of the weight of each allocation within the portfolio.

The strategy's actively managed allocation to Canadian equities was the strategy's best performing asset class in Q3. Within that allocation, the Defence (income/value) style was up 7.6% while the Offence (growth/momentum) style declined 0.6%. Each style represents 50% of the Canadian Equity portfolio. Top contributors to the portfolio in Q3 were all within the Defence style including Metro (+19.1%), Canadian Apartment REIT (+13.4%), Sun Life Financial (+10.3%). Bottom contributors to the portfolio were from the Offence style, including Bausch Health Companies (-12.6%) and Lundin Mining (-9.2%), both of which were removed from the portfolio in the period.

US and International equities also provided positive contributions to the strategy's overall Q3 performance. Currently, the strategy has currency exposure solely on the US Equity allocation as all other non-domestic currency exposures are hedged. The US dollar appreciated 1.1% versus the Canadian dollar in Q3.

2019 has seen a downward trend in interest rates once again, and as a result in fixed income allocations have generated solid performance in Q3 and year-to-date. The portfolio has benefitted from the diversification of fixed income across regions, through both incremental return from non-domestic fixed income and a reduction of risk.

**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

To the surprise of many market watchers, global equity markets have shown remarkable resilience in the face of turbulent politics and uncertain global trade. As a result, most equity major indices have generated positive performance numbers year-to-date that are well above long term averages.

The broad Canadian Equity market, as represented by the TSX Index, rose 2.5% in Q3, and 19.1% year-to-date. Nine of 11 sectors were positive in the quarter. Utilities (+9.5%) and Real Estate (8.5%) were top performing sectors, as declining interest rates propelled investor support for dividend yield. Weak performance in the Cannabis sector handed Health Care the title of worst performing sector in Q3, down 12.6%. Top performers included Canfor (46.1%) a lumber company, mining company Eldorado Gold (+34.8%) and mortgage lenders Home Capital Group (+32.9%) and Genworth MI Canada (+31.8%). Cannabis stocks dominated the bottom performers with 4 of the worst 5 stocks from this sector, including Canopy Growth (-42.6%) and Aurora Cannabis (-43.3%). From a style perspective, both Dow Jones Growth and Value indices are positive year-to-date, however Growth has outperformed the broader market, while Value has lagged. Relative to the start of the year, the TSX fundamentals have moderated but remain attractive. Despite the strong appreciation in stock prices, valuations have stabilized at 14.4x earnings after peaking at 15.2x earlier this year. 2019 earnings are expected to grow moderately at 5.0% versus 2018, while 2020 earnings are expected to reaccelerate.

The S&P 500 index added an additional 1.7% in the third quarter, bringing the year-to-date return to 20.6%. Nine of the 11 industry sectors in the S&P 500 experienced gains in Q3. Utilities (+9.3%), Real Estate (+7.7%) and Consumer Staples (+6.1%) were the top 3 performing sectors. Energy (-6.3%) and Health Care (-2.2%) were the only sectors with negative returns in the quarter. In Q3, winning stocks were led by KLA Group (semi-conductor industry service provider), up 35.7%, Western Digital Corp (hard disk drive maker) which rose 25.4%, while Target Corp (department store retailer) was up 24.4%. Notable losers were Nektar Therapeutics (bio-pharmaceuticals), falling more than 48%, DXC Technology Co (Technology Services) down 46% and Concho Resources (Oil & Gas exploration) dropping by 34%.

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 Q3 of 1.8% in addition to the 14.2% in the first half of the year (in their local currencies). In CAD, the index was flat in Q3, and up 9.5% for the year-to-date. The index's 4 largest exposures, which comprise 60% of the index, all posted gains in the quarter including, France (+3.1%), Switzerland (+2.4%), U.K. (+1.7%) and Japan (+3.5%).

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 1.2% in Q3 and 7.8% year-to-date. 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 0.3% 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 appreciated in Q3, outperforming Canadian Universe bonds.