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 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 carefully selected index funds to represent chosen asset classes. 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 to manage the overall portfolio risk. Over the long term, currency gains or losses are expected to be minimal.

The target asset mix for the representative 18 AM balanced portfolio is 60% equity and 40% fixed income. This portfolio gained 3.3% in Q2. Highlights of the quarter include:

- Domestic and global equities combined to drive the bulk of the gains. Canadian Equities were the best performing equity allocation and consequently contributed the largest share to the overall portfolio.
- Enhancing the equity market gains in Q2 was the portfolio's exposure to US dollar, which appreciated 1.9% versus the Canadian dollar. Currently, the portfolio has currency exposure solely on the US Equity allocation as all other non-domestic currency exposures are hedged. Comparatively, the benchmark currency exposure is 0% hedged, therefore it is impacted by 100% of any currency gains and losses.
- The actively managed allocation to Canadian equities performed in line with the benchmark in the quarter. Within that strategy, the Offence style (growth and momentum), significantly outperformed the Defence style (income and low risk). Security selection in Consumer Discretionary and Information Technology contributed positively, while the underweight in Energy detracted from the return.

Quarterly Performance *

Asset Class		Portfolio Weight	Portfolio Return	Benchmark Weight	Benchmark Return
Equities	Canada	23.4%	6.9%	30.0%	6.8%
	Global:			30.0%	3.8%
	US	22.8%	5.4%		
	International	14.6%	2.7%		
Fixed Income	Canada	19.3%	0.6%	35.0%	0.5%
	US	7.4%	-0.5%		
	International	7.6%	0.1%		
Cash & Equivalents		4.9%	0.3%	5.0%	0.3%
		100.0%	3.3%	100.0%	3.3%

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

We have time-tested our disciplined, systematic process through interest rate cycles, growth and retraction phases, and through our share of stock market shocks. Our balanced strategy is delivered via a separate account solution. This allows us to provide a low-cost, globally diverse portfolio that is customizable to each client's investment policy risk and return objectives.

**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.*

Market Overview

Equities

Canadian equities posted a strong second quarter, with the S&P/TSX Composite up 6.8%. Familiar themes continue to dominate headlines for Canadian market watchers, including the NAFTA negotiations, the potential for a housing correction and the over-extended position of Canadian consumer balance sheets. Notwithstanding, the fundamental profile of the Canadian market has continued to improve since the beginning of the year. A variety of metrics provide evidence of the continuing strength of TSX earnings, including positive quarterly momentum of reported earnings, positive earnings surprise in the most recent quarter and continued upward revision of earnings estimates for 2018 by Bay street analysts. As of the mid-point of the year, analysts estimate year over year earnings growth to reach almost 20%, as compared to an expectation of only 4% at the outset of 2018. With the strong growth and moderate price performance, the market's valuation has also improved. Currently, the current Price/Earning ("PE")s ratio of the TSX is 14.4 times, versus 15.3 times at the start of the year.

The S&P 500 Composite Index, representing US Large Caps, gained 3.4% for Q2. Stocks with Q2 gains outpaced losers by a 3 to 2 margin, and 7 of the 11 industry sectors experienced positive Q2 returns. Earnings continue to be a market driver. Q1 operating earnings (reported in April and May) for the S&P 500 of $36.54 were the highest quarterly earnings level ever recorded, the fourth record-setting quarter in a row. S&P 500 earnings for Q2 2018 (reported in July and August) are forecast to be $38.69, another record quarterly level. In fact, Wall Street analysts are expecting each successive quarter in 2018 to establish a new quarterly earnings record. Earnings forecasts for 2018 project a 27% growth rate over calendar 2017. Despite the strong earnings, the S&P 500 is trading at a PE multiple of 16.1 times, exactly equal to the 25-year average PE for the S&P 500, suggesting that the market is not aggressively valued.

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 3.8% in their local currencies. European countries fared well, with strong performance coming from the U.K. (up 8%) and the Netherlands (up 8.7%). In contrast, Japan, which comprises almost 25% of the index and the majority of the Asian exposure, was up only 1% 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 0.60% 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. The short-term index was up 0.25% 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. In Q2, the US index declined 0.5%, while the International index gained 0.1% (stated in USD). The divergent returns in the period highlight the benefits of diversification within this asset class.