THIRD QUARTER 2019

GROWTH WITH MODERATE INCOME

Asset class returns were mixed in the third quarter, with a slight gain for global equities and positive returns in fixed income. Equity markets were challenged by concerns that escalating trade tensions were weighing on the growth outlook, though these pressures were somewhat offset by support from lower interest rates and contained inflation. Interest rates globally moved lower in the quarter, with the 10-year U.S. Treasury yield declining sharply to 1.47% in August before rebounding somewhat to end the quarter at 1.66%. Concerns on the growth environment also led to accommodative policy moves from a number of central banks across the world including the Federal Reserve and the European Central Bank.

We made two changes in asset allocation in the quarter. In July, we increased our U.S. equity allocation and decreased our investment grade fixed income allocation with the goal of moderately increasing the risk profile of the portfolio given a combination of recently easing trade tensions and the prospect of Federal Reserve rate cuts. In August, we increased our U.S. equity, investment grade fixed income, global real estate and global listed infrastructure allocations, funded by a decrease in our emerging market equity allocation. The tactical change was designed to largely maintain strong conviction tactical positions and the risk profile of the portfolio following our annual strategic asset allocation update. Currently, the portfolio has overweights concentrated in high yield fixed income, U.S. equities, global real estate and global listed infrastructure, funded by underweights across investment grade fixed income, inflation-linked fixed income, cash and emerging market equities. The portfolio ended the quarter with a moderately higher risk level than its strategic benchmark.

Performance for the quarter was negatively impacted by strategic positioning, despite small benefits from tactical positioning and fund implementation. Strategic positioning was hurt mainly by weak performance in natural resources compared to global equities. Tactical positioning benefitted performance modestly as the underweight to emerging market equities and overweights to global real estate and high yield fixed income overcame headwinds from the underweight to investment grade fixed income. Our broader-based developed markets ex-U.S. factor tilt strategy (TLTD), our global natural resources strategy (GUNR) and our global listed infrastructure strategy (NFRA) were the main contributors in terms of fund implementation, while our broader-based U.S. market factor tilt strategy (TILT) and our broader-based emerging markets factor tilt strategy (TLTE) were the main detractors.

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