

THIRD QUARTER 2019

MAXIMUM GROWTH

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 one change in asset allocation in the quarter. In August, we increased our U.S. equity, global real estate and global listed infrastructure allocations, funded by decreases in emerging market equities and natural resources. 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 to U.S. equities, developed ex-U.S. equities, global real estate and global listed infrastructure, funded by an underweight to emerging market equities. The portfolio ended the quarter with a slightly lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

Performance for the quarter was negatively impacted by strategic positioning, despite benefits from tactical positioning and slight tailwinds from fund implementation. Strategic positioning was hurt mainly by weak performance in natural resources compared to global equities. Tactical positioning benefitted performance through the underweight to emerging market equities and the prior overweight (currently equal-weight) to high yield fixed income. Our broader-based developed markets ex-U.S. factor tilt strategy (TLTD) and our global natural resources strategy (GUNR) 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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