Commentary for the Third Quarter of 2018

Happy Anniversary

A decade ago, the global financial system teetered on the brink of collapse. Lehman Brothers, the U.S. investment bank, filed for bankruptcy – the largest in U.S. history – after regulators and competitors declined to provide a bailout. The fall of Lehman Bros., which happened on September 15, 2008, was among the first dominos in a chain of events that shook the confidence of investors around the world. Merrill Lynch would be rescued by Bank of America. Bear Stearns received an emergency bail-out from the U.S. Federal Reserve (the Fed) and JP Morgan Chase. The Fed also bailed out AIG, at the time, the world's largest insurance company.

At the heart of the crisis were subprime mortgages. These loans to borrowers with poor credit histories were bundled into packages with conventional mortgages and were labelled as investment-grade to unwitting investors who believed they were buying a low-risk investment. In reality, investors were buying loans which, when the U.S. housing bubble burst, became toxic as homeowners walked away from loans which were for far more than the declining value of their houses.

Because of the loans packaging, it was unclear who owned the debt, causing a liquidity crisis around the world as banks essentially stopped lending, worried for their own survival. Only extraordinary efforts by central bankers and governments worldwide prevented a meltdown of the global financial system.

In the ensuing 10 years, investors have reaped the benefits of widespread accommodative monetary policy by central banks around the world as ultra-low interest rates and quantitative easing (QE) programs were put into place. Under various QE programs, central banks bought up billions of dollars of bonds, essentially pumping money into the financial system to provide liquidity to banks and businesses.

This stimulative growth in the supply of money helped stabilize the global economy and set the world back on the path to growth – which we have seen in the last few years as virtually every market has been on an upswing from North America to Europe to Asia and among both developed and emerging markets (EMs). However, the balance sheets of central banks have become bloated and markets have come to rely on QE programs as they not only pushed down bond yields, thereby inflating bond prices, they propped up stock prices as well.

Now, the reverse is happening as central banks are ending quantitative easing and are moving to shrink their balance sheets. What is unknown is the future impact of ongoing efforts to tighten the world's monetary supply and normalize interest rate levels. We don't know how markets and economies will react as stimulative policies and programs are withdrawn. However, in our view, the benefits of QE have outweighed the potential costs and risks.

Former Fed chairman, Alan Greenspan once spoke of "irrational exuberance", when investors got carried away when times are good. The opposite can also happen when investors are fearful. Today, we see investors happily paying markedly higher multiples for stocks that are already highly valued. How long can this last? We don't know the answer to that question, but it doesn't mean we can ignore the ramifications. We don't want to take outsized risks, nor do we want to miss out on market growth because we weren't invested. With trade tensions still unresolved between the U.S. and China and later economic cycle risks pending, we are adopting the view that a more balanced approach is appropriate and we are making prudent adjustments in our portfolios aimed at effectively managing these risks.

Growth Portfolios – continued international tilt

While synchronized global growth was occurring earlier in the year, recently there has been a de-coupling of the U.S. with the rest of the world. U.S. macro-economic data continues to be very strong, while trade dispute impacts and rising U.S. rates have led to slowdowns in International and, in particular, EMs. We think EMs are now much more attractively priced and the value proposition is much improved. With U.S. markets near or at record levels, we have trimmed our exposure slightly and are now underweight U.S. and Canada as we continue to view international markets as offering better risk-adjusted opportunities. Our growth portfolios remain globally focused.

Income Portfolios – yield from varied sources

Rising bond yields are an ongoing concern for fixed income investors. Yields above 3% started to look attractive as an alternative to dividend stocks and we've entered that territory again at the end of Q3. We recently boosted our exposure to global fixed income, in particular EM bonds, as we view the recent downturn as overdone, making them more attractive on a relative basis. The downside to our global bond exposures is that they are more sensitive to investor sentiment. Broadly, our Core Plus fixed income strategy provides income from varied sources, lessens interest rate risk in investors' portfolios, and provides a reliable, sustainable income stream.

Balanced Portfolios – upside participation with a premium on downside protection

Our balanced portfolios reflect the changes to our equity holdings. We are overweight International equities and emerging markets, and underweight U.S. equities after trimming exposures on record highs. We remain underweight Canadian equities, and have boosted our allocation to the Counsel Global Trend Strategy with its built-in risk mitigation elements. The fixed income component of our balanced portfolios benefits from our Core Plus fixed income strategy as noted above.

Outlook

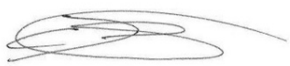
With trade tensions still unresolved and the current global expansion stretching into its 10th year, we think its appropriate for a more balanced approach. U.S. markets continue to reach new highs as the bull market is now the longest on record, eclipsing the previous record-holder in August. While this isn't a case of "irrational exuberance", and we retain a significant weighting in U.S. equities, we are being prudent in taking some profits off the table.

Bonds continue to play a crucial role in the portfolios, providing income, diversification and capital preservation. In this rising rate cycle, we are positioning our portfolios with increased diversification to global fixed income markets, ensuring we hold shorter duration securities which are less sensitive to rate increases, and selectively adding to higher yielding securities down the credit curve without significantly increasing credit risk.

We have been careful in the asset allocation changes we have made within our portfolios over this last quarter, and we also increased our exposure to the Counsel Global Trend Strategy to provide a safety valve in the event there is market stress. The strategy systematically shifts assets from negative-momentum equity markets to lower-risk bonds or even cash.

Together with our investment specialists, we continue to manage the risks relative to the expected returns for each of our portfolios. Our main focus is to reduce the impact of market declines. As always, we encourage you to follow a sound financial plan, and to speak with your Advisor to ensure you are on track to meeting your investment objectives.

Sincerely,



Corrado Tiralongo,
Chief Investment Officer

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