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Is our investment process still working?

By Alfred Lam, CFA
Senior Vice-President and Portfolio Manager, Investment Consulting

Faced with continued challenges in capital markets, our priorities are to ensure that our investment process is working and to fine-tune our portfolios if necessary. In general, the markets have behaved, albeit with some declines in equity markets. Low expectations for *short-term* economic growth have led to the re-pricing of *long-duration* investments, including both equities and long-term government bonds. We believe investors are rightfully discounting the short-term prospects of their investments but wrongfully pricing for extended challenges over the long term.

It is not unusual for any economy to experience a recession and, as a result, to see corporate earnings fluctuate from year to year. No one can time when a recession will begin or end, and the impacts will not be applied evenly to all sectors of an economy. To understand volatility, or the return of an equity investment, let's break it down into three components: dividend payouts, earnings growth, and price-earnings ratio. The dividend is probably the most predictable of the three. Most large-cap companies have a stable dividend yield of 2% and this information is broadly available. In terms of earnings, many investors think they are not as predictable, but this is not always the case. If an investor holds shares in only one company, the fluctuations can be wide, and unpredictable, from year to year. However, by diversifying, or owning shares in a number of different companies from various countries and sectors, the fluctuations decrease, reducing company-specific risk and making earnings more predictable. Over the long term, earnings, on a broad basis, grow with inflation and enhancements in productivity to generate annualized returns of about 4-6%.

The hardest component to predict is the price-earnings ratio, which measures what investors are willing to pay for one dollar of a company's future earnings. It sounds subjective, and it is. The investment world is represented by many individual opinions that together decide share values. Professional investors like ourselves have a long-term perspective and apply logic to evaluate prices. However, short-term traders have a shorter-term perspective and often do little research. Sometimes short-term traders may over or under-bid, thereby creating inefficiencies. We welcome market corrections as they create opportunities for long-term investors like us.

During the financial turmoil in 2008-09, investors were overly pessimistic and price-earnings ratios fell to as low as nine times. There were more sellers than buyers in equity markets and investors who bought equity at those levels enjoyed an outsized return as the rebound in price-earnings ratios provided a boost to performance and rewarded investors who patiently waited for valuations to move from being undervalued to fairly valued in six years. There are no longer more sellers than buyers in equity markets, but this does not mean that equities are expensive. Investors who are nervous and cautious help keep valuations from entering a bubble. We expect that long-term equity returns will be dominated by the other two factors: dividend payouts and earnings growth.

So back to the question, is our investment process working? That answer is yes. We take market corrections into account when we build and maintain our investment portfolios. Corrections can be random, or related to short-term economic performance or market valuations. We believe equities overall are fairly valued for long-term investors and our focus has been to minimize the negative impacts from random events and short-term economic performance. In our conservative portfolios, we own both short duration assets and also pair negatively correlated asset classes, such as government bonds with equity investments. A low growth environment generally results in low interest rates, which support bond prices. This relationship has held true during the recent equity market rout. For longer-term portfolios, random events do not change long-term performance expectations because recessions have always been followed by recoveries and time can be your best friend.

The United Enhanced Income mandate is widely owned in our conservative portfolios. Over the last 10 months, we have cut equity exposure and simultaneously increased government bond exposure. This effectively has changed the asset mix and risk attributes of our investment portfolios without having to rebalance the weightings of the individual pools owned in our portfolios. We also have the ability to re-allocate assets to high-yield corporate bonds or even back to equity if volatility settles or when valuations become attractive. We continue to monitor the markets and look for opportunities.

Combined top 15 equity holdings as of February 29, 2016 of a representative balanced Private Client Managed Portfolio with alpha-style equity exposure:*

1. Manitoba Telecom 2. Altagas 3. Atco 4. Galaxy Entertainment 5. Galp Energia	6. Alphabet Inc. 7. CIBC 8. Loblaw Companies 9. Microsoft 10. Empire	11. E-L Financial 12. Wienerberger 13. Johnson & Johnson 14. Accor 15. HeidelbergCement

Combined top 15 equity holdings as of February 29, 2016 of a representative balanced Private Client Managed Portfolio with value-style equity exposure:*

1. Toronto-Dominion Bank 2. Microsoft 3. Royal Bank of Canada 4. Bank of Nova Scotia 5. Apple	6. Chubb 7. Manulife Financial 8. Alphabet 9. UnitedHealth Group 10. American International	11. General Electric 12. CIBC 13. Aon 14. Danone 15. Allergan

*Approximately 37% fixed-income, 7% enhanced income, 49% equities and 7% global real estate.

To see the top 15 holdings of the individual United Pools or of the United equity Alpha mandates, please visit the United Financial web page by right clicking on this link and selecting "open web link in browser": http://www.assante.com/wp/optima/financials.jsp#united15.