Philosophy & Process

The primary objective of the Guardian Managed Income & Growth strategy is to provide a conservative balanced portfolio that emphasizes income generation, with some level of growth of capital, through diversified investments in Canadian and Foreign Equities or equity-related securities and in Fixed-Income securities, either long-term or short-term.

The strategy invests in securities of other investment funds managed by Guardian LP, and may also invest in other securities, including exchange traded funds, to achieve its performance objectives.

Strategic and tactical asset allocation are used to create a portfolio diversified by investment style, asset class and geographic region, with an emphasis on growth of capital.

Currently, the strategy's long-term asset mix policy is 60% equities and 40% bonds, with cash reserves incorporated in these two asset classes. If the asset mix between equities and bonds varies by more than 15% from the long-term mix, the strategy is normally rebalanced.

General Market Overview

In spite of the ebbs and flows of the tensions related to North Korea and the ongoing political dysfunction in the United States providing clouds over the outlook (while a short-term agreement was reached to avoid a U.S. government shutdown and potential debt default this month, these issues were simply delayed rather than outright resolved), the fact of the matter is that global economic fundamentals are perhaps healthier than they have been at any point over the last decade.

World GDP growth is projected to accelerate this year with the upward momentum expected to carry into 2018. And as positive as this overall improvement is, even better from a sustainability standpoint is that the growth is underlain by the best breadth since 2007 — all 45 of the countries monitored by the Organisation for Economic Co-ordination and Development (OECD) and 179 of the 191 countries tracked by the International Monetary Fund (IMF) are now projected to see real GDP expand this year.

Of course, the trajectories of all the economies are not exactly the same. The U.S. economy, which served as the main engine of global growth over the last eight years, now finds itself in a relatively mature stage of its economic cycle and has likely passed its peak in terms of growth momentum (though it continues to expand). Growth in Europe, in contrast, has picked up and broadened out against fading political risks in the region, while Japan has posted a run of growth stability it hasn't seen in over two decades. As well, many Emerging Market economies (most notably China and India) have re-established some verve in recent months. And Canada has quietly continued to be the best performing G7 economy, posting its best six months since 2011 in the first half of this year.

The more sanguine economic backdrop has been supportive of corporate earnings growth in general and has helped to further underpin positive performance in most financial assets. That said, the better outlook has also prompted major central banks to express a willingness to begin to unwind the ample monetary stimulus that has been in place since the financial crisis, pushing interest rates higher and weighing on fixed-income securities over the summer.

Importantly, though, price pressures remain fairly benign across the globe which means that central bank policymakers can take a gradual approach to normalizing their monetary policy stances — in fact, the signs of still-ebbing inflation in the Emerging Market economies (which are partly a function of stable to stronger currencies) suggest that central banks in some of these countries may prove just as willing to cut rates as they are to raise them (particularly those in Latin America).

In the advanced economies (with the notable exception of Japan, which remains fully in easing mode), however, the bias is tilted towards removing stimulus.

The U.S. Federal Reserve has hiked rates four times now since 2015 (most recently in June) and another policy rate increase remains on the table by year-end, while the expectation is that it will begin the process of normalizing its balance sheet in the coming months. The Bank of Canada reversed the two "insurance" rate cuts made in 2015 in fairly short order (25 basis point hikes in both July and September) and left the door wide open for further moves in the near future. And the European Central Bank is expected to announce its plans to scale back its asset purchase program in the coming months with the intention of beginning the tapering next year.

Fund Performance, August & YTD

The Fund returned 0.7% in August to bring the year-to-date return to 3.6%, which is ahead of its blended benchmark's return of 2.9% over the same period — the blended benchmark is comprised of 40% FTSE/TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, 30% MSCI World Index (Net, C$).

Performance in August was driven by gains in both equities and fixed-income holdings, with each asset class accounting for roughly half of the monthly increase. Within equities, exposure to Global equities did the heavy-lifting in August with the gains in European and Emerging Market stocks being further supported by the depreciation in the Canadian dollar, which increased the Canadian dollar-value of the securities. Fixed-income markets posted a strong month in August, with bond yields reversing a bulk of the increases recorded in the prior month. Government bonds outperformed corporates, resulting in a modest underperformance relative to the benchmark in the month.

Year-to-date, a key to the Fund's performance has been the general overweight of Equities and underweight of Fixed-Income throughout the period. In particular, the tilt toward Global equities has provided the biggest positive contribution to the Fund's returns and helped to mitigate the impact of the lagging performance of the allocation in the Canadian equity market.

The Fixed Income component of the Fund has kept pace with the benchmark FTSE/TMX Canada Universe Bond Index over the first eight months of the year, though being underweight has yielded a positive allocation effect for the overall portfolio. Both the core Canadian bond and High Yield components outperformed the benchmark, as the overweight to corporate bonds added value despite the overall increase in interest rates as yield spreads grinded lower over the first half. In contrast, the Short Duration exposure has underperformed the benchmark as the short-term bonds were disproportionately impacted by the shift in tenor from central banks amidst muted inflation.

Market Outlook

Despite prevailing uncertainties and risks to the outlook, the base-case remains for continued global growth against a general (albeit gradual) move higher in interest rates as central banks normalize their policies. Stock market valuations may constrain returns going forward, but continued earnings growth still supports positive performance, while dividend yields offer decent relative value relative to what is offered in sovereign bond markets. Moreover, the low yield environment does not provide much of a cushion against rising interest rates, leading to a less than desirable relative risk/reward trade-off in the fixed-income space versus that for equities.

Accordingly, the Fund's tactical asset mix continues to be overweight equities with the targets currently allocating 65% to Equities and 35% to Fixed-Income.

Within Fixed-Income, our underlying portfolios continue to be overweight comparatively higher-yielding corporate bonds in lieu of government securities. The Fund is comparably underweight High-Yield in favour of Short Duration to reduce credit risk while also managing duration risk in an environment in which we expect rates to rise.

The Equity component has a tilt to Global Equity over Canadian (34% to 31%; the target allocation is 30% for each), with increased exposure to Europe, Australasia and the Far East (EAFE) and Emerging Markets as these region offer better relative valuations and improving economic fundamentals.

The Fund is focused on providing a conservative balanced portfolio that emphasizes income generation with high quality growth of capital, and combines strategic asset allocation with the tools to tactically address investment changes and opportunities.