

GROWTH WITH MODERATE INCOME QUARTERLY PORTFOLIO UPDATE

Financial markets rebounded sharply in the first quarter, with global equities gaining more than 10% and nearly all major asset classes in positive territory for the quarter. The market recovery was largely driven by a reversal of overly pessimistic investor sentiment on the growth outlook in late 2018 especially given dovish pivots by central banks globally and some softening in trade tensions between the U.S. and China throughout early 2019. The Federal Reserve adopted a more patient stance early in the quarter, and eventually moved away from two additional forecasted hikes in 2019, while the European Central Bank backed away from previous guidance on possible rate hikes later in 2019. Interest rates moved lower over the quarter with the 10-year Treasury yield ending at 2.41% – nearly 30 basis points below its 2019 starting point. Equity market momentum faded a bit in March on resurfacing global growth concerns and ongoing Brexit uncertainty, but the first quarter still ended up as one of the best quarters for equity market performance in over ten years.

We made one change in asset allocation in the quarter. In January, we decreased our investment grade fixed income allocation while increasing our U.S. equity, emerging market equity and global real estate allocations. The tactical change increased the risk profile of the portfolio, as we believed that financial markets had become too pessimistic on the growth outlook, especially considering the early-January pivot by the Federal Reserve. U.S. and emerging market equities were considered well-positioned to benefit from a less restrictive Fed and less headwinds from trade tensions, while global real estate was expected to overcome overly negative investor sentiment and less headwinds from rising interest rates. Investment grade fixed income was moved back to an underweight position given the prior decline in interest rates as well as our view that risk assets looked more attractive over the tactical horizon. The tactical move in the first quarter reintroduced a measured overweight to risk from the previous neutral positioning at the start of 2019. Currently, the portfolio has a significant overweight to high yield fixed income and overweights to U.S. equities and global real estate, funded by underweights across investment grade fixed income, cash, inflation-linked fixed income and emerging market equities. The portfolio ended the quarter with a modestly higher risk level than its strategic benchmark.

Performance for the quarter benefitted from tactical and strategic positioning, despite headwinds from fund implementation. Strategic positioning was helped mainly by risk assets materially outperforming risk control assets, despite negative impacts from weak performance in high yield fixed income compared to global equities. Tactical positioning benefitted mainly from underweights to cash, inflation-linked fixed income and investment grade fixed income, modestly offset by the overweight to high yield fixed income. Our quality large cap U.S. equity strategy (QLC) and our broader-based developed markets ex-U.S. factor tilt strategy (TLTD) were the main detractors in terms of fund implementation, while our investment grade fixed income strategy (NOFIX), our broader-based emerging markets factor tilt strategy (TLTE) and our high yield fixed income strategy (NHFIX) were the main contributors.

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