

### A Diversified, Long-Term Perspective

Diversified balanced portfolios are invested in fixed income securities and North American and international equities. The objective of balanced mandates is to add value through long-term asset allocation rather than short-term arbitrage. The portfolio's volatility is kept to a minimum by implementing only incremental asset mix changes. The asset mix is a fallout of our bottom-up security selection approach, based on our view of the best risk/return opportunities. Asset allocation is reviewed weekly by the Investment Strategy Committee.

### PORTFOLIO CONSTRUCTION

The Fund shall be invested in fixed income and equity securities (including other JF Pooled Funds) using the same investment criteria as the JF Bond and Equity funds in such proportions as may be established from time to time by the Investment Strategy Committee. The Fund's benchmark may therefore change over time.

Asset Mix Ranges:	Minimum	Current Benchmark	Maximum
Canadian Equities (S&P/TSX)	15.0%	30.0%	50.0%
US Equities (S&P 500)	5.0%	12.5%	35.0%
International Equities (MSCI EAFE net)	0.0%	12.5%	30.0%
Bonds (FTSE TMX Can. Universe Bond)	30.0%	37.5%	50.0%
Cash (FTSE TMX Can. 91-D T-Bills)	0.0%	5.0%	20.0%
Emerging Market Equities (MSCI EM Net)	0.0%	2.5%	5.0%

### ANNUALIZED PERFORMANCE (%)

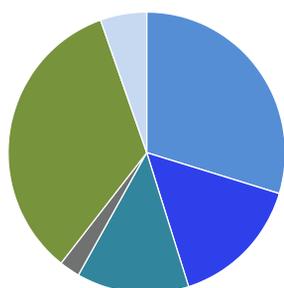
As of December 31, 2018

	3 mos.	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs
JF Balanced Fund	-4.1	-1.6	4.0	6.4	8.6	8.4	6.8
Benchmark <sup>1</sup>	-4.5	-2.4	4.1	5.2	6.4	6.9	5.8

### CALENDAR YEAR PERFORMANCE (%)

To December 31 <sup>st</sup>	2018	2017	2016	2015	2014	2013	2012
JF Balanced Fund	-1.6	6.9	6.9	8.2	11.8	18.5	10.7
Benchmark <sup>1</sup>	-2.4	7.5	7.5	3.7	10.1	11.7	7.2

### ASSET MIX



- Canadian Equities 29.7%
- US Equities 15.4%
- International Equities 13.1%
- Emerging Markets Equities 2.4%
- Bonds 34.0%
- Cash 5.4%

Inception Date	April 1, 1997
NAV per Unit	C\$13.9597
Quarterly Distribution	C\$0.1231430
Fund Size (\$M)	C\$1,946.9
Eligibility	Pensions; RRSP

### PORTFOLIO CHARACTERISTICS

\* 5-year period

	Fund	Benchmark <sup>1</sup>
Yield (%)	2.9	2.7
Sharpe Ratio*	1.0	0.9
Upside Capture*	115.7	100.0
Downside Capture*	105.4	100.0
Batting average*	0.6	-

### REPRESENTATIVE EQUITY HOLDINGS

	Sector
TD Bank	Financials
Enbridge	Energy
CN Railway	Industrials
Microsoft	Technology
Novartis AG	Health Care

### REPRESENTATIVE BOND HOLDINGS

	Coupon/Maturity
Bank of Nova Scotia	3.27%, 01/11/21
Royal Bank of Canada	2.03%, 03/15/21
Desjardins	1.75%, 03/02/20
Province of Ontario	2.40%, 06/02/26
Government of Canada	1.00%, 06/01/27

## MARKET & ECONOMIC REVIEW

The final quarter of 2018 saw heightened volatility, erasing the gains in equity indices from the last three quarters. Despite relatively strong economic fundamentals, generally accommodative monetary policy and a corporate tax cut in the U.S., the world's equity markets suffered their worst year since the global financial crisis. While the USMCA trade agreement will replace NAFTA, the trade dispute between the U.S. and China continues, and Brexit negotiations are ongoing. Both involve massive trade relationships that will be affected for years into the future. The world's central banks, led by the Federal Reserve in the U.S. (Fed), are on the path towards interest rate normalization. However, there has been great uncertainty around how far they will go and how fast. As expected, the Fed announced the fourth increase of 2018 in mid-December, but lowered its projections for future hikes, estimating that there will be an additional two increases in 2019.

In Canada, the narrative continues to be focused on the Energy sector, an issue that became quite divisive late in the year. Differentials between Western Canadian Select and West Texas Intermediate crude reached all-time highs in November. Trade tensions and the strong U.S. dollar have been the source of great uncertainty in emerging markets. Any country that lives with a substantial deficit in its current account has been particularly affected because much of their debt tends to be USD-denominated.

Over the course of the fourth quarter, the world's stock markets all declined.

## PORTFOLIO REVIEW

The portfolio slightly outperformed the benchmark during the fourth quarter, but still saw a negative return. Asset mix was a negative contributor this quarter, with the overweight in stocks and the wide-spread drop in equities detracting from top-line returns. On the upside, the portfolio's relative outperformance in all equity asset classes, especially in Canadian dollars, reduced the downside pressure.

While the fourth quarter erased the positive returns realized earlier in the year, the portfolio minimized the downside and delivered relatively good performance for the year. The allocation to U.S. equities, along with good performance and a strong U.S. dollar, provided a tailwind to performance. Canadian equities also performed relatively well in a weak market, helping to add value over the benchmark. This was somewhat offset by the substantial underweight in bonds, which eked out a small gain in absolute terms.

While the risk of recession is on the rise, leading economic indicators are not suggesting that the global economy will slip into negative growth in 2019. Our outlook remains cautiously positive. Hence, the portfolio remains overweight in U.S. and foreign equities, and underweight in bonds. Equity markets should still outperform bonds, especially given the recent correction.

## INVESTMENT STRATEGY

At this time, we do not believe that the fourth quarter correction in stock markets will extend far into 2019. Economic fundamentals are still relatively sound and leading indicators, while pointing to slower growth, are not suggesting that the next global recession will occur within the 12-18 months. Albeit, as the signs of recession become stronger, a reduction of the allocation to equities in favour of bonds merits consideration. Although we still believe in the power of equities to generate superior returns over the long run, there is a time in the cycle when reducing equity exposure makes sense.

No matter what phase of the cycle we are in, we continue to pay a great deal of attention to portfolio risk. Within this context, we believe Jarislowsky Fraser's high quality/low risk approach provides superior downside protection, while benefitting when the markets turn upwards. The current volatility also provides excellent opportunities to acquire quality securities at better valuations, and ultimately increase potential gains.

## INVESTMENT TEAM

Jarislowsky Fraser has a team-based approach that anchors a culture of collaborative decision-making. The Investment Strategy Committee (ISC), our central risk and investment oversight body, oversees the entire investment process to ensure that investment decisions adhere to the firm's long-standing philosophy and process.

<sup>1</sup> Benchmark : From 01/01/18: 30% S&P/TSX, 12.5% S&P 500, 12.5% MSCI EAFE Net, 2.5% MSCI Emerging Markets Net, 37.5% FTSE TMX Canada Univ., 5% FTSE TMX Canada 91-Day T-Bills. From 01/01/11: 30% S&P/TSX, 12.5% S&P 500, 12.5% MSCI EAFE Net, 39% FTSE TMX Canada Univ., 6% FTSE TMX Canada 91-Day T-Bills. Up to 12/31/10: 30% S&P/TSX, 12.5% S&P 500, 12.5% MSCI EAFE, 39% FTSE TMX Canada Univ., 6% FTSE TMX Canada 91-Day T-Bills; up to 12/31/06: 30% S&P/TSX, 13% S&P 500, 10% MSCI EAFE, 40% FTSE TMX Canada Univ., 7% FTSE TMX Canada 91-Day T-Bills; up to 06/30/05: 35% S&P/TSX, 9% S&P 500, 8% MSCI EAFE, 40% FTSE TMX Canada Univ., 8% FTSE TMX Canada 91-Day T-Bills.

The Bank of Nova Scotia (BNS) is the parent company of Jarislowsky, Fraser Limited. BNS securities held in the portfolio are related securities.

Returns for the JF Pooled Funds have been calculated using the net asset value (NAV), are gross of management fees and in Canadian dollars. C\$ Index returns and NAV values have been calculated using the London 4PM closing FX rates. Complete Investment Policy guidelines are available upon request. JF Pooled Funds are only available to Canadian residents. Past performance is not a guide to future performance. Future returns are not guaranteed. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. This document is prepared by Jarislowsky, Fraser Limited (JFL) and is provided for information purposes only, it is not intended to convey investment, legal, tax or individually tailored investment advice. All opinions and estimates contained in this report constitute JFL's judgment as of the time of writing and are provided in good faith. All data, facts and opinions presented in this document may change without notification. No use of the Jarislowsky, Fraser Limited name or any information contained in this report may be copied or redistributed without the prior written approval of JFL.

Source: S&P, Bloomberg, FTSE TMX Global Debt Capital Markets Inc., TD Securities and eVestment Alliance.