What investors should look at over the next 5 years.

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We're starting to see a variety of new topics crop up that matter a lot to us.

Why does climate change matter to me? Why is it something that I'm thinking about more and more? Well, one of which is that it simply flows directly into our forecasts. We know that more weather, more damaging weather, is actually impacting GDP. We know that companies are actually transitioning to new ways of operating that is actually slowing their growth in the near term. We know that central banks are recognizing this and saying, "We're going to stay on hold longer because we don't have as much clarity about what climate change is going to do in the future."

Here's another topic that's becoming increasingly relevant. China. The slowdown in China. The move from a manufacturing economy to a services economy. How does this change the way world trade operates? Well, in a big way, it means our economies become less focused on manufacturing and more domestic and more services-based over time. It means indicators we use to tell us about where we are in the cycle become less and less relevant each year that China slows. So I've highlighted some things today that matter, but they're certainly not the extent to all of them.

So, I told you that I sit on a lot of investment calls, about 15 hours of investment calls a week. One of the most important things that I do, my team and I help produce, in the asset allocation team, forecasts for various asset classes over the next five years. So, this is our fourth quarter 2019 estimates. You can see a whole range of them up here. We have what we expect over five years for U.S. large cap, we have Japan. I'm just going to highlight one thing that I think is particularly important here. I'm trying to see them.

Here's all our asset classes. Go to the very last right side. That's our global bonds. Global bonds over the next five years, in this low growth, low inflation environment are expected to give you 0.7%. It's not great. This is how everything we've talked about today flows into the way we talk about asset classes. Now, we've published a document we call foresight, which explains how we get to each one of these, that goes into detail, that explains the macroeconomic assumptions here. But every time I look at this, and we've been doing this for a few years, and that global bonds component always stays one of the lowest yielding investment classes over this period, all I can think is, when I joined here, I was told, "You have to think about your end client. Your end client needs 4 to 5% draw-down."

What is everybody forced to do? You have to start thinking about being more international, where you can go into emerging markets or you can go to world equity embassies and suddenly start seeing higher returns. You have to start thinking outside the box. Global infrastructure, one of our highest yielding asset classes over this period. REITs, hard assets. When we design our asset allocation product, we aren't thinking about, you know, stock bond models anymore. We're incorporating them, but we're thinking beyond. What are the asset classes of the future? How do we produce, carry, return, making sure we have small beta to the market? It isn't by focusing on things like global bonds anymore, it's by moving out international into alternative asset classes over time.

A lot of us spend time picking individual portfolio managers, and that is so important. We have to do that, you have to pick the best managers. You know, the difference between the top Canadian equity portfolio manager and the bottom, last year, was 3%. That's a big deal. In 2018. 3% is something you have to capture. But look at this. The difference between the top performing asset class and the bottom performing asset class in 2018 was 26%. That's massive. Your asset allocation decision becomes one of the most important ones that you do, because all these factors that I've spoken to you about today are determining the asset class returns on these asset classes over time. Not just in the next six months, but over the next five years as well.

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