Chorus II Low Volatility Portfolios

Quarterly commentary as of December 31, 2020

Market overview

Market performance as of December 31, 2020

	3 months	1 year	3 years	5 years	10 years
Fixed Income					
FTSE Canada Universe Bond Index	0.63	8.68	5.61	4.19	4.49
Bloomberg Barclays Multiverse Bond Index (CAD-hedged)	1.07	5.33	4.58	4.20	4.47
Growth					
MSCI Canada Index (total return)	8.65	3.47	4.17	8.07	4.78
MSCI USA Index (CAD) (total return)	7.79	18.61	15.12	13.08	16.28
MSCI EAFE Index (CAD) (total return)	10.68	5.92	4.86	5.61	8.16
MSCI Emerging Markets Index (CAD) (total return)	14.16	16.23	6.77	10.87	6.24
MSCI ACWI ex CANADA IMI (CAD) (total return)	10.38	14.50	10.51	10.28	12.12

Sources: Desjardins Investments Inc., Morningstar Inc.

Comments on market performance

- The global economy continues to be seriously affected by the spread of COVID-19. A resurgence in many parts of the world has resulted in a temporary deterioration of the global economic outlook because of the measures implemented to curb the pandemic. However, the beginning of vaccination campaigns in many countries has contributed to advances on the main global stock markets.
- In Canada, the steep rise in oil prices and the strong growth of the financial sector helped boost the stock market, which posted growth of 8.7% during the quarter[1]. Like many of the other central banks, the Bank of Canada maintained very favourable financing conditions to help the economy get through the pandemic and foster quick post-COVID growth.
- In the United States, the US presidential election created its share of uncertainty. Joe Biden's victory should lead to many changes in economic, health and environmental policy. On the equity side, the technology and finance sectors contributed to the 8.8% growth of the MSCI USA Index in Canadian dollars (total return). The Canadian dollar appreciated against the US dollar, reducing returns for US dollar-denominated assets.
- The level of volatility on the global financial markets remains relatively high due to uncertainty tied to the COVID-19 pandemic.
- The fourth quarter capped a tumultuous 2020. After an excellent 2019, the financial markets were keeping pace at the beginning of 2020, until the COVID-19 pandemic hit. After posting sharp retreats in February and March, the stock markets made a strong comeback thanks to government recovery programs, central bank interventions and the reopening of economies. The markets then fluctuated in line with the evolution of the pandemic and progress in the development and distribution of the various vaccines.
- All in all, 2020 was a positive year for the main stock and bond markets. As such, the US stock markets posted growth of 28.6% for the year, fuelled by the strong gains in technology stocks[2]. The Canadian stock market was slowed down by the energy sector and grew 3.5% in 2020[3]. On the bond side, the central banks' highly accommodative monetary policies put downward pressure on key rates, including in Canada, where this context contributed to the FTSE Canada Universe Bond Index's 8.7% return for the year.

[1] Based on the MSCI Canada Index quarterly return (total return).
[2] Based on the MSCI USA Index annual return in Canadian dollars (total return).
[3] Based on the MSCI Canada Index annual return (total return).

Portfolio performance (A-Class) as of December 31, 2020

	3 months	1 year	3 years	5 years	10 years	Since start of operations	Start date of operations
Chorus II Conservative Low Volatility	2.86	5.41	5.41	3.84	3.85	4.26	2011/11/28
Chorus II Moderate Low Volatility	3.30	4.74	4.74	3.73	4.10	4.84	2011/11/28
Chorus II Balanced Low Volatility	3.98	4.68	4.68	3.75	4.39	5.40	2011/11/28

In contrast with the indexes, portfolio return is established net of fees and expenses.
Sources: Desjardins Investments Inc.

Comments on portfolio performance as of December 31, 2020

Fixed Income (A-Class return)

- During the quarter, Canadian and global bond funds posted positive returns (0.50% to 6.95%), with the exception of the Global High Yield Bond Fund (-6.21%).
- All Canadian bond funds contributed significantly to low volatility portfolio returns. However, overall, foreign bonds made a greater contribution.
- The Canadian Bond Fund (0.78%) and the Global Corporate Bond Fund (2.94%) were the top contributors to portfolio returns.
- In line with the trend for the last two quarters, credit spreads continued to tighten to the benefit of underlying funds, with more exposure to corporate bonds. This was more pronounced for lower credit ratings, and some emerging markets saw growth, such as China, which reopened its economy well before others.
- The Emerging Market Bond Fund (9th percentile) and Global Total Return Bond Fund (13th percentile) appreciated 6.95% and 3.12%, respectively, last quarter. Also noteworthy is the Global Bond Fund, which was ranked among the best in the Canadian bond class (11th percentile).

Growth (A-Class return)

- Growth equity funds posted positive returns ranging from 4.22% to 15.39%, with the exception of the Low Volatility Global Equity Fund (-0.16%).
- The Emerging Markets Fund (14.51%) and the American Equity Value Fund (8.32%) were the top contributors to portfolio returns over the quarter.
- Canadian equities made a greater contribution than those from emerging countries and the US market. These strong results stemmed from Canada's energy, financial services and consumer discretionary sectors.
- We should point out that the Low Volatility Global Equity Fund was the only detractor from performance over the period. This underperformance was due to securities selection and the volatility factor.
- The American Equity Growth Fund posted a return of 14.92% and was ranked among the best in its class (8th percentile).
- The *style factors* that had the greatest positive impact on the portfolios were *size (developed countries) and value (Canada/EAFE)*. Conversely, *volatility (all markets)* and *momentum (all markets except emerging markets)* had an unfavourable impact.

Contribution to portfolio performance (A-Class) as of December 31, 2020

	Fixed income	Growth	Tactical asset allocation
Chorus II Conservative Low Volatility	++	++	–
Chorus II Moderate Low Volatility	+	+++	–
Chorus II Balanced Low Volatility	+	+++	–

Comments on portfolio tactical asset allocation as of December 31, 2020

- Lazard Asset Management's tactical allocations generated a slight decrease in value compared with neutral allocations (-0.02% to -0.04%) for the quarter. *(YTD 2020: 1.05% to 1.33%)*
- The trend suggests a swing back to optimism, so we increased our weighting in emerging debt with a better potential risk-return ratio, to the detriment of Canadian bonds.
- This position favours risk-taking by tilting allocations in favour of equities, with an overweight ranging from 0.85% to 1.25%.
- The rotation has continued and favours diversified exposure over *growth*, including the sectors that have benefited the most from COVID-19, such as technology, and *momentum* toward sectors that are sensitive to economic activity.