

Chorus II Low Volatility Portfolios

Quarterly commentary as of September 30, 2021



Market overview

Market performance as of September 30, 2021 (%)

	3 months	1 year	3 years	5 years	10 years
Fixed Income					
FTSE Canada Universe Bond Index	0.51	3.35	4.32	2.59	3.33
Bloomberg Barclays Multiverse Bond Index (CAD-hedged)	0.09	0.21	4.31	2.59	3.83
Growth					
MSCI Canada Index (total return)	0.28	26.99	9.42	8.59	7.90
MSCI USA Index (CAD) (total return)	2.62	23.25	15.35	15.81	18.42
MSCI EAFE Index (CAD) (total return)	1.85	19.25	6.90	8.02	10.23
MSCI Emerging Markets Index (CAD) (total return)	5.97	12.11	7.86	8.43	8.18
MSCI ACWI ex CANADA IMI (CAD) (total return)	1.20	22.10	11.68	12.35	14.42

Sources: Desjardins Investments Inc., Morningstar Inc.

Comments on market performance

- The gradual deployment of the COVID-19 vaccine has helped improve the global economic situation. This improvement is reflected in the growth of the GDP of most countries, which may put the global economy back on track to return to pre-pandemic levels. There are still lingering uncertainties about the progress of the pandemic, however, threatening an economy that is already weakened by COVID-19.
- Despite good economic growth in the country, the Canadian stock market showed a return of 0.3% for the third quarter, according to the MSCI Canada Index (total return). This outcome was due primarily to the poor performance of the materials sector. On the bond front, the FTSE Canada Universe Bond Index rang in at 0.5%, due to the declining value of Canadian government bonds. At the same time, the Bank of Canada (BoC) is continuing its monetary easing program to keep interest rates low by purchasing bonds.
- On the US stock market, the MSCI USA Index in Canadian dollars (total return) delivered a return of 2.6% for the third quarter. This gain is due primarily to the information technology sector. The easing of public health restrictions and the government stimulus plan also provided strong support for US consumption.
- In the emerging economies, the MSCI Emerging Markets Index in Canadian dollars (total return) dipped significantly, posting 6.0% for the current quarter. This decrease is related mainly to shrinkage in the Chinese stock market, which was deeply affected by the threat of bankruptcy in major players in the real estate sector, such as *Evergrande Real Estate Group*.
- The troubled situation in China and the encouraging economic performance in the United States have contributed significantly to the increase in the value of the US dollar, boosting returns on assets denominated in US currency.

Portfolio performance (A-Class) as of September 30, 2021 (%)

	3 months	1 year	3 years	5 years	10 years	Since start of operations	Start date of operations
Chorus II Conservative Low Volatility	-0.39	2.61	3.84	2.96	N/A	3.91	2013/05/17
Chorus II Moderate Low Volatility	-0.28	4.39	4.05	3.41	N/A	4.57	2013/05/10
Chorus II Balanced Low Volatility	-0.10	7.15	4.69	4.07	N/A	5.30	2013/05/17

Unlike the benchmarks, portfolio returns are net of fees and expenses.

Sources: Desjardins Investments Inc.

Comments on portfolio performance as of September 30, 2021

Fixed Income (A-Class return)

- Bond markets saw a mixed third quarter in 2021. The portfolios' fixed income funds posted returns ranging from -1.75% (Desjardins Emerging Markets Bond Fund) to 3.23% (iShares Broad USD High Yield Corporate Bond ETF).
- The Desjardins Canadian Bond Fund (-0.75%) detracted the most from the return on the portfolios' fixed income component due to its weighting and return. The Desjardins Enhanced Bond Fund (-0.52%) also detracted from the return on the portfolios' fixed income component. Canadian bond funds were penalized by the sharp rise in interest rates in the bond markets, as investors expect the Bank of Canada will hike its key rate in 2022.
- The Desjardins Global Government Bond Index Fund (-0.66% for Class I) also harmed the return on the portfolios' fixed income component, as investors expect the major central banks to normalize their monetary policies in 2022 and the U.S. Federal Reserve, in particular, to raise its key rate.

Growth (A-Class return)

- Stock markets also saw a mixed third quarter. The equity funds in the portfolios posted returns ranging from -8.74% (Desjardins Emerging Markets Fund) to 2.52% (Desjardins American Equity Value). Several equity funds posted small gains as investors grappled with pandemic uncertainty, a slowdown in global economic growth, the prospect of the major central banks normalizing their monetary policies, and the ongoing supply chain disruptions, which increased the risk of sustained inflation.
- The Desjardins Emerging Markets Fund (-8.74%) detracted heavily from the equity component's performance in the portfolios. Emerging market equities declined largely due to economic, financial and regulatory concerns from China.
- The Desjardins American Equity Value (2.52%), Low Volatility Canadian Equity (1.76%) and Global Equity (1.56%) funds contributed the most to the performance of the portfolios' equity component.

Contribution to portfolio performance (A-Class) as of September 30, 2021

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

Comments on portfolio tactical asset allocation as of September 30, 2021

- Lazard Asset Management ("Lazard") tactical interventions in the third quarter had a neutral effect.
- Since the beginning of COVID-19, Lazard has focused their analyses on the "pandemic triangle": the virus's behaviour, monetary policy and fiscal policy. How these three factors are impacting the economic recovery has become even more unclear given:
 - Renewed concerns about the spread of COVID-19 (especially the Delta variant) combined with a considerable number of unvaccinated people not only in countries with limited access to the vaccines, but also in the United States
 - Mixed economic data due in part to persistent supply chain problems
 - Fears that monetary and fiscal policies may be less accommodating than anticipated, especially if the consumer price indexes remain higher longer than expected
- Therefore, Lazard's forecasts for the next 6 to 12 months are not as optimistic.
- Lazard recommended reducing the allocation to certain asset classes that are more sensitive to the economic situation and increasing the allocation to more defensive asset classes. So, emerging market equity, global small cap equity and U.S. equity allocations were reduced, while Canadian bond and global corporate bond allocations were increased.

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