Chorus II Low Volatility Portfolios

Quarterly commentary as of June 30, 2020

Desjardins Wealth Management Investments

Market overview

Market performance as of June 30, 2020

	3 months	1 year	3 years	5 years	10 years
Fixed Income					
FTSE Canada Universe Bond Index	5.87	7.88	5.28	4.20	4.63
Bloomberg Barclays Multiverse Bond Index (CAD-hedged)	2.71	5.34	4.43	4.06	4.40
Growth					
MSCI Canada Index (total return)	14.99	−4.36	2.75	3.39	5.29
MSCI USA Index (CAD) (total return)	16.34	12.35	12.16	12.03	16.25
MSCI EAFE Index (CAD) (total return)	9.93	−1.12	2.42	3.85	8.39
MSCI Emerging Markets Index (CAD) (total return)	12.99	0.70	3.53	4.67	5.87
MSCI ACWI ex CANADA IMI (CAD) (total return)	14.58	5.73	7.38	8.13	12.10

Sources: Desjardins Investments Inc., Morningstar Inc.

Comments on market performance

- The gradual reopening of economies, large stimulus packages and growing hope for a new vaccine led to a strong rebound for the main stock markets around the world. The initial data on the global economy suggest a quicker recovery than expected.
- The upsurge in COVID-19 cases at the end of the quarter especially in the United States may nonetheless slow down economic recovery at the end of the quarter. The pandemic is currently the primary source of uncertainty on the financial markets, and there is every reason to believe that it will take several years before the economic environment returns to normal.
- Like many other countries around the globe, Canada experienced one of the worst recessions in its history, prompting one of the U.S. credit rating agencies to lower its rating. However, we should see the Canadian economy start to recover in May as lockdown measures are lifted. This was followed by a significant increase in the Canadian stock market fuelled in part by a sharp increase in the materials and technology sectors.
- In the United States, the technology sector contributed substantially to the best quarterly performance for the U.S. stock market in more than two decades. Furthermore, the U.S. Federal Reserve remains committed to using all the tools at its disposal to support the economy. Low interest rates and securities purchasing should continue for a while.
- The first country affected by the pandemic, China, was also one of the first economies to recover. Industrial production has already recovered to almost the same level as before the crisis. However, relations between China and a number of countries, including the United States, have deteriorated as a result of the coming into force of the national security act imposed by the Chinese regime on Hong Kong and the crackdown on demonstrators there.
- The Canadian dollar appreciated against most international currencies. Compared to the U.S. dollar, the value of the Canadian dollar increased by 4.5% over the quarter, decreasing the value of assets denominated in foreign currencies.

Portfolio performance (A-Class) as of June 30, 2020

	3 months	1 year	3 years	5 years	10 years	Since start of operations	Start date of operations
Chorus II Conservative Low Volatility	7.86	2.84	3.00	2.86	–	3.99	2011/11/28
Chorus II Moderate Low Volatility	8.16	1.98	2.84	2.95	–	4.51	2011/11/28
Chorus II Balanced Low Volatility	8.42	1.24	2.67	2.98	–	4.98	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 June 30, 2020

Fixed Income (A-Class return)

- During the quarter, Canadian and global bond funds showed returns of between 2.57% and 17.45%.
- All income funds, both Canadian and foreign, contributed significantly to the return for low volatility portfolios.
- The Canadian Bond (6.46%) and Enhanced Bond (7.61%) funds were the largest contributors to portfolio performance.
- The Canadian dollar's appreciation compared to foreign currencies (US$, Euro, Pound, Yen) was beneficial for foreign bonds denominated in Canadian dollars (hedging of exchange rate risk).
- The level of liquidity for bond securities recovered, driven by global central bank policies. Also, a tightening in the credit spreads was beneficial to a wide range of corporate bonds.
- The Global High Yield Bond and Global Corporate Bond funds appreciated by 17.45% and 7.98% respectively. Also noteworthy is the Global Bond Fund, which is one of the best in its class (9th percentile).

Growth (A-Class return)

- Growth-dedicated equity funds posted positive returns of between 6.07% and 26.32%.
- The American Equity Growth (26.32%) and Canadian Equity (26.32%) funds were the largest contributors to portfolio returns over the quarter.
- The Canadian equity category is back on track with the recovery of the energy sector and the significant contribution of the materials and consumer discretionary sectors.
- It should be noted that the Low Volatility Global Equity and Global Dividend funds fared less well during this period because of defensive sectors, including utilities, healthcare and consumer non-cyclical.
- The performance of the American Equity Growth Fund is worth noting, since it finished among the best in its class. (5th percentile).
- The *style factors* that had the greatest impact on the portfolios are **growth** *(in Canada/U.S.)* and **momentum** for emerging markets. Conversely, **volatility** and **value** style factors were unfavourable.

Contribution to portfolio performance (A-Class) as of June 30, 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 June 30, 2020

- For the quarter, Lazard Asset Management's tactical interventions generated a slight decrease in value compared with neutral allocations (between -0.05% and -0.08%).
- The manager maintained their conservative position, preferring longer-term Canadian bonds and quality global bond securities over emerging country securities and those from sectors sensitive to economic cycles.
- At the beginning of April, the manager adjusted their forecast by increasing exposure to global small cap equities and reducing Canadian bonds. This decision was based on the U.S. Congress' stimulus package, aimed at small and medium-sized businesses. It should be noted that this decision was profitable for investors.