Chorus II Low Volatility Portfolios

Quarterly commentary as of September 30, 2020

Desjardins Wealth Management Investments

Market overview

Market performance as of September 30, 2020

	3 months	1 year	3 years	5 years	10 years
Fixed Income					
FTSE Canada Universe Bond Index	0.44	7.08	6.09	4.26	4.35
Bloomberg Barclays Multiverse Bond Index (CAD-hedged)	0.81	3.77	4.46	3.99	4.22
Growth					
MSCI Canada Index (total return)	4.11	–2.17	2.81	5.93	4.78
MSCI USA Index (CAD) (total return)	7.40	17.44	14.69	13.64	16.23
MSCI EAFE Index (CAD) (total return)	2.78	1.39	2.85	5.18	7.42
MSCI Emerging Markets Index (CAD) (total return)	7.45	11.52	4.69	8.89	5.25
MSCI ACWI ex CANADA IMI (CAD) (total return)	6.07	10.91	9.02	10.01	11.64

Sources: Desjardins Investments Inc., Morningstar Inc.

Comments on market performance

- The global economy has been gravely impacted COVID-19 and measures to curb the pandemic. Nevertheless, since the start of the quarter, a number of economic indicators have significantly improved, signalling a gradual economic recovery.
- The reopening of economies, government support programs, low interest rates and hopes for a coronavirus vaccine have helped spur the overall rise of global stock markets, including those in emerging markets which posted a gain of 7.4% over the quarter.[1] In this regard, China is one of a handful of countries that has already exceeded its pre-pandemic GDP.
- Like for many countries around the world, the strong rebound in activity over the summer due to the gradual lifting of lockdown measures enabled the Canadian economy to make up for some of its losses early in the year. The Canadian stock market advanced over the quarter, fuelled by industrials and materials. The Bank of Canada's decision to maintain key rates at their effective lower bound and its intention to pursue its easing program continue to support the Canadian economy.
- In the United States, the technology and consumer discretionary sectors contributed to advances on the country's main stock markets. At the same time, the U.S. presidential election has created its share of uncertainty for both local and global financial markets.
- In Europe, despite an improvement in most economic indicators, a number of signs of fading momentum are beginning to show. Furthermore, negotiations between the European Union and the United Kingdom have dragged on, reviving fears of a no-deal Brexit.
- The level of volatility on the global financial markets remains relatively high, particularly due to uncertainty tied to the COVID-19 pandemic and the development of a new vaccine.
- The Canadian dollar appreciated against the U.S. dollar, reducing returns for U.S. dollar-denominated assets, whereas it depreciated against most other international currencies, boosting returns for assets denominated in other currencies.

[1] Based on the MSCI Emerging Markets Index (CAD) (total return).

Portfolio performance (A-Class) as of September 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	1.53	2.48	3.13	3.70	3.54	4.05	2011/11/28
Chorus II Moderate Low Volatility	1.80	1.39	2.44	3.56	3.77	4.59	2011/11/28
Chorus II Balanced Low Volatility	2.23	0.67	2.04	3.46	4.00	5.09	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 September 30, 2020

Fixed Income (A-Class return)

- During the quarter, the Canadian and global bond funds showed returns varying from 0.48% to 9.41%.
- All income funds contributed positively to the return for low volatility portfolios. Foreign bonds made a larger contribution.
- The Canadian Bond (0.48%) and Global Total Return Bond (1.87%) funds were the greatest contributors to portfolio return.
- Credit spreads continued to narrow in the last quarter, although more substantially for high yield bonds than high-quality corporate bonds, and this sign of optimism was beneficial to the portfolios.
- The Global High Yield Bond (Class I) and Emerging Market Bond (7th percentile) funds appreciated 9.41% and 2.35% respectively in the last quarter. Also noteworthy is the Global Total Return Bond Fund, which is one of the best in its class (21st percentile).

Growth (A-Class return)

- Growth-dedicated equity funds all posted positive returns ranging from 1.73% to 8.01%, except for the Global Infrastructure Fund (-2.16%).
- The Global Equity (6.95%) and Low Volatility Global Equity (3.04%) funds proved to be the biggest contributors to portfolio return during the quarter.
- Canadian equity made a smaller contribution than American and emerging market equities. The gap stems from the pullbacks in the energy and health care sectors, as well as the financial sector's modest contribution.
- Note that the Global Infrastructure Fund was the only performance reducer during this period. The defensive nature of the sector, which is less correlated with economic activity, was penalized in the current context.
- The Overseas Equity Fund (8.01%), was among the best in its category, ranking in the 11th percentile.
- The *style factors* with the biggest positive impact on portfolio returns were **growth** *(U.S./emerging)* and **momentum** *(EAEO/Canada)*. Conversely, the style factors **dividend yield** *(emerging/U.S.)* and **value** *(all markets)* were unfavourable.

Contribution to portfolio performance (A-Class) as of September 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 September 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 -0.07%). *(Year to date: 1.07% and 1.32%).*
- However, the conservative position favouring quality bonds to the detriment of corporate and emerging credit negatively impacted the result. Also, the desired low volatility premium did not have a favourable outcome.
- The increase in exposure to global small cap equity based on the second U.S. Congress stimulus plan did not generate value.