

Chorus II Low Volatility Portfolios

Quarterly commentary as of December 31, 2022



Market overview

Market performance as of December 31, 2022 (%)

	3 months	1 year	3 years	5 years	10 years
Fixed income					
FTSE Canada Universe Bond Index	0.10	-11.69	-2.20	0.27	1.63
Bloomberg Barclays Multiverse Bond Index (CAD-hedged)	1.13	-11.48	-2.72	0.00	1.76
Growth					
MSCI Canada Index (total return)	5.93	-6.54	6.50	5.71	6.92
MSCI USA Index (CAD) (total return)	5.49	-14.02	8.54	10.46	15.32
MSCI EAFE Index (CAD) (total return)	15.71	-8.23	2.35	3.14	7.95
MSCI Emerging Markets Index (CAD) (total return)	8.18	-14.28	-1.26	0.16	4.61
MSCI ACWI ex CANADA IMI Index (CAD) (total return)	8.38	-12.66	5.38	6.64	11.49

Sources: Desjardins Investments Inc., Morningstar Inc.

Comments on market performance

- In 2022, Canada faced strong inflationary pressure, but by the end of the year, the trend decelerated and inflation began to stabilise. This directional change is largely attributable to the Bank of Canada's successive policy rate hikes. These increases were effective and helped to curb inflation in Q4 2022.
- The Canadian stock market posted returns of 5.9%, according to the MSCI Canada Index (total return). This result is largely due to strong showings from the Energy, Financials and Information Technology sectors. On the fixed income side, the FTSE Canada Universe Bond Index posted a positive return of 0.1%, led by strong performance from corporate bonds.
- The MSCI USA (CAD) (total return) index posted returns of 5.5% in the fourth quarter. This growth was primarily driven by the Health Care, Financials and Information Technology sectors.
- On the emerging markets front, the MSCI Emerging Markets Index (CAD) (total return) had a remarkable run, ending the quarter with a return of 8.2%. This increase is mainly due to a good performance by the Chinese market, which managed to mitigate the impact of the pandemic on its supply chains and commercial operations.
- Overall, 2022 was a challenging year for financial markets. US equities posted an annual return of -14.0% according to the MSCI USA Index (CAD) (total return), due to notable declines in the Financials and Consumer Discretionary sectors. The Canadian equity market, for its part, posted an annual return of -6.5%, as measured by the MSCI Canada Index (total return). This result is attributable to the sharp drops in the Financial and Information Technology sectors over 2022. According to the MSCI Emerging Markets Index (CAD), emerging markets posted a negative total return of -14.3% for 2022, mainly due to the Chinese market's difficulties with supply chains. As for fixed income, the FTSE Canada Universe Bond Index fell 11.7% in 2022, primarily due to the Bank of Canada's interest rate hikes.

Contribution to portfolio performance (A-Class) as of December 31, 2022

	3 months	1 year	3 years	5 years	10 years	Since start of operations	Start date of operations
Chorus II Conservative Low Volatility	2.01	-11.98	-2.07	-0.04	2.07	2.41	2011/11/28
Chorus II Moderate Low Volatility	2.66	-11.49	-1.53	0.35	2.74	3.08	2011/11/28
Chorus II Balanced Low Volatility	3.74	-10.63	-0.38	1.08	3.50	3.87	2011/11/28

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

Source: Desjardins Investments Inc.

Comments on portfolio performance as of December 31, 2022

Fixed Income (A-Class return)

- With the exception of the Desjardins Global Government Bond Index Fund, all Canadian bond funds and ETFs ended the fourth quarter with positive returns.
- The bond funds in the portfolios posted returns ranging from -0.3%* (Desjardins Global Government Bond Index Fund) to +9.9% (Desjardins Emerging Markets Bond Fund).
- The Desjardins Emerging Markets Bond Fund (+9.9%), the iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB) (+6.8%) and the Desjardins Global Corporate Bond Fund (+3.4%) were the largest contributors to the overall performance of fixed income funds.
- Due to its weighting and performance, the Desjardins Canadian Bond Fund (+0.2%) contributed the most to the fixed income component of the portfolios. The Desjardins Global Government Bond Index Fund (-0.3%) was the main detractor.
- Despite strong performance in the fourth quarter, the fixed income funds in the portfolios delivered annual returns ranging from -17.7% to -10.9%. Due to its high weighting, the Desjardins Canadian Bond Fund was the largest detractor from the overall performance of fixed income funds, with an annual return of -12.4%.

Growth (A-Class return)

- Over the last three months, all of the equity funds and ETFs in the portfolios posted positive returns ranging from +0.1% (Desjardins American Equity Growth Fund) to +15.6% (Desjardins International Equity Value Fund).
- The Desjardins International Equity Value Fund (+15.6%), the iShares Core MSCI EAFE IMI Index ETF (+15.4%) and the iShares MSCI EAFE Small-Cap ETF (+14.8%) are the funds that contributed most to the strong performance of the equity component of the portfolios.
- Overall, equity funds with significant investments in value or high dividend yield stocks fared better, while funds with large holdings in growth, quality or lower volatility stocks suffered the most during the fourth quarter of 2022.
- For 2022, the equity funds in the portfolios posted returns ranging from -29.0% to +1.1%. The Desjardins American Equity Growth Fund and the Desjardins Global Small Cap Equity Fund were the main detractors from overall equity fund performance with annual returns of -29.0% and -22.1% respectively. In contrast, the Desjardins Global Infrastructure Fund (+1.1%) most limited the decline in the growth component of the portfolios.

* Class I performance

Contribution to portfolio performance (Class A) as at December 31, 2022

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

Comments on portfolio tactical asset allocation

Lazard Asset Management ("Lazard") continually adjusted its outlook over the course of 2022 to take into account economic and geopolitical factors like the war in Ukraine, COVID-19 and global inflation. The tactical positions taken in 2022 had a slightly negative impact on the period's overall performance.

At the end of December, the following tactical positions were implemented:

- Reducing allocation to riskier asset classes like emerging markets bonds and global equity
 - Continuing to overweight global infrastructure
 - Continuing to allocate to liquid alternative strategies up to the allowable limit
- Overweighting of fixed income through increased allocation to global corporate bonds and Canadian short-term fixed income
 - Despite a slight overweighting, international equity remains underweight relative to other asset classes

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