INVESTMENT FUNDS

BOND

MONTHLY COMMENTARY

September 30, 2020

Compared to the first half of the year, the third quarter looked much quieter, and that was evident in the lower volatility of interest rates.

The most important factor impacting markets in September was the second wave of Covid-19, which was particularly severe in Canada and in several European countries. This is a direct consequence of the reopening of economies in a world where the virus has not been eradicated, and it led to some targeted restrictions on activities and businesses.

This second wave arrived at a time when economic data releases started to show that the speed of the recovery was slowing down. Vaccine developments are progressing at an unprecedented pace, and there are good chances that one could be approved and available for front-line workers and vulnerable people around the first quarter of 2021.

In the US, the failure of Democrats and Republicans to agree on a new fiscal package also added to the uncertainty regarding future growth. The November US election also adds to the uncertainty, as there are some risks of a contested election.

In Canada, the Speech from the Throne on September 23rd reinforced the message that some of the measures introduced to support the economy from the Covid-19 fallout would be extended, which will result in additional fiscal stimulus.

Looking ahead, we still expect the same factors to influence markets in the coming months: Covid-19 progression and vaccine development, the economic recovery and fiscal support, and finally monetary policy accommodation amid unprecedented debt issuance.

The main contributor to the fund's performance over the last quarter was an overweight position in corporate bonds as they returned 90 bps more than the Overall Index during this time. Recovery from the COVID-19-related economic shock combined with an ongoing search for yield in a very low rate environment provided a good backdrop for the corporate bond market. Since spreads tightened strongly during summertime, we reduced our risk to the asset class by selling longer term corporate bonds and buying shorter term tenors. In the context of low interest rates and an ongoing economic recovery, we believe that credit spreads should continue to tighten in the coming months due to the search for yield from investors and the support from central banks. We therefore remain overweight this market but have reduced our duration risk.

The second main contributor to our performance was our exposure to derivative products. We use derivatives opportunistically to manage our duration exposure or for relative value proposition between CAD rates and US rates.

The last contributor to our performance was our exposure to the provincial segment. We were generally overweight peripheral provinces against the benchmark provinces such as Ontario and Quebec. These bonds come with a higher yield-to-maturity that mostly explain their positive contribution for our portfolio.

Finally, one segment that was detrimental to our performance was our security selection in the Federal segment. We use these bonds to manage part of our duration exposure. We were not positioned adequately when rates started going up rapidly at the beginning of August.

As always, we stay nimble and opportunistic on duration. The current level of interest rates looks low compared to history, but we are in the middle of an exceptional crisis and central banks are extremely accommodative, so low rates are justified. Nonetheless, with the potential for increased inflation in the coming months and the amount of new issuance coming to fund large budgetary deficits, we could see slightly higher rates as the economy continues to recover. As a result, it will pay to deviate from the benchmark duration to capitalize on those moves.

ALEXANDRE MORIN, CFA

— Principal Portfolio Manager
— Joined iAIM in 2015
— More than 20 years of investment experience
— Bachelor’s degree in Business Administration, Université Laval

LOUIS GAGNON, CFA

— Senior Portfolio Manager
— Joined iAIM in 2005
— More than 30 years of investment experience
— Bachelor’s degrees in Business Administration and Economics, Université Laval

Main funds managed by the team

✓	Money Market
✓	Short Term Bond
✓	Bond
✓	IA Clarington Bond Fund
✓	IA Clarington Money Market Fund
✓	IA Clarington Real Return Bond Fund

iAIM snapshot

— Principal asset manager for iA Financial Group
— Major player in the asset management industry
— Manages $97 billion in general portfolios and segregated and mutual funds
— A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
— Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

DISCLAIMER

This document was prepared by iA Investment Management. Unless otherwise indicated, the segregated funds presented in this document are offered by iA Financial Group and the Mutual Funds presented are offered by iA Clarington Investments Inc.

The opinions expressed herein are based on current market conditions and may change without notice. They are not intended to provide investment advice. The forecasts provided herein are not guarantees of future performance, and include risks, uncertainty and assumptions. While these assumptions appear reasonable, there is no guarantee that they will be confirmed.

An investment in the mutual fund or the segregated fund may result in commissions, trailing commissions, management and other fees. Please read the prospectus or the Information Folder before making an investment. Each rate of return indicated is a historical annual compounded total rate of return that takes into account fluctuations in the value of units or shares and the reinvestment of all distributions and does not take into account buying commissions or redemption fees, investment fees, optional fees or tax on payable income by a unit holder, which would contribute to poor performance. Mutual Funds are not guaranteed and the segregated funds are guaranteed in part, under certain conditions. The value often fluctuates upward or downward, at the risk of the subscriber, and past performance is not indicative of future performance.

The rate of return is used to illustrate the effects of the compound growth rate only and is not intended to reflect the future values of the investment fund or the return on an investment in the investment funds.

iA Financial Group is a business name and trademark of Industrial Alliance Insurance and Financial Services Inc. iA Investment Management is a trademark and business name under which Industrial Alliance Investment Management Inc. operates. iA Investment Management and iA Clarington Investments Inc. are wholly owned subsidiaries of iA Financial Group.

This publication contains information provided by companies not affiliated with iA Financial Group (“Third Party Content Providers”), including, but not limited to, ratings, stock indexes and company-classification systems (“Third Party Content”) Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

This publication contains information provided by companies not affiliated with iA Financial Group (“Third Party Content Providers”), including, but not limited to, ratings, stock indexes and company-classification systems (“Third Party Content”) Third party Content is the property and trademarked by the relevant Third Party Content Providers and has been licensed for use by iA Financial Group. The use of Data received from Third Party Content Providers by iA Financial Group is authorized under licence.

The information presented in this publication is provided for informational purposes only. iA Financial Group and Third Party Content Providers make no representations or warranties as to the information contained herein and no not guarantee its originality, accuracy or completeness. iA Financial Group and Third Party Content Providers disclaim all liability in respect of this information or the use or misuse thereof.

The investment funds offered by iA Financial Group (“Funds”) are not sponsored, endorsed, sold or promoted by Third Party Content Providers. Third Party Content Providers make no representation as to the relevance of investing in the Funds, offer no guarantee or conditions in respect thereof, or assume liability in respect of their design, administration or negotiation.

Financial and economic publications of iA Financial Group are not written, reviewed or approved by Third Party Content Providers.

Any information contained herein may not be copied, used or distributed without the written consent of iA Financial Group and/or the relevant Third Party Content Provider.

Where FTSE indexes are used, or referenced: FTSE International Limited (“FTSE”) © FTSE [2018] ® is a trademark of the London Stock Exchange Group companies and is used by FTSE under licence. “NAREIT®” is a trademark of the National Association of Real Estate Investment Trusts and used by FTSE under licence. “EPRA®” is a trademark of the European Public Estate Association and used by FTSE under licence. “TMX” is a trademark of the TSX Inc. used by FTSE under licence.

NASDAQ®, OMXTM, NASDAQ-100® and NASDAQ-100 Index® are registered trademarks of NASDAQ Inc. and are licensed for use by iA Financial Group.

Where the Global Industry Classification Standard (GICS) is used or referenced: the GICS was developed by MSCI Inc. (“MSCI”) and Standard & Poor’s Financial Services LLC (“S&P”) and is licensed for use by iA Financial Group.

The International Equity Index Fund, the Global Equity Index ACWI Fund, the Global Stock Account, the European Stock Account and the International Stock Account are each indexed to an MSCI index. MSCI indexes are licensed for use by iA Financial Group. For more information about the MSCI indexes, visit htpps://msci.com/indexes.