INVESTMENT FUNDS

INTERNATIONAL EQUITY

QUARTERLY COMMENTARY

December 31, 2020

The year 2020 was one of very high volatility in global equity markets. After sharp market declines early in the year, stock markets rebounded across the globe. This positive trend continued well into the fourth quarter. The U.S. presidential election and positive news on the vaccine front were the main drivers of the excellent performance through the end of the year. Europe was further helped by a last-minute trade deal reached with the U.K. in order to avoid a hard Brexit, as well as by the lifting of the ban on banks' dividends. The fourth quarter also brought rotation into cyclical stocks and the value investment style.

The MSCI EAFE index return was a positive 10.7% in the fourth quarter of 2020, ending the year with a gain of 5.9%. During the quarter, Europe and Asia-Pacific delivered relatively similar performance with Australia being the best-performing major market due to its high exposure to cyclicals and an improvement of their pandemic situation.

The best performing sectors were energy, financials and consumer discretionary driven by strong rally in cyclicals after positive vaccine news and the U.S. elections in November. The laggards were the defensive sectors such as health care, consumer staples and utilities, with health care being the only sector turning a negative return.

The International Equity fund underperformed the MSCI EAFE during the fourth quarter due to a more defensive positioning in our stock selection and sector allocation paired with unfavourable news for our Chinese stocks which reversed some of the stellar performance they delivered throughout the year.

Geographically, our very slight negative allocation came from our Asia-Pacific positioning. Our overweight in China and underweight in Australia were the negatives which were almost entirely offset by our positioning in South Korea, Taiwan and Japan. Our negative sector allocation was driven by our underweight in energy and financials which were the two leading sectors during the quarter while being overweight in health care, the worst-performing sector.

Comment on risk and opportunities going forward

On a regional level, we made very few changes to our country allocation and remain overweight in Continental European equities with a preference for France, Spain and Ireland and underweight in Switzerland and the U.K. However, we reduced our overweight in Germany after the strong performance in 2020. We remain positive on Continental European equities where we expect the ECB to keep an easy monetary policy bias for longer than anticipated to support growth in the region. On the fiscal side, the proposed EU recovery fund and the aggressive carbon emissions reduction target included in the Green deal will have a positive long-term impact on the growth trajectory of European economies and companies involved in green technologies. Europe is also more geared to a rebound in global economic activity and a recovery in emerging markets, especially China. Valuations for the region remain attractive on a relative, historical and absolute basis.

Our second-largest overweight is in Asia Pacific. We expect a gradual recovery in economic growth and earnings for the region driven by China and valuations are attractive relative to developed markets. Within Emerging Markets, we are keeping a preference for consumer-oriented stocks in Emerging Asia. We remain underweight Japan because of expensive valuation in quality stocks and better stock picking opportunities in other Asian countries such as Korea and Taiwan. Digitalization and decarbonisation will be key themes for the Japanese market this year, as well as ongoing improvements in corporate governance.

On a sector level, we favour growth sectors and quality stocks at a reasonable price within Healthcare, Technology and Utilities exposed to the Green deal in Europe. Our largest underweights are in Consumer Staples because of high valuation and Industrials. Within commodities we are maintaining our underweight in Energy because of poor long-term fundamentals.

As we start the first quarter of 2021, the biggest risks we are monitoring are the potential economic impact of a surge in COVID-19 cases in coming months with the emergence of new virus strains, the speed of the coronavirus vaccine roll-out and a stronger than expected stimulus package in the U.S. that would lead to a sharp rise in inflation and push bond yields higher.

We remain constructive on the outlook for equity markets with fully invested portfolios. Valuations are still attractive, but volatility is expected to remain high driven by the efficiency and speed of the vaccine roll-out, allowing life to return to normal. In any event, monetary and fiscal policies are expected to remain accommodative and market-friendly this year.

SEVGI IPEK, CFA

- Vice-President and Chief of International Equities
- Joined iAIM in 2008
- More than 25 years of investment experience
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PIERRE CHAPDELAINE, CFA

- Vice-President and Principal Portfolio Manager, International Equities
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Main funds managed by the team

✓	International Equity
✓	Global Equity
✓	Global True Conviction
✓	Global Equity Hybrid 75/25
✓	Global True Conviction Hybrid 75/25
✓	IA Clarington International Equity Fund
✓	IA Clarington Global Value 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

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