

FOR PRIVATE CLIENTS ONLY

LUFT FINANCIAL MODEL PORTFOLIOS

SEMI-ANNUAL REVIEW: FIRST HALF OF 2021
JULY 19, 2021

Robert Luft, CIM, CFP®

Luft Financial
Portfolio Manager
Director, Private Client Group
iA Private Wealth
Robert.Luft@iaprivatewealth.ca

Elvis Picardo, CFA®, CIM

Portfolio Manager
Director, Private Client Group
iA Private Wealth
Elvis.Picardo@iaprivatewealth.ca

Aaron Arnold, CIM, BA

Investment Advisor
iA Private Wealth
Aaron.Arnold@iaprivatewealth.ca



Your Vision

Our Goal

INDEX

SEMI-ANNUAL REVIEW

1. Equities buoyant in first half of 2021
2. Biggest rebound in hardest-hit sectors

PORTFOLIO REVIEW

3. Contributors & Detractors – Pension Model
4. Contributors & Detractors – Progress Balanced Growth Model
5. Portfolio Changes and Rebalances Summary
6. Steadfast Income Fund

OUTLOOK & PORTFOLIO STRATEGY

7. Record earnings projected to result from economic rebound
8. Rampant risk appetite may be ebbing
9. Main Models Asset Allocation

EQUITIES BUOYANT IN FIRST HALF OF 2021

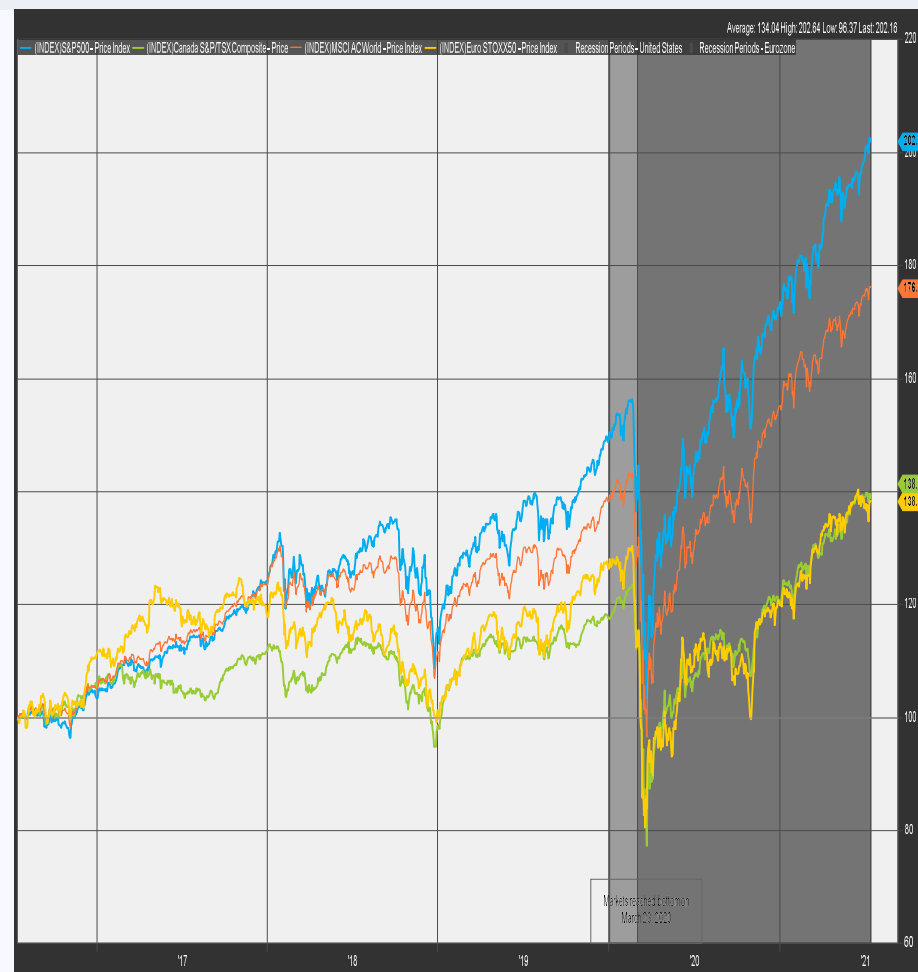
Equities continued their historic rebound from the pandemic-induced lows of March 2020 to trade at new highs in the first half of 2021. The TSX Composite traded above 20,000 for the first time in Q2, and the S&P 500 posted its second-best performance in the first half of a year since 1998.

The chart on the right displays the normalized change (starting from a base of 100) over the last five years for the TSX, S&P 500, MSCI World Index and Euro Stoxx 50. It demonstrates that these benchmark indices have not just surpassed their pre-pandemic highs but have done so at an astonishing pace over the past five quarters, propelled by record stimulus and earnings growth.

The TSX Composite surged 15.7% in the first six months of 2021, as the recovery in value stocks enabled it to post broad-based gains exceeding 7% in Q1 and Q2. The S&P 500 gained 14.4% in the first half, while the Dow Jones Industrial Average and Nasdaq Composite advanced 12.7% and 12.5% respectively. Most major European bourses also recorded gains in the mid-teens in the first half. Gains were restrained in Asian markets and the giant emerging economies of Brazil, China and India.

“Well begun is half done” goes the adage, but after such a stellar performance by global equities in the first half, investors should expect muted gains accompanied by higher volatility in the second half, in our opinion.

(Data & Chart Source: FactSet)



BIGGEST REBOUND IN HARDEST-HIT SECTORS

On a total return basis (price change plus dividends), the TSX returned 17.3% in the first six months of 2021, led by a rebound in the sectors that were hit the hardest last year.

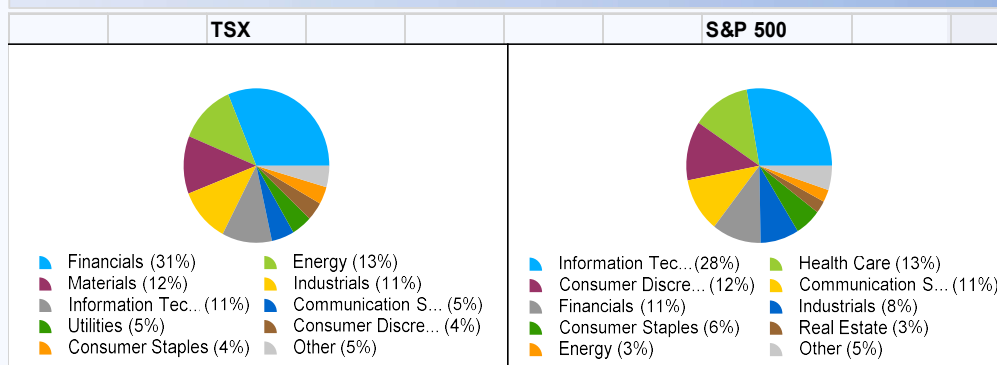
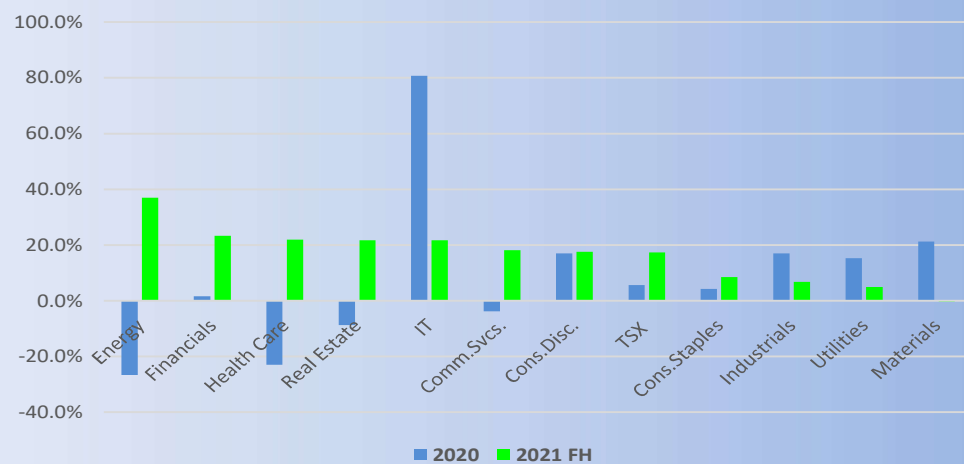
The energy sector topped the performance charts with a 37% return, as crude oil (WTI) soared 52% in the first half. Financials were next with a 23% return, thanks to the economic recovery, rising bond yields and strong capital markets. The health care, real estate and technology sectors posted returns of about 22% each, followed by the communication services and consumer discretionary sectors at 18%. The fact that as many as seven sectors topped the TSX Composite's return is evidence that index gains were truly broad.

The bottom sector performers on the TSX were defensive groups like consumer staples and utilities. The materials sector was the only one to post a negative return as it was dragged down by steep declines in the precious metals producers that dominate the group on the TSX.

As we have occasionally noted, the big three TSX sectors – financials, energy and materials – continue to see their combined share decline in the index, from as much as 70% in recent years to 56% presently. The continuing shift away from these cyclical sectors to knowledge-based industries like technology, communications and biotech bodes well for the long-term future of the Canadian economy and should also reduce TSX volatility through increased sector diversification. On the topic of diversification, the chart on the right is a compelling argument for including a significant U.S. component in Canadian portfolios. The S&P 500 has a much bigger weight in sectors like technology and communication services that are under-represented on the TSX and minimal weighting in sectors such as commodities and energy that together constitute one-fourth of the TSX.

(Data and Charts Source: FactSet)

TSX Sector Returns - 2021 (first half) vs. 2020 (FY)



PORTFOLIO REVIEW: CONTRIBUTORS AND DETRACTORS – PENSION MODEL PORTFOLIO

	Rescaled Weight	Return	Contribution		Rescaled Weight	Return	Contribution
Invesco S&P 500® Top 50 ETF	12.11	11.33	1.40	Barrick Gold Corp	4.10	-10.29	-0.33
Shaw Communications Inc Class B	1.99	64.20	1.14	Qualcomm Inc	2.81	-7.89	-0.18
CI Canadian REIT ETF	4.83	18.76	0.88	Invesco WilderHill Clean Energy ETF	1.03	-9.35	-0.13
CI Mstar Canada Mom ETF Comm	4.84	17.81	0.85	Verizon Communications Inc	2.36	-5.29	-0.12
AGF Global Select Series F	6.67	10.87	0.74	Canadian National Railway Co	2.20	-5.70	-0.11
BMO International Dividend ETF	6.23	8.07	0.51	The Walt Disney Co	2.24	-5.70	-0.11
CVS Health Corp	2.32	20.33	0.48	George Weston Ltd	0.03	25.51	0.01
Magna International Inc Class A	1.70	28.58	0.48	Johnson & Johnson	2.21	3.01	0.07
Loblaw Companies Ltd	2.08	22.62	0.46	Restaurant Brands International Inc	1.65	4.31	0.08
Nutrien Ltd	1.81	24.64	0.44	BMO Asian Growth & Income F	4.79	1.61	0.08

Source: Morningstar, Luft Financial

- In our Pension (Balanced Growth) model, the biggest contributors to performance were equally divided between ETFs and stocks.
- The Invesco S&P 500 Top 50 ETF (XLG) was the biggest contributor to performance, along with a couple of Canadian focused ETFs focused on REITs (RIT) and momentum (WXM). Other ETF contributors were AGF Global and BMO International, which invests in blue chips outside North America. Shaw Communications, which received a takeover offer from Rogers Communications in March, was the top-performing stock in our portfolio and second-biggest contributor overall. CVS Health, Magna International and Loblaw were other solid stock contributors.
- On the minus side of the ledger, the biggest detractors were Barrick Gold and some securities that were among the biggest positive contributors to performance in 2020, like Qualcomm, Canadian National Rail, Disney and BMO Asian Growth & Income Fund. We are confident in the long-term outlook for premier gold producer Barrick Gold, as well as stocks like Qualcomm, CNR and Disney that have leadership positions in their industries and a sustainable competitive advantage.

PORTFOLIO REVIEW: CONTRIBUTORS AND DETRACTORS – PROGRESS BALANCED GROWTH MODEL PORTFOLIO

	Rescaled Weight	Return	Contribution		Rescaled Weight	Return	Contribution
Fidelity Canadian Opportunities Sr F	30.51	14.86	4.43	BMO MSCI Emerging Markets ETF	5.08	4.85	0.26
TD U.S. Blue Chip Equity F	33.90	9.59	3.45	Starlight Global Infrastructure F	6.78	3.38	0.26
BMO International Dividend ETF	16.95	8.07	1.37	CI Canadian REIT ETF	6.78	18.76	1.23
CI Canadian REIT ETF	6.78	18.76	1.23	BMO International Dividend ETF	16.95	8.07	1.37
Starlight Global Infrastructure F	6.78	3.38	0.26	TD U.S. Blue Chip Equity F	33.90	9.59	3.45
BMO MSCI Emerging Markets ETF	5.08	4.85	0.26	Fidelity Canadian Opportunities Sr F	30.51	14.86	4.43

Source: Morningstar, Luft Financial

- Our smaller Progress model portfolios have far fewer securities than our larger models like Pension (Balanced Growth) and Pursuit (Growth), as they consist of ETFs and funds, but do not include single stocks.
- In our Progress Balanced Growth model portfolio, the biggest contributors to performance were two actively managed mutual funds that have been long-term outperformers. The Fidelity Canadian Opportunities Fund, returned 14.9% in the first six months, thanks to its holdings in National Bank, Dollarama and Aritzia. Our second-best performer, the TD US Blue Chip Equity Fund, returned 9.6% over the same period, led by the tech-giants such as Alphabet (Google), Facebook and Microsoft. Both these funds are also the two biggest equity holdings in our Pedestal model portfolios for small accounts.
- There were no securities with negative returns in the Progress Balanced Growth model, in the first half of 2021.

PORTFOLIO CHANGES AND REBALANCES SUMMARY

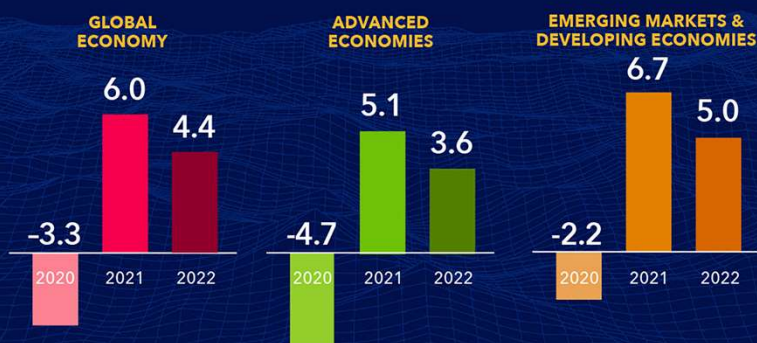
- We rebalanced client portfolios on multiple occasions over the first six months of 2021, as we added select securities to all portfolios and made some adjustments to our growth portfolios.
- In January, we took some gains off the table primarily in the USD sleeve of our Perennial-class portfolios. In our growth-oriented Pursuit model, we replaced a hedge fund with the Dynamic Power American Growth fund in order to boost allocation to growth. This fund is a top-performing fund run by Noah Blackstein that has generated compound annual returns of 20.4% in the 10 years to June 30, 2021.
- In March, we booked partial gains in one of our largest holdings – the Invesco S&P 500 Top 50 ETF (XLG) – by selling one-third of the position and deploying the proceeds into the Invesco S&P 500 Equal Weight Index ETF (EQL.U). The rationale for this rotation was to reduce the portfolio concentration risk that has risen in the S&P 500 due to the dominance of the FAANG stocks, and increase our exposure to value-oriented sectors. For example, EQL.U has a combined 20% weight in the technology and communication sectors (the latter includes Facebook and Google parent Alphabet), compared with a combined 56% for these two groups in XLG.
- Concurrently, we also sold our remaining position in General Electric (GE) and added the Invesco WilderHill Clean Energy ETF (PBW) in order to get exposure to the renewable energy sector.
- In June, we made a major change to the fixed income sleeve of client portfolios, by selling most of our existing holdings (except TD Fixed Income Pool) and buying the Steadfast Income Fund*. The Steadfast Income Fund is a proprietary fund that is managed by Majestic Asset Management, a portfolio manager of pooled funds based in Quebec. Additional details of the Steadfast Income Fund are provided on the following page.
- ***Disclosure:** Elvis Picardo is an Investment Committee Member for the Steadfast Income Fund, which is managed by Majestic Asset Management as the Portfolio Manager. Majestic is a portfolio manager of pooled funds and is not related to iA Private Wealth.

STEADFAST INCOME FUND

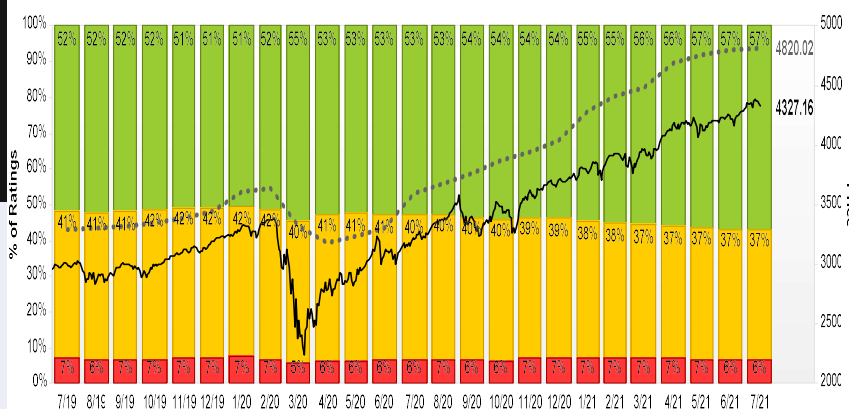
- The Steadfast Income Fund (MAJ383) consists primarily of fixed income funds and ETFs, with a small allocation to alternative fixed income products, actively managed by some of the best fixed income managers in Canada and globally. It is a proprietary product that has been developed by four advisory teams (including Luft Financial) at iA Private Wealth, and is managed by an Investment Committee that includes one representative from each team. The Fund has a yield of 3% and effective duration of 5.3 years.
- The Fund's objective is to provide income through exposure to Canadian and foreign fixed income investments by investing in mutual funds, ETFs and structured products. In keeping with the core objective for the fixed income component of a diversified portfolio, capital preservation is a key priority for the Steadfast Income Fund and takes precedence over portfolio return enhancement.
- The Steadfast Income Fund presently has the following holdings:
 - **BMO Canadian Aggregate Bond ETF** – The biggest Canadian fixed income ETF, it invests in a diversified portfolio of investment-grade federal, provincial and corporate bonds with a term to maturity greater than one year.
 - **PH&N Total Return Bond Fund** – This fund aims to provide stability of capital and maximum total return by investing in a diversified portfolio of Canadian fixed income securities; it returned 10.4% in 2020.
 - **BMO World Bond Fund** – The fund's objective is to provide a high level of interest income and some opportunity for growth, by investing in bonds and debentures issued by governments and corporations around the world and by supranational agencies like the World Bank.
 - **PIMCO Monthly Income Fund** – Managed by PIMCO, a global leader in fixed income investments with over \$2 trillion in AUM, this fund seeks maximum current income with capital preservation by investing mainly in non-Canadian dollar fixed income instruments of varying maturities.
 - **Canso Corporate Value Bond Fund** – A top-performing fund in its category with an annualized return of 9% over the past 15 years, this fund seeks to achieve above-average income returns through a diversified portfolio of debt and money market securities.
 - **IA Clarington Floating Rate Income Fund** – One of the largest Canadian funds in the niche sector of senior secured loan funds, the fund seeks to provide a steady stream of monthly income and maximize risk-adjusted returns through rigorous, bottom-up credit selection.
 - **Cortland Credit Strategies LP** – Positioned as a conservative alternative fixed income strategy, this is a short-term private debt fund designed to provide superior, low volatility returns, with the main underlying assets derived from Cortland's proprietary asset-based lending program.
 - **NinePoint Alternative Income Fund** – The Fund seeks to provide investors with exposure to alternative credit strategies that have no correlation to public markets in order to generate superior income and long term capital growth.

WORLD ECONOMIC OUTLOOK APRIL 2021

GROWTH PROJECTIONS



Buy=Overweight Rating HoldRating Underweight+Sell Rating • TargetPrice — Actual Price



RECORD EARNINGS PROJECTED TO RESULT FROM ECONOMIC REBOUND

- In its April World Economic Outlook, the International Monetary Fund increased its forecast for 2021 global growth from the 5.5% it had projected in January to 6%, the fastest expansion in IMF records dating back to 1980.
- Advanced economies like the U.S., U.K. and Europe were hit much harder by the pandemic than emerging nations in 2020, but the situation has reversed this year. The rapid rollout of Covid-19 vaccines in major developed nations has resulted in their economies being on track to reopening and recovery, while the coronavirus has ravaged populations in major emerging economies such as Brazil, India and Indonesia. This may result in downward revisions to their already low growth estimates, which contrasts with the robust growth estimates for the U.S. (6.4%), Canada (5.0%) and the Euro area (4.4%). The IMF report points out that such divergence is being seen not only across countries, but also across sectors, with a disconnect apparent between asset prices and the rest of the economy as well.
- Notwithstanding such divergence and the uncertainty caused by new virus variants, strategists forecast that the economic rebound will translate into record corporate earnings. TSX index earnings, which had slumped 29% in 2020, are forecast to surge 73% to \$1289 in 2021 and increase 8% to \$1396 in 2022. S&P 500 index earnings are forecast to rebound 38% to \$191 in 2021 (from a 14% decline in 2020) and rise 11% to about \$212 in 2022.
- Exceptional earnings growth has led to strategists ratcheting their index targets steadily higher. The upside target for the TSX now stands at 22,813, or 14.1% higher than its July 16, 2021, closing level of 19,985. For the S&P 500, the target is 4,820 (see chart on left), representing 11.4% upside from its July 16 close of 4,327.

Sources: IMF.org (top chart), FactSet (bottom chart)

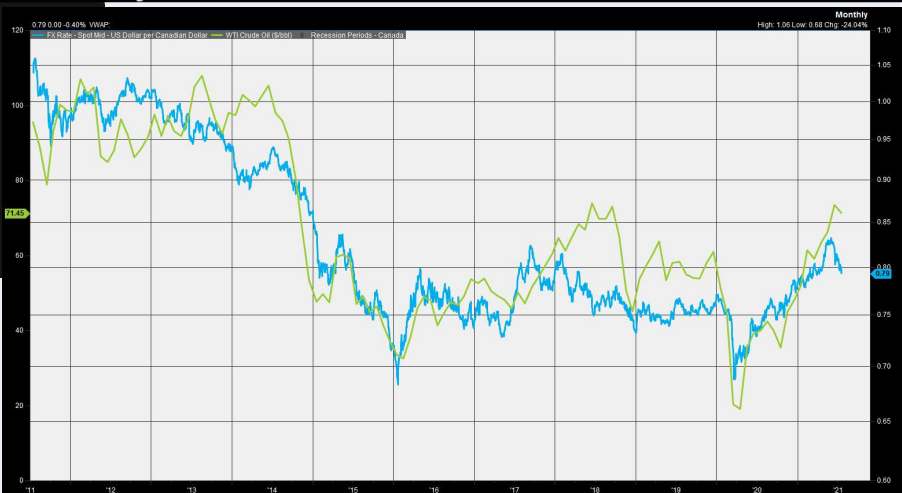
The Future's Looking Flatter

The U.S. yield curve has broken below its 200-day moving average

■ Market Matrix US Sell 2 Year & Buy 10 Year Bond Yield Spread - Mid Price ■ SMAVG (200) (USYC2Y10) 109.122



Source: Bloomberg

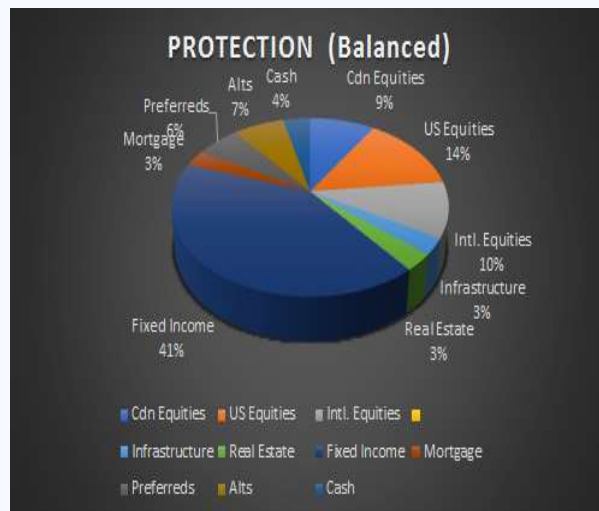


RAMPANT RISK APPETITE MAY BE EBBING

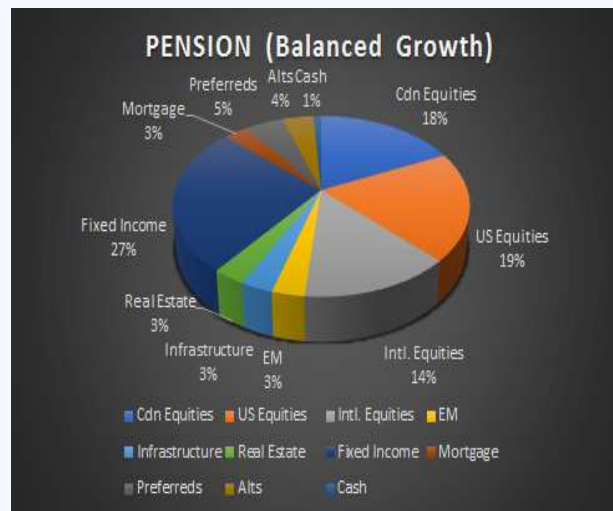
- The rampant risk appetite that was present through much of the first half seems to be ebbing, judging by multiple factors – the recent retreat in equities, pullback in commodity prices, lower bond yields and a decline in “risk on” currencies like the Canadian dollar. This means that two undesirable consequences of robust global growth – the possibility of significantly higher inflation and steep CAD appreciation – pose less of a challenge to Canadian investors than they did earlier this year.
- As economies began reopening in the first half, inflation concerns escalated due to the mismatch between surging demand and pandemic-curtailed supply. The Bank of Canada and U.S. Federal Reserve, however, have consistently maintained that current inflation pressures are transitory. The Bank of Canada does not expect to raise interest rates before the second half of 2022, while Federal Reserve policymakers expect to raise interest rates twice by end-2023.
- Bond yields had spiked from last year's lows in the first half but have climbed down significantly in recent weeks. The yield on 10-year Government of Canada bonds is currently at 1.24%, compared with a 2021 high of 1.59%, while the yield on 10-year U.S. Treasuries is at 1.27%, compared with a recent high of 1.72% (chart top left).
- As for the Canadian dollar, it has resumed trading in line with crude oil prices (chart on left; CAD in blue). As the chart shows, over the past five years CAD has found it difficult to break past the 82-83 U.S. cents level, which has become an area of strong resistance. CAD had traded briefly past 83 U.S. cents in June but has since declined 5% to trade below 79 U.S. cents.
- We are comfortable with the current asset allocation of client portfolios (see charts on next page) as they contain a mix of securities with a growth orientation and value tilt that we believe is appropriate for the current economic environment.

Sources: Bloomberg (top chart), FactSet (bottom chart)

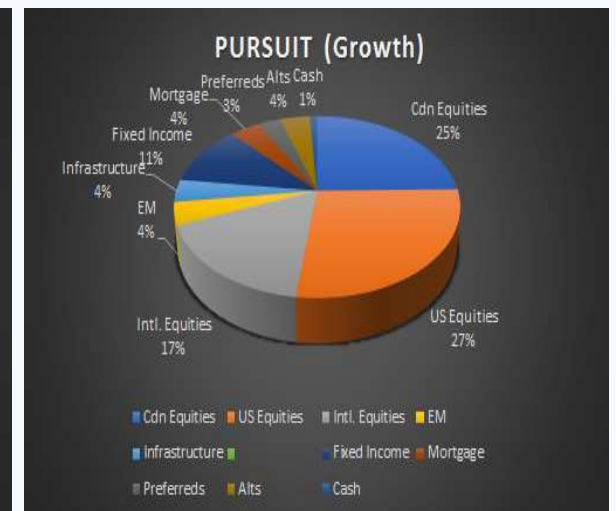
MAIN MODELS ASSET ALLOCATION



PROTECTION



PENSION



PURSUIT

DISCLAIMER

This information has been prepared by Robert Luft and Elvis Picardo, who are Portfolio Managers, and Aaron Arnold, who is an Investment Advisor, for iA Private Wealth Inc. and does not necessarily reflect the opinion of iA Private Wealth. The information contained in this newsletter comes from sources we believe reliable, but we cannot guarantee its accuracy or reliability. The opinions expressed are based on an analysis and interpretation dating from the date of publication and are subject to change without notice. Furthermore, they do not constitute an offer or solicitation to buy or sell any of the securities mentioned. The information contained herein may not apply to all types of investors. Robert Luft, Elvis Picardo and Aaron Arnold can open accounts only in the provinces in which they are registered. iA Private Wealth Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. iA Private Wealth is a trademark and business name under which iA Private Wealth Inc. operates. For more information about iA Private Wealth, please consult the official website at www.iaprivatewealth.ca. Luft Financial is a personal trade name of Robert Luft.

CONTACT US



ROBERT LUFT

Robert.Luft@iaprivatewealth.ca



ELVIS PICARDO

Elvis.Picardo@iaprivatewealth.ca



AARON ARNOLD

Aaron.Arnold@iaprivatewealth.ca



PHONE

604-739-8575