3Q20 | RECOVERY EXPECTED TO CONTINUE, LIKELY WITH SOME SURPRISES ALONG THE WAY

INVESTMENT ENVIRONMENT

- Monetary and fiscal policy proving very effective at soothing financial markets, with more stimulus to come if required.

EQUITY MARKETS

- Stocks continue rebound, led by tech and cyclicals, on better-than-expected earnings and guidance.

FIXED INCOME MARKETS

- Central Bank purchases have helped absorb additional supply and supported corporate bonds resulting in a lower cost for debt financing.

INVESTMENT ENVIRONMENT | CONFIDENCE IN RECOVERY BUILDS AS GOVERNMENTS EYE GREEN STIMULUS

Economic data came in much better than expected for the quarter although the magnitude of positive surprises moderated through September (Figure 1). **Corporate reporting also delivered better than forecasted updates as many companies ably navigated the sudden downdraft in demand and began to express a more optimistic assessment of their prospects than just a few months ago (Figure 2).** Furthermore, stimulus measures put in place have shown to be very effective so far.

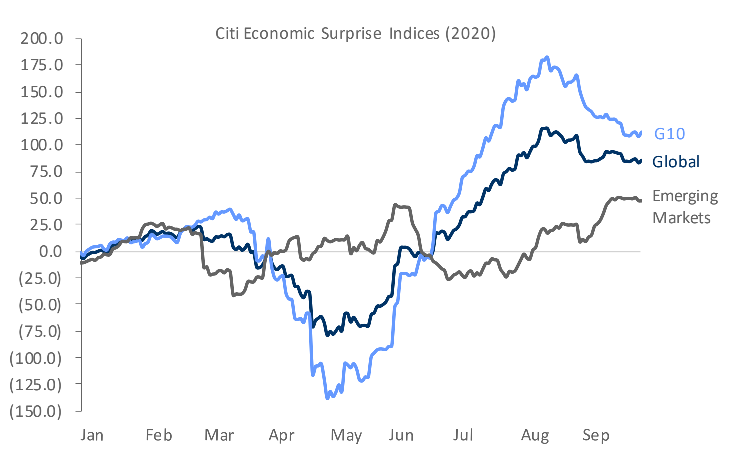
Monetary and fiscal policy makers continue to highlight their willingness to add additional support to their economies should further action be deemed necessary. After all, we remain at elevated levels of unemployment with risks of a second COVID wave building and expiry of pandemic relief cheques to households looming. Nonetheless, the scale of stimulus from central banks has been so substantial that the economy should be able to navigate these near-term risks. The U.S. Federal Reserve has also recently announced a change to its long-term targets, which strongly indicates their willingness to provide further liquidity to capital markets for some time to come.

The ability for governments to increase spending has been made easier by the ultra-low interest rate environment, and providing ongoing assistance to those who lost their job due to the pandemic is but one of the priorities. Although timing remains difficult to ascertain due to politics, large scale spending programs targeting infrastructure are at the top of their list which should create much needed high-quality jobs. In the meantime, the private sector will likely continue to focus on cost control, preferring to wait for a vaccine before hiring more aggressively. Action targeted towards improving the environment has received much attention, with the European Union crafting one of the most ambitious programs that would accelerate the shift towards renewable energy and more broadly target further carbon footprint reduction across many industries, including the transportation sector. While the global energy transition will likely be a gradual process, it should provide numerous opportunities for well positioned businesses for years to come and force others to adapt. We will discuss some of the companies that are embracing this change in the 'Equity Markets' section that follows.

We continue to monitor COVID case load developments and policy responses across the globe, while also keeping up to date on therapeutic and vaccine related announcements. While the potential for the resumption of localized lockdowns exists, we believe that the improved standards of care and other lessons learned earlier in the year should mitigate the impacts of a second wave. A large and growing number of potential vaccines are undergoing clinical evaluation, with updates on several of the most advanced contenders in phase 3 development expected in the upcoming quarter. Our view remains that one or more viable vaccines will be available for mass deployment at some point next year, which would lead to many of the lost private sector jobs returning.

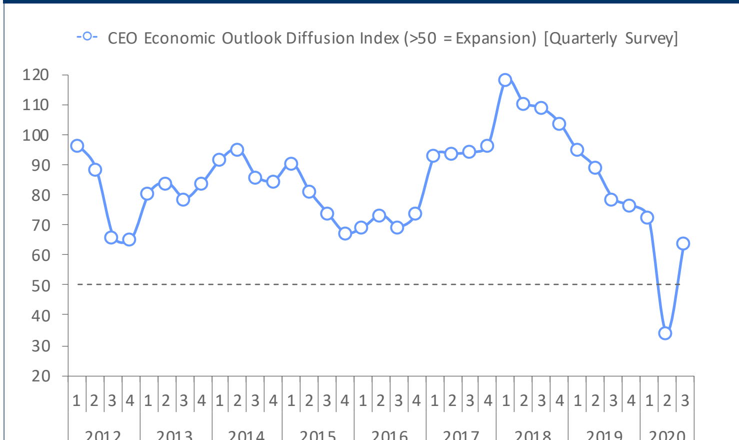
Although substantial uncertainty in financial markets remains, we are comforted by the improvement that has taken place in many economies around the world to date and continue to have confidence in the ability for further monetary and fiscal policy measures to successfully navigate potential negative surprises should they arise.

FIGURE 1: ECONOMY CONTINUES TO SURPRISE TO THE UPSIDE



Source: Bloomberg, Citigroup

FIGURE 2: CEO SENTIMENT SHOWS IMPROVEMENT



Source: Bloomberg, www.BusinessRoundtable.org

EQUITY MARKETS | RESILIENT EARNINGS SEASON ANCHORS MARKET GAINS

Equity Index Returns	3Q20 (CAD)	3Q20 (USD)	YTD20 (CAD)	YTD20 (USD)
Canadian	+4.7%		-3.1%	
Global (Net)	+5.9%	+7.9%	+4.8%	+1.7%

Equity markets moved higher in the third quarter in tandem with better than expected economic updates and company earnings. Strength was skewed towards the technology and cyclical sectors, while defensives and service industries saw more muted returns. Earnings for the more cyclical companies are recovering much sooner than expected, however they remain well off of their pre-COVID levels.

BIM EQUITY FRAMEWORK

Many corporations have benefited from the accommodative monetary policy measures put in place since March by dramatically strengthening their financial position through refinancing debt at very low interest rates or in certain cases by tapping the equity markets via share sales. This added flexibility better equips businesses to deal with surprises that may arise in what remains a variable near-term global outlook. These developments provide our stock selection process with added confidence to look beyond the near-term uncertainties that exist and focus instead on the long-term drivers which result in persistent risk-adjusted returns throughout the economic cycle.

One area of interest touched on in the 'Investment Outlook' is that of energy transition, which we view as a durable secular theme. The trend for growth in renewable power was initiated by government policy, and has since been supplemented by corporations including energy bellwethers such as BP that are seeking to decarbonize their operational footprint. Our exposure to these trends includes the renewable energy producer Boralex, which should be able to generate growth at attractive rates of return even as more capital enters the space by targeting smaller projects with less competition and greater permitting complexity. More traditional regulated utilities, such our position in Fortis, will also play a part with a long runway to connect third party clean power to their transmission grid and by greening their existing generation fleet.

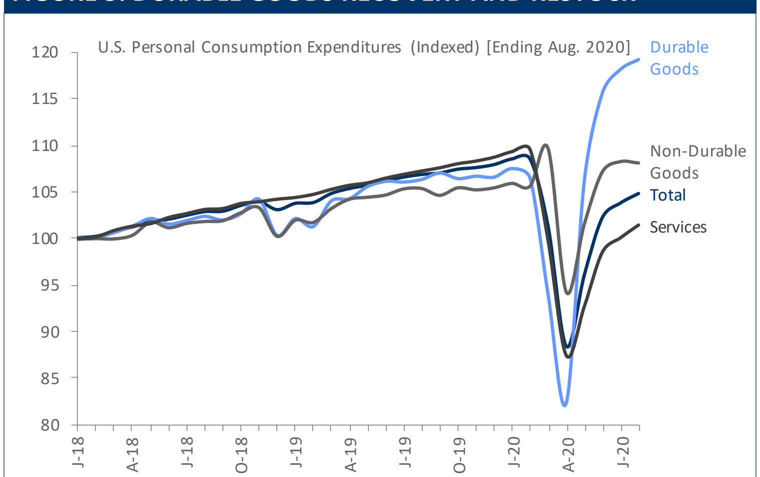
GLOBAL MARKETS

A stronger than expected recovery thus far has been driven mainly by the goods producing sectors of the economy, while services industries continue to face significant disruption due to the pandemic (e.g., hospitality and travel industries remain depressed). **The sharp snap back in demand for physical goods (Figure 3) is being driven in part by improving end demand, but also by a restocking of inventories.** Although temporary in nature, this restocking effect is usually followed by further end demand recovery and improvement in the broader economy in general. The freight transport sector is a beneficiary of this restocking effect currently taking place as these products must be shipped. Industrial goods producers also experience a similar benefit, with the best managed companies able to grow their market share in the process due to their ability to deliver. Our holding in Union Pacific Railroad should benefit in the short-term from goods restocking, but also remains well positioned long-term due to further productivity improvement and the shift towards a more environmentally friendly way to move freight. Similarly, our holding in Schneider Electric will see a benefit in the short-term from a restocking of electrical products but will also benefit long-term as customers use their products and services to become more energy efficient. Our stock selection process seeks out companies that have a variety of enduring long-term drivers and have the ability to adapt quickly to short-term opportunities as they arise.

CANADIAN MARKET

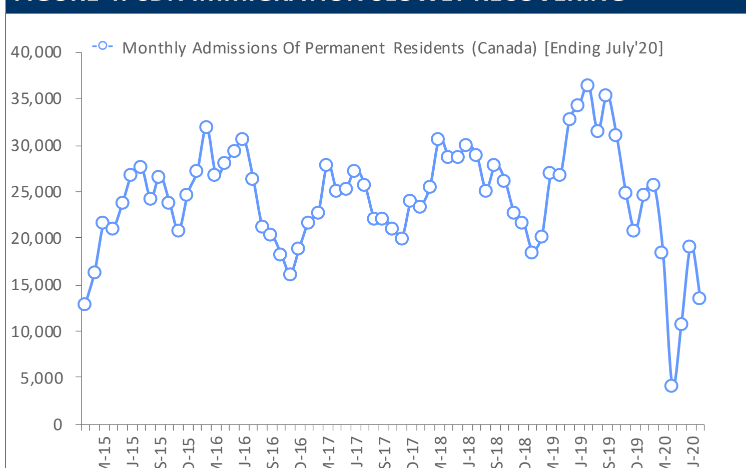
Despite a significant year-to-date rally in bonds, some rate sensitive equities have underperformed as the market has focussed on transitory COVID related headwinds. One example is the apartment real estate investment trust (REIT) sector, which has been underpinned by favourable supply-demand conditions fueled by restrictive government development policies and rising immigration. The Canadian government remains committed to immigration though new arrivals will be affected until we emerge from the health crisis (Figure 4). The conversion of short-term rentals (e.g. Airbnb) to longer-term units is temporarily bringing on some excess supply, though this more directly competes with high-priced condo rentals than the affordable apartment segment in which the public REIT's operate. The recently proposed 2021 Ontario rental freeze has also weighed on the sector despite the minimal impact on net asset values. We see low risk of contagion to other regions or future periods given this policy exacerbates the affordable housing crisis in Canada's largest cities by stifling future development. Notwithstanding the near-term challenges, we see excellent longer-term opportunity in names such as CAPREIT given the strong institutional demand for this defensive asset class combined with a lengthy mark-to-market rent uptick runway on suite turnover and a wide valuation spread versus bond yields.

FIGURE 3: DURABLE GOODS RECOVERY AND RESTOCK



Source: Bloomberg

FIGURE 4: CDN IMMIGRATION SLOWLY RECOVERING



Source: Statistics Canada

BIM EQUITY THESIS SPOTLIGHT

Telus has been a long-term core holding in Canadian portfolios for exposure to its sector leading wireless and wireline performance and willingness to pursue value creation opportunities in adjacent businesses, including Telus International and Telus Health. Telus International is a digital and customer experience platform that could surface value via an IPO in the coming year, and Telus Health has drawn focus as the pandemic has accelerated the adoption of healthcare technology and pure play public peers have delivered stunning year-to-date returns.

Telus Health provides an integrated offering across the continuum of care including virtual and physical consultations, benefits and prescription management, and home health monitoring. Virtual care in particular has seen a surge in demand with the twin benefits of increasing accessibility to care while improving the safety of both health care professionals and patients. One-on-one video consultations are enabled across three channels including direct-to-consumer (Babylon), group health (Akira), and the Electronic Medical Record (EMR) platform, with each experiencing strong growth this year. The company views the division as well placed to be a meaningful contributor to future consolidated financial and operational performance, and believes there to be numerous opportunities to further disrupt the traditional care model via the application of its digital health technology.

FIXED INCOME MARKETS | BOND PURCHASES BY CENTRAL BANKS LEADS TO A LOWER COST OF DEBT

Fixed Income Index Returns		
	3Q20	YTD20
Canadian	+0.4%	+8.0%

Credit spreads tightened further in the quarter (Figure 5), partially offset by a small increase in long term interest rates. Corporate bonds with 5 to 10 years to maturity performed the best and long-term Canada bonds underperformed, but still have the best year-to-date return.

With considerable intervention from the Bank of Canada (BoC) short term interest rates will remain anchored around 0.27%. When there is optimism about the economic recovery, long term interest rates will rise, but only to a limited degree. 30-year interest rates spent much of the quarter between 1.0% and 1.2%, and it will take a significant change to the current environment to breakout of that range (Figure 6).

Concerns about the increase in government debt and bond issuance have been mitigated by purchases from the BoC. The BoC has carefully crafted their purchases to absorb the additional supply to keep interest rates low and support the economy. Many government fiscal policies are deemed to be temporary and bond issuance is expected to decline next year.

BIM FIXED INCOME FRAMEWORK

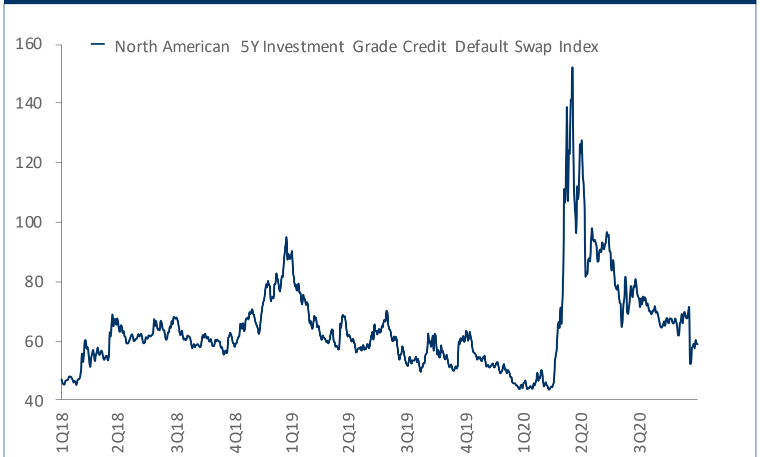
At the end of the quarter Fixed Income portfolios have a duration equal to the benchmark and a neutral exposure to overall credit risk, but with a strong bias towards government and utility bonds, and away from higher risk, BBB rated, corporate bonds.

Summit Industrial REIT was a new addition to fixed income portfolios as we purchased its inaugural public bond coming with a 5 year maturity to refinance an existing secured bridge loan. Summit owns warehouse and light manufacturing industrial real estate across Canada with a concentration in the most attractive markets of Ontario and Quebec. Industrial real estate remains in high demand in part due to increased e-commerce activity resulting from the COVID situation.

In early August we added Province of Quebec debt with 25 years to maturity. It has been several years since we invested in Quebec, having been long time investors in the Central and Western provinces. Quebec started 2020 in a strong financial position with a balanced budget and a debt-to-GDP ratio slightly below Ontario. Adding Quebec provides some diversification and extra yield to the portfolio.

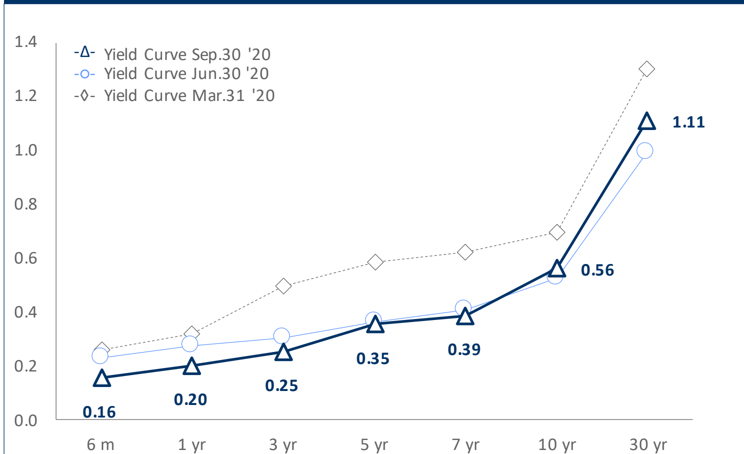
In August longer-term interest rates increased and the yield curve steepened. Short-term bonds, such as our former holding of CMB 2022, saw almost no change in its interest rate. At the end of August we took advantage of the steeper yield curve and sold the CMB 2022 to enter into a new Canada 2025 holding. The difference in yield between these two bonds went from zero in June and July to +0.08%. With this portfolio change we reduced credit risk and added yield to the portfolio. While this did add some duration risk, we are confident 5-year interest rates will remain protected from increasing materially by the Bank of Canada as it helps the economic recovery.

FIGURE 5: CREDIT RISK (bps)



Source: Bloomberg

FIGURE 6: CANADIAN YIELD CURVE (%)



Source: Bloomberg

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