4Q20 | RETURN TO NORMALCY WITHIN SIGHT AS VACCINE DISTRIBUTION BEGINS

INVESTMENT ENVIRONMENT

- Launch of vaccination programs together with continued fiscal and monetary support provide the foundation for a robust global economic recovery.

EQUITY MARKETS

- Earnings growth is expected to broaden out across a wider range of industries and geographies next year as a result of better economic conditions.

FIXED INCOME MARKETS

- Interest rates should remain relatively low due to commitments from central banks that emphasize a return to full employment.

INVESTMENT ENVIRONMENT | FOUNDATION HAS BEEN LAID FOR A ROBUST RECOVERY

The transition to a new year is often a time to look forward with optimism, and there are several reasons to expect a brighter 2021. **The launch of global COVID-19 inoculation programs in tandem with continued fiscal and monetary policies should provide the economy with enough support for a robust year of growth. Clarity around the U.S. election and finalizing of the United Kingdom's (U.K) separation agreement from the European Union (E.U.) also helps to improve corporate and consumer confidence.**

Relaxation of social distancing restrictions will be key to unlocking the significant pent-up demand that exists in the service economy. This is evident since these industries have been among the hardest hit by lockdown related measures (Figure 1) and therefore have the most to gain once people are able to more fully resume their normal routines. That said, some aspects of daily life may be forever changed as necessity forced greater adoption of e-commerce, remote work, virtual care, and digitization. The speed with which vaccines are distributed will be important to the timeline for a more pronounced service recovery. However, the current second wave of COVID-19 will impact progress in the near-term.

The consumer remains an important driver of developed economies and appears in good shape (Figure 2) considering the tumultuous year that has just passed. Unemployment has meaningfully declined from its peak, sentiment is slowly improving, and personal savings have greatly benefited from supportive fiscal and monetary policies in stark contrast to the austerity measures enacted at the time of the global financial crisis. Although fiscal policy actions have resulted in a sharp increase in government debt, the very low-rate environment coupled with an improving economy should allow governments the ability to manage their interest expenses for the foreseeable future. Furthermore, with central banks maintaining their commitment to greater monetary stimulus, bond yields should remain at very low levels with potential for longer-dated maturities to drift modestly higher. Greater detail on this topic is provided in the Fixed Income section of this report.

In our prior BIM Review we noted that companies began to express more optimism which has carried through to year-end. In this vein, corporate confidence continues to steadily improve as deal making activity has increased in the back half of the year with participation across a wide breadth of industries. Prior recessions have provided companies with transformational opportunities to create value via mergers and acquisitions with buyers more likely to transact as uncertainty begins to subside. Another positive is the prospect for trade tensions to decline with the Biden administration soon to be inaugurated, and the achievement of a Brexit agreement between the U.K. and E.U. mere days before the expiry of the formal transition period.

Global growth prospects are the most encouraging they have been for some time and may prove to be durable given the improved fundamental backdrop and less combative trade environment. Emergence from the health crisis is now a when versus an if proposition, and global monetary and fiscal policy remains extremely accommodative just in case immunizations take a longer time than expected to administer. Although potential risks to the economy remain, the positives we see far outnumber our concerns and underpin our outlook for the year ahead.

FIGURE 1: GLOBAL PMIs POINT TO CONTINUED RECOVERY

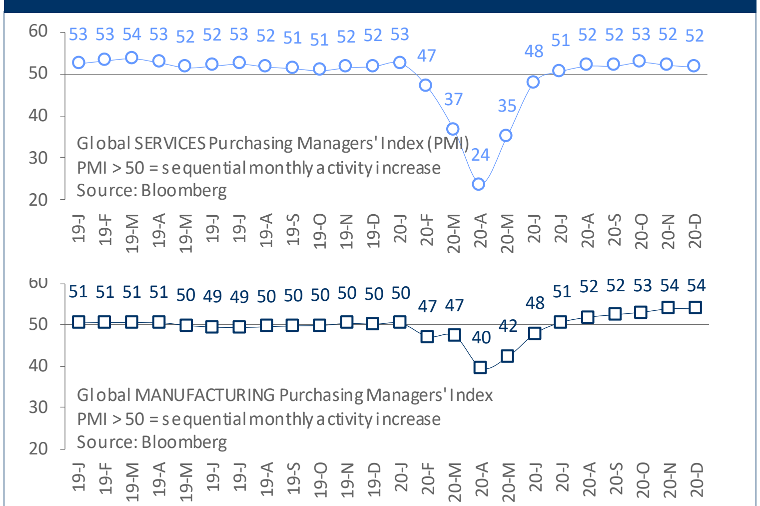
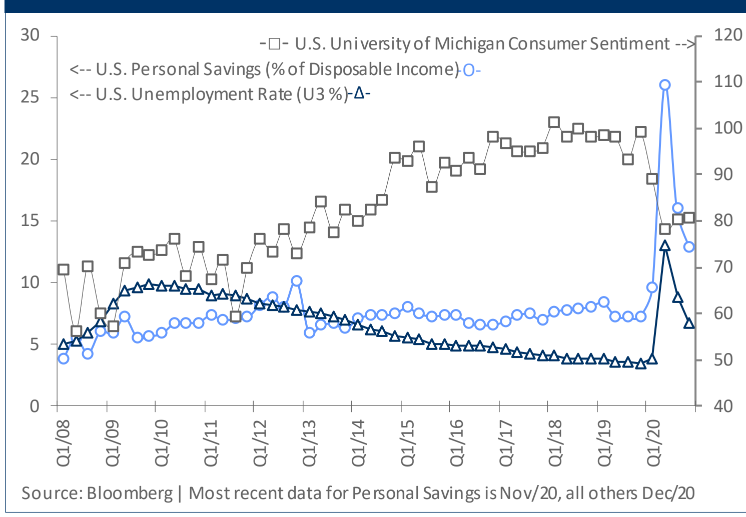


FIGURE 2: U.S. CONSUMER INSIGHTS



EQUITY MARKETS | EXPECTING GROWTH OPPORTUNITIES FROM A WIDER RANGE OF SOURCES

Equity Index Returns	4Q20 (CAD)	4Q20 (USD)	YTD20 (CAD)	YTD20 (USD)
Canadian	+9.0%		+5.6%	
Global (Net)	+8.7%	+14.0%	+13.9%	+15.9%

Equity markets had a very strong year in 2020, though it is important to note that most of the performance was driven by a narrow group of technology-related growth stocks. For example, the S&P 500 had a total gross return of 18% last year in USD, but the five largest stocks at year-end represented over 20% of the index weight and gained 62%, while the remaining 495 members were up 10%. Similarly, the information technology sector in Canada produced outsized gains of more than 80%, far in excess of the broader index at 5.6%.

Another driver of market performance last year took place in the 4th quarter. Value cyclicals and travel & leisure stocks had very strong performance post the U.S. election and release of very positive vaccine trial results. This was despite the near-term spike in COVID-19 cases and more stringent lockdowns, which is a strong indication that the market is more willing to look beyond the very short term.

BIM EQUITY FRAMEWORK

As we look out to 2021 and beyond, economic growth appears more robust and earnings growth is therefore expected to broaden across a wider diversity of industries and geographies. As growth becomes less scarce, a better risk/reward environment exists for stocks trading at more reasonable valuations as their prospects improve. Although interest rates are likely to drift higher, they are expected to remain at very low levels given ongoing central bank actions and should be supportive for valuations of companies on a normalized earnings basis.

GLOBAL MARKETS

The economic recovery is looking more likely to broaden across a greater number of geographies and sectors this year. This is particularly welcome news for regions hardest hit by COVID-19, which include many European and Emerging Market countries. This improves the relative attractiveness of companies more exposed to Europe and Asia, particularly since they tend to trade at a cheaper valuation than their more U.S.-centric peers. In similar fashion, this was also seen in currency markets where a flight to safety in the early stages of the pandemic saw the U.S. dollar reach very strong levels. Yet as growth prospects broaden for 2021, global currencies experienced a rebound in the second half of 2020, and should remain well supported vs the U.S. dollar going forward (Figure 3).

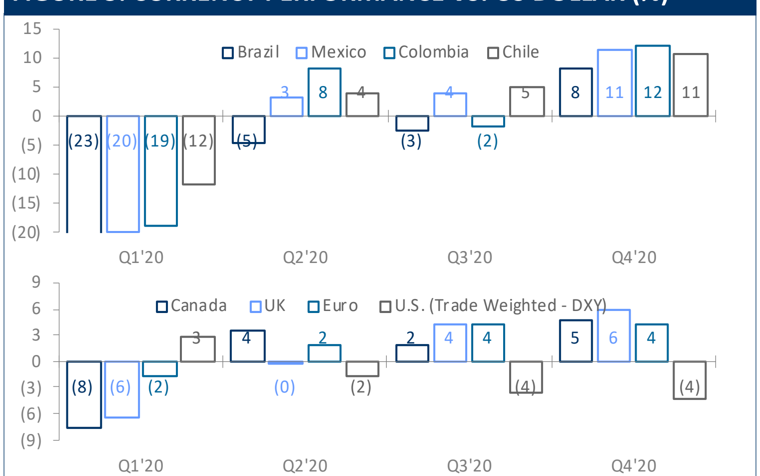
Our stock selection process in global portfolios remains focused on finding well managed companies with strong growth prospects that trade at attractive valuations and tend to avoid those that trade at extreme ends of the spectrum. **Although a rising economic tide may lift all boats initially, we prefer companies with strong business models that are able to gain market share, maintain pricing power and have strong governance metrics, since these traits should translate to sustained earnings growth for a longer period of time.** Furthermore, as cyclical growth prospects in Europe and Asia have improved, gaining exposure to these regions is becoming more attractive. Our long-term holding in Schneider Electric is well positioned for this trend as 2/3rd of its revenues come from Emerging and European geographies, and its industry leading electrical product offerings are expected to be in greater demand. We have also introduced a position in Kubota which we find to be an attractively valued company that manufactures farm and construction equipment and is well positioned for a stronger economic recovery in these regions.

CANADIAN MARKET

Several companies in the traditional income sectors in the Canadian market were impacted by COVID-19 earlier in the year which led to shares selling off at the same time as bond yields fell. Dividend yields have since declined as the outlook for these sectors and the broader economy has improved though the spread versus bonds remains attractive versus history (Figure 4). **We see many opportunities in income names with fundamentals poised to benefit as economies more fully reopen and continue to avoid areas that we view as structurally challenged.** Canadian Apartment REIT and Telus are two such names that were discussed in the prior BIM Review.

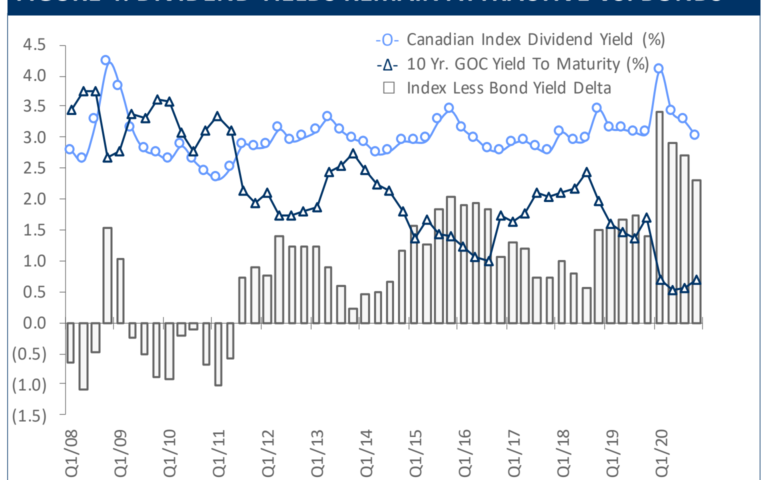
Banks and Life Insurance companies appear well placed in the current environment, and we also see value in Intact Financial. While property and casualty (P&C) insurance has in some ways been a beneficiary of the pandemic, Intact looks well placed to further its competitive advantage in its home Canadian market with the proposed acquisition of RSA Insurance Group PLC. The transaction would also provide entry to the U.K. where the company would look to apply its operational expertise to drive improved performance in a similar way as it has with One Beacon in the U.S.

FIGURE 3: CURRENCY PERFORMANCE VS. US DOLLAR (%)



Source: Refinitiv

FIGURE 4: DIVIDEND YIELDS REMAIN ATTRACTIVE VS. BONDS



Source: Bloomberg

BIM EQUITY THESIS SPOTLIGHT

Recently added across small cap accounts, Dye & Durham (DND) is a cloud-based legal software provider with an entrenched suite of products that streamline public record searches needed for a variety of real estate and corporate transactions. The business enjoys strong pricing power as its software manages critical legal processes for customers (primarily law firms and banks) who in turn flow-through DND's fees to their end clients as disbursements related to transactions. Other attractive attributes of the company that contributed to a strong run in the stock soon after IPO include solid organic growth, high margins, and the presence of a dividend which is a rarity among small-cap software stocks. However, continued outperformance has been driven by affirmation of the company's M&A strategy and total addressable market opportunity.

DND has been active in its short public history, expanding in the U.K., entering Australia, and doubling the size of the business by acquiring their biggest competitor in Canada. These moves have fueled a huge increase in the fair value of the business given the highly accretive nature of the transactions and synergy opportunities related to the optimization of pricing and business processes. Most importantly, despite the strong run, we see continued upside in the name as the deal pipeline remains full, cash flow inside the business compounds at a very high rate and the stock continues to get on more investors radar screens.

FIXED INCOME MARKETS | RATES RISE THOUGH HAVE A CEILING UNTIL RECOVERY MORE WELL PROGRESSED

Fixed Income Index Returns	4Q20	YTD20
Canadian	+0.6%	+8.7%

Vaccine approvals and the U.S. election were the driving forces of the fixed income market in the fourth quarter. Interest rates increased on the advancement of successful vaccines, the outcome of the U.S. election, and a clearer path to returning to our previous way of life. Credit spreads more than offset the rise in interest rates and fixed income returns were positive in the fourth quarter.

The outcome of the U.S. election in early November aided investor sentiment and with Biden's win we can expect a return to policies that are more familiar and consistent with the Obama administration. In early January the Senate runoff in Georgia gave the Democrats a mandate for at least the next two years.

Interest rates rose +9 bps in the fourth quarter (Figure 5) driven entirely from rising inflation expectations. The level of expected inflation over the long-term, as measured by US 10-year breakevens, has risen from 1.6% to 2% during the quarter.

Continued progress in managing the virus may move inflation higher as well as the Democratic victory in the Senate runoff. We do however believe the U.S. Federal Reserve (The Fed) remains committed to supporting the economy which limits how far rates can rise until the recovery is more well advanced. **We would expect the Fed to act to suppress long-term rates were they to rise to a level that could impede economic progress and view the risk of pricing in +2.5% inflation as unlikely in the near-term.**

Central banks are also a long way from raising their administered overnight rate and would likely end their bond buying programs beforehand, which will be well telegraphed and communicated.

Improving business fundamentals in the quarter led to outperformance of corporate debt versus Government of Canada bonds. In particular, higher yielding corporate debt was in greatest demand. Credit spreads compressed significantly and more than offset the rise in interest rates. For example, the yield for our Summit Industrial REIT 2025 holding decreased by 50 bps, and Gibson Energy 2029 by 20 bps (Figure 6).

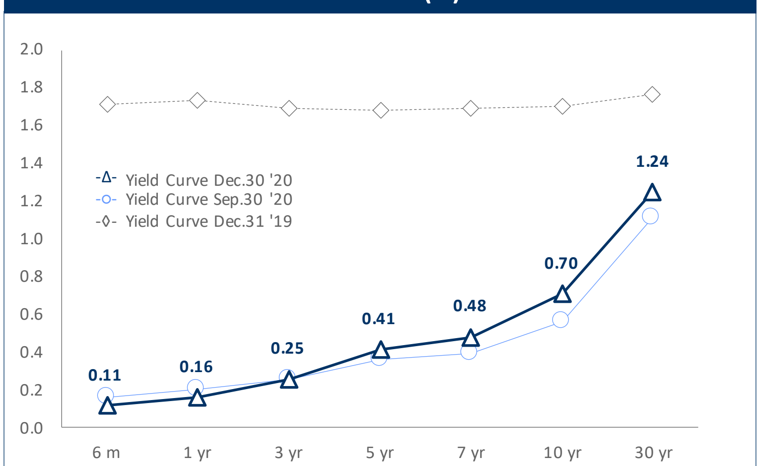
BIM FIXED INCOME FRAMEWORK

As we begin 2021, fixed income portfolios have a higher yield and lower duration than the benchmark index. Provincial debt is a notable overweight, and we are underweight long-term interest rates.

The only portfolio changes in the quarter came in mid-November after the U.S. election. We bought a Bell 2025 bond from cash at an attractive yield. Bell's credit profile has done very well through 2020 as its high-quality service held up impeccably during the surge in usage this past year.

In November we also trimmed the Canada 2051 holding to add to the Province of Quebec 2045. We are comfortable with provincial debt as it offers a better return opportunity. Should long term interest rates rise, the credit spread on the provincial debt will offer some cushion, as well, it is one of the few credit spreads that has yet to compress to pre-COVID levels.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Bloomberg

FIGURE 6: GIBSON ENERGY 2029 YIELD TO MATURITY (%)

Source: Bloomberg

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