4Q21 | PUSHING THROUGH THE LATEST WAVE

INVESTMENT ENVIRONMENT

- Looking for another year of above trend growth boosted in part by diminishing COVID disruptions in underperforming areas of the economy.

EQUITY MARKETS

- Expecting a good follow up to a very strong year. Volatility surrounding U.S. Fed policy should unearth some interesting opportunities.

FIXED INCOME MARKETS

- Central banks are ready to start the process of policy normalization. Rate hikes are coming with the only question being timing.

INVESTMENT ENVIRONMENT | EXPECTING SOLID ECONOMIC GROWTH TO BUILD UPON LAST YEAR'S RECOVERY

All facets of the global economy and society continue to manage through and adapt to COVID-19 as we enter the third calendar year of the pandemic. This includes the navigation of several variants of concern with the most recent Omicron emerging this past November.

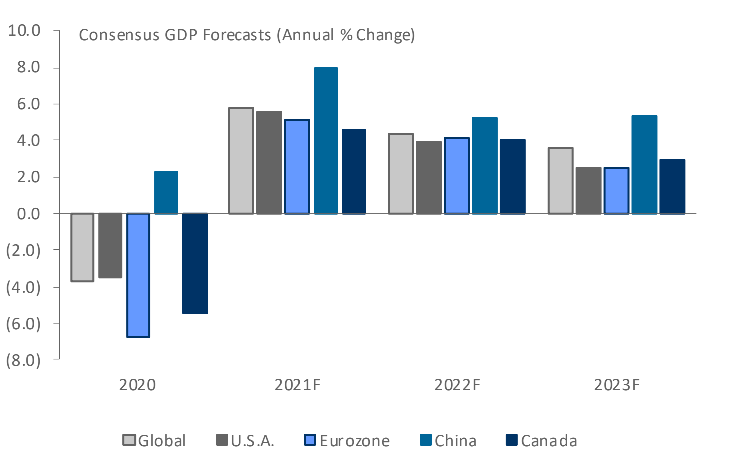
The increased transmissibility of Omicron versus prior variants initially caused volatility in the markets until information began to emerge that the severity of the infection was much reduced versus prior strains and that existing vaccines further decreased the potential for negative outcomes. The milder nature of Omicron implies that hospitalization rates will be the key metric to be monitored which may lead to the temporary reimposition of restriction measures in specific regions where healthcare capacity is forecasted to be tight. Notwithstanding the potential for very high case counts, extrapolating data from South Africa to other locales and recent research studies would imply that this new wave may not be overly disruptive. While Omicron is unlikely to be the last variant to surface, there are thoughts in certain scientific circles that it could hasten the transition of future COVID outbreaks into something more akin to a seasonal endemic disease such as the flu.

While growth rates for many regions may have peaked last year, healthy levels of above trend economic expansion are once again forecast for 2022 (Figure 1). Underpinnings for these projections are plentiful and include the enormous amount of stimulus that remains in the system and very accommodative financial conditions. Both consumers and corporations are sporting strong balance sheets which should support spending, and the world has yet to fully reopen particularly within the service sector. Omicron (or a subsequent variant) certainly has the potential to temporarily impede activity, though recent history implies that each successive wave of COVID has been less impactful than its predecessor.

Inflation was more pronounced than expected in 2021 and will continue to remain a key component to the duration of this economic cycle. Numerous inputs contributed to increased inflation with one of the most notable being the rise in ocean freight rates. **Strong demand for goods, at a time when Chinese ports in particular struggled with COVID related disruptions, upended the shipping market leading to a surge in pricing (Figure 2). Corporations have generally signalled expectations of supply chain improvement in or around mid-year and a continued moderation in shipping costs from peak rates would be a welcome development.** Together with a rapidly improving economy and labour market, inflation also contributed to the U.S. Federal Reserve (The Fed) signalling a move towards policy normalization.

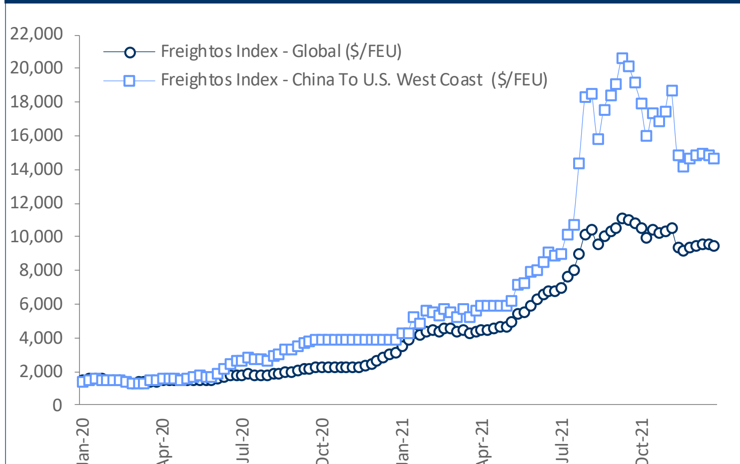
Our positive outlook for this year is predicated on the many fundamentals supporting strong economic growth. The U.S. Federal Reserve will be closely watched in the months ahead and any surprises around either the timing or pace of interest rate increases could induce bouts of volatility. The Fed is keenly aware of this and will seek to manage its messaging accordingly. COVID of course also bears monitoring, and experience from countries more well advanced with Omicron gives us optimism in the world's ability to deal with current and potentially future variants. We hope that 2022 is the final year that this virus merits discussion in quarterly commentary.

FIGURE 1: ANOTHER STRONG YEAR OF GROWTH FORECAST



Source: Bloomberg

FIGURE 2: SPOT OCEAN FREIGHT RATES OFF PEAK LEVELS



Source: Bloomberg | FEU = 40-foot equivalent container unit

EQUITY MARKETS | INVESTORS LOOK PAST OMICRON AS MARKETS RALLY INTO YEAR END

Equity Index Returns	4Q21 (CAD)	4Q21 (USD)	YTD21(CAD)	YTD21(USD)
Global (Net)	+7.5%	+7.8%	+20.8%	+21.8%
Canadian	+6.5%		+25.2%	
CDN Small Cap	+3.1%		+20.3%	

Equity markets closed the fourth quarter with strong momentum to build upon what had already been a robust year of returns. The vast majority of sectors contributed to the positive performance in the quarter aside from Communication Services in Global Indices and Information Technology in Canada.

BIM EQUITY FRAMEWORK

While a repeat of last year's returns may be unlikely, we remain optimistic that equities will perform well in 2022. We foresee a reduced level of COVID related disruptions in the year ahead and companies that have been punished for impacts beyond their control may provide opportunities for outperformance as the environment normalizes. Timing an entry point can sometimes prove difficult as quarterly forecasting error is greater during periods of uncertainty. These risks can be offset to a degree by focusing on companies that are competent operators which have successfully navigated previous industry challenges.

The new year may bring greater market volatility than recent times given uncertainties related to the Fed's path forward and lingering supply-chain and inflation issues. As always, we will endeavour to separate signal from noise and take advantage of market inefficiencies when they develop.

GLOBAL MARKETS

2021 was a year where the broadening out of economic growth witnessed at the beginning of the year moderated due to the emergence of the Delta variant, inflationary and supply chain pressures, and a deferral in the services sector's recovery. **Geographically, COVID 19 had a much larger impact on European and Asian economies due to their greater reliance on the services sector and on export markets. This carried over into Global equity market performance which saw U.S. equities significantly outperform European and Asian equities (Figure 3).** Outperformance by U.S. equities was partly driven by the strong performance of the technology sector since May as those companies were relatively more insulated from supply chain/inflationary pressures and the Delta variant's impact on growth.

Although these noted headwinds are going to carry over into the first half of 2022, we expect supply chain constraints to ease and the economic impact of COVID 19 to lessen as we progress through the year. As a result, the broadening out of economic growth that took a breather in the middle of 2021, should resume sometime this year. Beneficiaries of this should be companies with exposure to European and Asian economies, and those more exposed to the service sector. A good example of this is our holding in Compass Group which is well positioned to benefit from the reopening of the service economy given their market leadership in the food catering industry globally. Furthermore, they have emerged from the pandemic in a relatively stronger position and are poised to gain market share which could be augmented by an acceleration in tuck-in acquisitions to more normal levels.

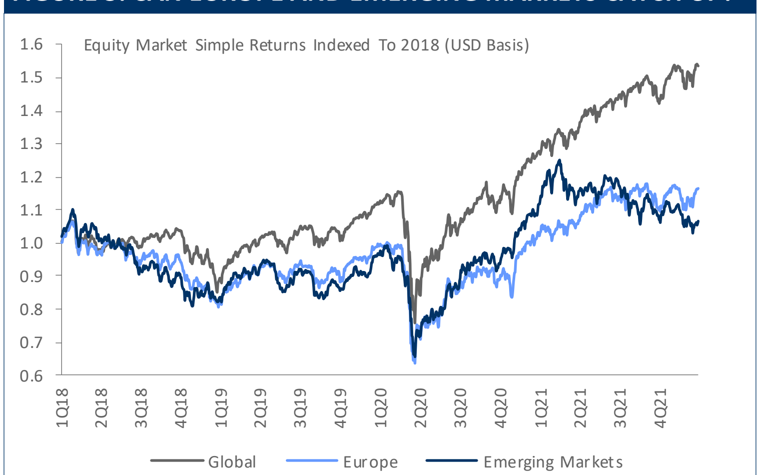
CANADIAN ALL-CAP MARKET

While we expect inflation to normalize over time, it may still run at higher-than-average levels in 2022 while meaningfully decelerating from the heights of last year. **Rising inflation has typically not been a problematic issue for Canadian equities with the index historically deriving a margin benefit on a market capitalization weighted basis (Figure 4).** We continue to view Financials as being well positioned given benign credit conditions, solid demand for loans and services, and leverage to likely moderate increases in interest rates with Toronto Dominion Bank a standout on this metric.

Energy could be another bright spot given pent-up demand for mobility, persistent underinvestment in supply and undemanding valuations even after a strong run off the bottom. Canadian Natural Resources and Tourmaline (profiled in the prior BIM Review) remain our favoured ways of playing upstream Energy given their exceptional assets and strong track records of relative value creation.

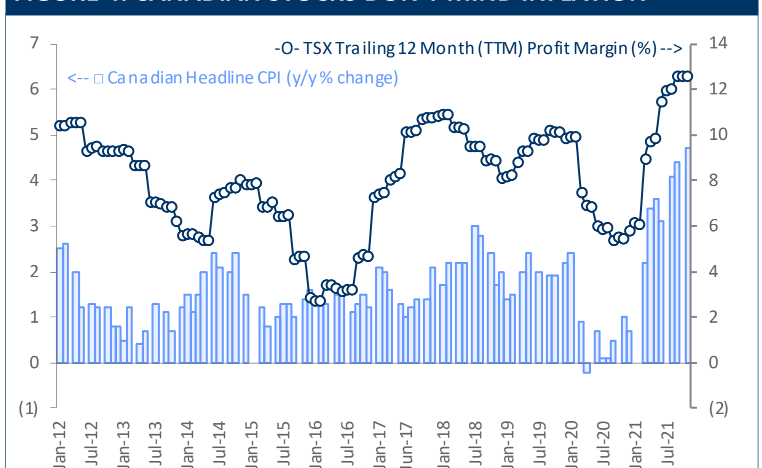
In what was an exceptional year for the volume of Initial Public Offerings (IPOs) we were able to find select opportunities that met our stringent investment criteria. Ideally, we seek differentiated businesses with strong competitive moats that have interesting growth prospects. Neighbourly Pharmacy caught our attention during the IPO process and is a unique consolidator of the independent pharmacy space in Canada that we discuss in greater detail in the 'BIM Equity Thesis Spotlight' section that follows.

FIGURE 3: CAN EUROPE AND EMERGING MARKETS CATCH UP?



Source: Bloomberg

FIGURE 4: CANADIAN STOCKS DON'T MIND INFLATION



Source: Bloomberg (TSX TTM Margin For Industrials, Financials, Utilities & REIT sectors)

CANADIAN SMALL-CAP MARKET

A volatile finish to 2021 capped a very eventful year for small-cap equities. Some major themes for the year continued in the fourth quarter including oil and gas strength, while others reversed as evidenced by the sell-off in non-profitable tech.

With the emergence of some risk-off themes including supply chain constraints and the spread of Omicron, small caps lagged the strong year-end rally of their larger cap peers. This performance delta drove opportunity, as we added to some existing positions that we believed had unfairly sold off and entered into three new names during the quarter: Propel Holdings (mobile-first alternative lender generating strong growth and returns), Definity Financial (Canadian P&C undergoing demutualization with attractive outlook, valuation, and latent balance sheet upside), and Tamarack Valley Energy (oil-focused E&P with an improved focus on capital returns to shareholders and ESG considerations).

Overall, we are increasingly constructive heading into 2022 given the reset in certain areas of the market and trailing underperformance across some quality-value names. Current macro related headwinds look manageable, and we expect earnings growth in our universe to continue. Canadian small caps screen attractively given the large cap outperformance to finish the year, and we would expect this to revert as we push through Omicron and the reopening continues.

BIM EQUITY THESIS SPOTLIGHT

Canadian equity portfolios benefitted in 2021 from our participation in the IPO of Neighbourly Pharmacy, one of the largest and fastest growing networks of community pharmacies in Canada. We continue to be impressed by management's deep industry knowledge and patient care centered operating philosophy in tandem with a significant consolidation opportunity. Positive trends include increased pharmacist delivered medical services and rising prescription demand as our population ages.

With over 170 locations across the country, the company typically operates and acquires pharmacies in underserved and smaller markets with less competition and fewer access points for healthcare. We believe this drives stronger and growing customer relationships and a resilient margin profile.

Neighbourly's biggest opportunity is to grow through acquisition, with the company having identified roughly 3,600 locations that would meet its investment criteria. We believe the company is gaining traction as a preferred acquiror, driven by its track record of and approach to acquisitions, which includes a quick closing process, a minimally invasive approach to integration and employee onboarding and its promise to protect the local brands of the acquired companies. Execution of the company's acquisition program has been strong since the IPO, which we believe bodes well for future capital allocation.

FIXED INCOME MARKETS | CENTRAL BANKS ARE READY TO START NORMALIZING POLICY

Fixed Income Index Returns		
	4Q21	YTD21
Canadian	+1.5%	-2.5%

In the fourth quarter the Bank of Canada (BoC) and U.S. Federal Reserve (Fed) both indicated that they are moving closer to raising their overnight interest rates. In October the BoC surprised the market by saying they expected to raise their overnight rate in the middle quarters of 2022 (Q2 to Q3), moving up the timeline by three months. As the quarter matured, the expectations for the timing of the hike moved closer, perhaps to March or even as early as January. Rising employment wages is a key factor for the BoC. However, the emergence of the Omicron wave and resulting government restrictions has quickly elevated uncertainties. Would the BoC raise rates while the provincial governments restrict the economy? How long will the restrictions last?

The U.S. Fed officially began tapering their government bond buying program (quantitative easing, QE) in the fourth quarter and in December accelerated these efforts. The QE program will end in March, three months earlier than originally announced. Once QE is finished the door is open to begin raising their overnight rate. At the December meeting Chair Powell acknowledged that inflation has persisted longer than anticipated and it was time to shift from being patient to more traditional inflation fighting.

These central bank actions resulted in Canadian short term interest rates increasing 30 bps as the market priced in rate hikes. However, concerns about the economy and financial risks led to long term interest rates decreasing 30 bps and the yield curve flattened significantly (Figure 5).

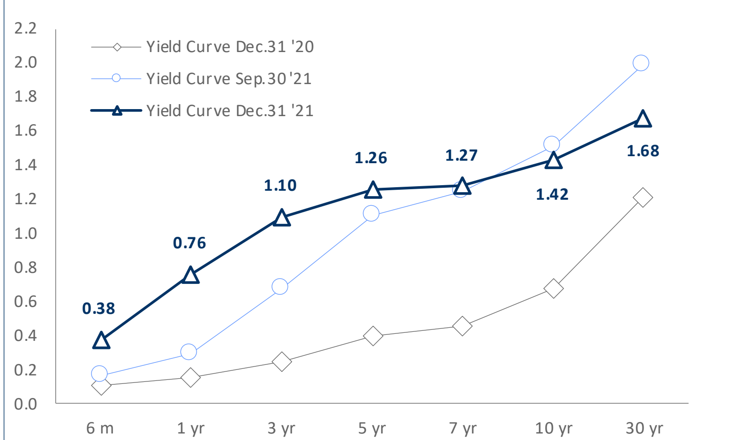
The fixed income index generated positive returns in the fourth quarter even with the market preparing for the BoC rate hikes. Keep in mind that the majority of interest rate risk in the index is in the long end and only a minor amount is directly impacted by changes to the overnight rate. Also, when interest rates go up the value of existing bonds go down with greatest sensitivity at the long end.

BIM FIXED INCOME FRAMEWORK

Long Canada bonds were the best performers as their interest rates declined and they have the highest sensitivity to changes in their interest rate. Short term bonds from financial issuers underperformed as their interest rates increased and credit spreads widened modestly.

During the quarter we reinvested cash from the maturity of preferred shares and shifted some holdings out of the 5-year term and into the 10-year as we look for the yield curve to continue to flatten.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Bloomberg

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