THIRD QUARTER 2020

INCOME WITH MODERATE GROWTH

Financial markets continued to rebound in the third quarter, helped by ongoing improvement in consumer and business-related economic data. Investors assessed a number of developments including COVID-19 in addition to the U.S. election outlook and prospects for additional fiscal stimulus in the U.S. Global equities exceeded pre-virus highs in the quarter – though a down month in September reduced the quarterly gain to about 8%. Across regions, U.S. equities generally topped their non-U.S. peers with help from continued strong performance in large technology companies. Central bank policy globally remains extremely accommodative with little in the way of policy changes in the quarter, though the Federal Reserve announced an update to its inflation targeting framework. U.S. interest rates remained stable throughout the quarter, while credit spreads declined overall despite a modest uptick in September.

We made one change in asset allocation in the quarter. In August, we increased our inflation-linked fixed income and emerging market equity allocations, while decreasing our high yield fixed income and U.S. equity allocations. The tactical change reduced our large overweight to high yield fixed income following strong performance in the asset class and reduced our underweight to non-U.S. equities, while also reflecting some adjustments related to our annual strategic asset allocation update. Currently, the portfolio has overweights in high yield fixed income, investment grade fixed income and global listed infrastructure, funded by underweights across inflation-linked fixed income, U.S. equities and emerging market equities. The portfolio ended the quarter with a moderately lower risk level than its strategic benchmark.

Performance for the quarter was negatively impacted by fund implementation, tactical positioning and strategic positioning. Strategic positioning weighed on performance due to headwinds from high yield fixed income and real assets failing to keep pace with global equities. Tactical positioning detracted from performance as headwinds from the underweight to emerging market equities and the equal-weight to natural resources (previously underweight) were partially offset by benefits from the overweight to high yield fixed income. Our quality low volatility U.S. equity strategy (QLV), our quality low volatility developed markets ex-U.S. equity strategy (QLVD) and our diversified investment grade fixed income strategy (BNDC) were the main detractors in terms of fund implementation, while our global listed infrastructure strategy (NFRA) and our value-scored high yield fixed income strategy (HYGV) were the main contributors.