THIRD QUARTER 2020

MAXIMUM 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 emerging market equity, global real estate and global listed infrastructure allocations, while decreasing our high yield fixed income, non-U.S. developed market equity and natural resources 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 emerging market equity, while also reflecting some adjustments directly related to our annual strategic asset allocation update. Currently, the portfolio has overweights to high yield fixed income and global listed infrastructure, funded by underweights to U.S. equities and emerging market equities. The portfolio ended the quarter with a moderately lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

Performance for the quarter was negatively impacted primarily by fund implementation in addition to some headwinds from tactical positioning. Strategic positioning slightly detracted from performance as headwinds from high yield fixed income and real assets trailing global equities were partially offset by benefits from risk assets significantly outperforming risk control assets. Tactical positioning detracted from performance due to the overweight to high yield fixed income, the overweight to global listed infrastructure and the underweight to emerging market equities. Our quality low volatility U.S. equity strategy (QLV), our quality low volatility developed markets ex-U.S. equity strategy (QLVD) and our quality low volatility emerging markets equity strategy (QLVE) 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.

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