# SECOND QUARTER 2021

## MAXIMUM GROWTH

Equity markets performed well in the second quarter, with gains across each major global equity region as well as positive returns across most fixed income asset classes. The global growth backdrop remained constructive as economies moved towards reopening, while better-than-expected earnings growth also helped support equity market returns. Investor concerns focused on the inflation outlook and its potential implications on Federal Reserve policy. After rising to 1.74% by the end of the first quarter, interest rates declined in the second quarter, with the 10-year Treasury yield stabilizing around 1.50% in June and ending the quarter at 1.47%. The credit environment remained constructive with tightening credit spreads in the second quarter across both investment grade and high yield fixed income – helped by improving corporate fundamentals and continued investor demand for yield. In central bank policy, the European Central Bank remained highly accommodative, while Fed leaders reiterated a patient approach towards achieving the central bank's inflation and full employment goals after increased investor concerns that the Fed was becoming more hawkish following the June meeting.

We made no changes in asset allocation in the quarter. We remain constructive on risk assets as the global growth environment continues along a positive trajectory during the pandemic recovery, helped by accommodative monetary policy and our view that the rise in inflation is likely to prove transitory. Currently, the portfolio has overweights to natural resources, developed ex-U.S. equities, U.S. equities and emerging market equities, funded by underweights to global real estate, municipal high yield fixed income and global listed infrastructure. The portfolio ended the quarter with a modestly higher risk level than its strategic starting point (the strategic allocation is 100% risk assets).

The portfolio modestly underperformed in the quarter as benefits from tactical positioning were unable to fully offset some drag from fund implementation and strategic positioning. Strategic positioning detracted from performance as support from risk assets outpacing risk control assets was not enough to overcome weaker returns in municipal high yield fixed income and global listed infrastructure compared to global equities. Tactical positioning modestly helped performance as the underweight to municipal high yield fixed income and the underweight to global listed infrastructure overcame some headwinds from the underweight to global real estate. Our broader-based U.S. market factor tilt strategy (TILT), our broader-based developed markets ex-U.S. factor tilt strategy (TLTD) and our global natural resources strategy (GUNR) were the main detractors in terms of fund implementation, while our quality large cap U.S. equity strategy (QLC), our municipal high yield fixed income strategy (NHYMX) and our broader-based emerging markets factor tilt strategy (TLTE) were the main contributors.

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