

# Balanced ETF Private Portfolio

December 31<sup>st</sup>, 2020

## Portfolio Manager: Joseph O'Donnell

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## Basket Investment Strategy

This Basket invests in a variety of asset classes and seeks to optimize the risk-return relationship. We will regularly modify the investment mix (within a specified range) in order to reap the potential advantages associated with altering market conditions.

For the most part, this Basket will consist of exchange-traded funds (ETFs), alternative investments and individual securities. Long-term target allocations for equities and fixed income are 60% equities and 40% respectively. This portfolio is suited for an investor seeking long-term capital appreciation, capital preservation and the generation of a steady stream of income.

In addition, this Basket aims to minimize the volatility ascribed to traditional asset classes. More specifically, it seeks to attain a return similar to that obtained by a traditional portfolio but with lower volatility. Both the diversity of asset classes and the inclusion of non-traditional asset classes allow for a reduction in risk and volatility.

Various studies have shown that when it comes to achieving both steady and substantial real returns, the relative weighting of asset classes within a portfolio is equally as important as security selection. By investing in this portfolio, our team is given the authorization to invest your money and manage your investments according to your pre-established asset mix parameters.

## Performance

(TW – Time Weighted; MW – Money Weighted)

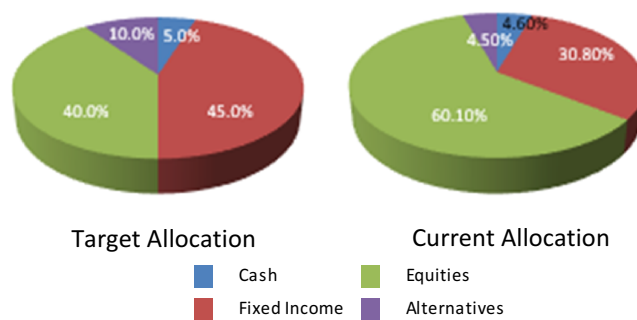
Portfolio Performance					
	6 Mths	1YR	3YR	5YR	Since Inception*
Portfolio TW	9.47 %	5.46 %	3.53 %	3.89 %	4.81 %
Portfolio MW	9.47 %	5.51 %	3.55 %	3.90 %	4.86 %
Benchmark	7.85 %	9.07 %	6.97 %	6.89 %	7.31 %

\* Represents a return since inception (June 3<sup>rd</sup>, 2013)

Value of Basket	\$ 32,933.32
Date: December 31 <sup>st</sup> , 2020	

**Fees:** Returns presented are net of fees at the lowest rate of 1.75%. **Composition of the benchmark:** 5% 91-day T-bills, 45% FTSE TMX Canada Universe Bond, 22.5% S&P/TSX Composite Index, 27.5% MSCI World Index. \*Represents a return since inception (June 1<sup>st</sup>, 2013)

The following represents the long-term targets for each asset class and sector.



## Top 10 Holdings

Description	MV	MV (%)
ISHARES S&P/TSX60 IDX ETF	\$ 4,171.20	12.756
HORIZONS ACTV C/B-E ETF	\$ 3,153.74	9.645
BMO AGGREGATE BD INDX ETF	\$ 3,070.96	9.391
ISHR CORE S&P US TOTC\$HD	\$ 2,767.80	8.464
BMO MSCI USA HI QLTY ETF	\$ 2,491.50	7.619
ISHRS CORE S&P/TSX CAPPED	\$ 2,213.60	6.769
VANGUARD GL EX-US AGG ETF	\$ 2,136.36	6.533
ISHRS CORE MSCI EM MK IMI	\$ 2,009.04	6.144
ISHS MSCI EAFE(C\$HDG) ETF	\$ 1,714.32	5.243
ISHS MSCI MUL US C\$HD ETF	\$ 1,491.36	4.561

## Transactions (October 1<sup>st</sup> – December 31<sup>st</sup>, 2020)

Type	Symbol	Qty.	Price
Sell	PMM	-24	\$ 18.71
Buy	XEC	24	\$ 29.73
Sell	XUH	-26	\$ 31.35
Buy	NOVB.F	24	\$ 31.93
Buy	CMAG	16	\$ 25.61
Sell	ZUQ	-16	\$ 49.12

### Commentary Regarding Transactions

We sold the PMM position because of underperformance and replace it with CMAG.

We reduced our US equity exposure and reallocated to Emerging Markets because of better valuations.

We reduced our direct US equity exposure and replaced it with a collar option strategy which allows for 16.5% upside exposure but limits the downside by 10%.

## Portfolio Manager's Comments

### The economy

- The pandemic remains the key challenge for economies as we approach the New Year, with case counts and fatalities reaching near record levels. But the transmission rate is starting to slow and, while countries including the U.S. and Canada are battling a second wave, many European countries appear to be emerging from theirs. Tighter restrictions to combat the virus may lead to some economic slippage at the end of 2020, but there are reasons to be optimistic.
- The economic recovery has been exceeding expectations, vaccine developments are promising, and markets have responded positively to the outcome of the U.S. presidential election. Although the economy may encounter hurdles in the very near term, our growth forecasts for 2021 have featured more upgrades than downgrades and are now situated modestly above the consensus.

### Fixed Income

- Central bankers have expressed a commitment to keeping short-term interest rates extremely low to stimulate economies and financial markets even as the recovery gains traction. Longer-term bond yields have a bit more room to rise, but the scope for increases is limited by secular pressures such as aging demographics, slowing population growth and an increased desire for saving versus spending. All these factors have contributed to declines in real interest rates (i.e. the after-inflation interest rate) and these trends are unlikely to change anytime soon.

- We have evolved our modelling to incorporate these elements into our real-interest-rate projections. As a result, we now look for a more gradual and ultimately smaller rise in real rates of interest. Our new modelling suggests that sovereign bond yields everywhere will drift just slightly higher over the next year, acting as a modest headwind to total returns for bondholders.

### Asset mix

- With the economy entering a period of normalization supported by low interest rates and ample fiscal stimulus, stocks continue to offer superior return potential versus fixed income. Our forecasts look for mid-single to potentially low-double digit returns from stocks over the year ahead versus low single-digit or potentially negative returns from sovereign bonds. Moreover, extremely low bond yields mean that fixed-income markets may not provide as much protection against stock declines as they have in recent decades. In our opinion, traditional views on optimal asset mix should be reconsidered to reflect the impact of structural change in the global economy on returns, correlations and risk mitigation within the universe of investment options. For many, one option may be to invest over longer time horizons and add more equities to portfolios.
- Supporting our positive view on stocks is long-term price momentum, which suggests equities could be in a long-lasting bull market. We continue to position our portfolios with an overweight in stocks and underweight in fixed income. This quarter, we were further encouraged by the style rotation into value from growth, the increasing breadth in small- and mid-cap stocks, international equity outperformance, the steepening yield curve and the weakening U.S. dollar, all of which are frequently in evidence in the early stages of bull markets. As a result, we added 2.5 percentage points to our equity allocation during the quarter, sourced from fixed income. For a balanced, global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), with the balance in cash.

## Who is this investment for?

This investment is for individuals who are seeking a moderate level of capital gains and income. This is a “balanced” approach with a moderate level of risk and seeks to protect capital over the long-term through active asset allocation and security selection.

I have prepared this commentary to give you my thoughts on various financial aspects and considerations. This commentary reflects my opinion alone, and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgement and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial. ◦ National Bank Financial is an indirect wholly-owned subsidiary of National Bank of Canada. The National Bank of Canada is a public company listed on the Toronto Stock Exchange (NA: TSX). ◦ National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. National Bank Financial and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. Unit values and returns will fluctuate and past performance is not necessarily indicative of future performance.