ivari Portfolio Commentary

Second Quarter – 2021

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Market performance

The world continues to head toward the normalcy we enjoyed prior to COVID-19 as vaccines continue to roll out. Stocks recorded another exceptional quarter, while bonds also had gains. As we move forward, the only thing that will remain far from normal is interest rates. Central banks reassured borrowers and investors that interest rates will be reactive and gradual in terms of removing stimulus. It is widely expected that the first rate hike will be in late 2022 or early 2023, roughly three years after the start of the pandemic. This means rates may not rise to pre-pandemic levels until 2025.

Benchmark returns in % at June 30, 2021	1 year	3 years	5 years	10 years	10-year standard deviation[2]
S&P/TSX Composite Index	33.85	10.80	10.78	7.44	11.78
S&P 500 Index (C$)	28.56	16.37	16.69	17.77	10.84
MSCI World Index (C$)	26.96	12.76	13.89	13.47	10.56
FTSE Canada Universe Bond Index	-2.43	4.16	2.64	3.90	3.99

[2]Standard deviation: A measure of risk in terms of the volatility of returns. It represents the historical level of volatility in returns over set periods. A lower standard deviation means the returns have historically been less volatile and vice-versa. Historical volatility may not be indicative of future volatility. Standard Deviation calculated on Series Institutional Class.
Source: Bloomberg Finance L.P., FTSE

The Canadian stock market, as represented by the S&P/TSX Composite Index, has outperformed over the near term, but lagged other markets over the long term as outperformance in energy and financials was not as durable as information technology (IT). Over the last decade, Canada missed out on technology's advancement as we did not have representatives in the sector. Blackberry (RIM) lost the smartphone battle to Apple and the only meaningful creation in the sector following Blackberry was Shopify. Shopify represents 7% of the 11% IT weight of our index. It appears Canada can only afford one giant at a time. In the last decade, we also saw IT growing from 16% to 28% of the S&P 500 Index. The top ten companies of the S&P 500 Index have also gone through significant changes as outlined in the tables on the following page. The only companies that remain in top ten today are Apple Inc., Microsoft Corp., Johnson & Johnson Inc. and JPMorgan Chase & Co.

Ten years ago, the world was recovering from the global financial crisis. Investors entered the decade skeptical, climbed the "wall of worries", experienced swine flu, Brexit and most recently the global pandemic. In light of this, we are pleasantly surprised by the solid 10-year index returns produced by the markets as they hardly show any signs of these challenges.

S&P 500® Top 10 Holdings as of 12/31/2020

Name	Weight (%)
Apple Inc.	6.70
Microsoft Corp.	5.31
Amazon.com Inc.	4.39
Facebook Inc.	2.07
Tesla Inc.	1.69
Alphabet Inc. (Class A)	1.66
Alphabet Inc. (Class C)	1.61
Berkshire Hathaway Inc.	1.43
Johnson & Johnson Inc.	1.31
JPMorgan Chase & Co.	1.22

S&P 500® Top 10 Holdings as of 12/31/2010

Name	Weight (%)
Exxon Mobil Corp.	3.23
Apple Inc.	2.59
Microsoft Corp.	1.84
General Electric Co.	1.70
Chevron Corp.	1.61
International Business Machine	1.60
Procter & Gamble Co./The	1.58
AT&T Inc.	1.52
Johnson & Johnson Inc.	1.49
JPMorgan Chase & Co.	1.45

Source: Bloomberg Finance L.P.

Portfolio performance

We continued to benefit by our overweight to equity. Even though bonds, which we are underweight to, have returned positively this quarter, equity has done better. Within the equity portion of the Portfolio, energy performed strongly and added to performance, while exposure to gold companies detracted. Oil continued to rebound as global consumption accelerated, while supply discipline was maintained. Gold is owned strategically to hedge uncertainty and inflation. Hedging the U.S. dollar also added value as the Loonie strengthened over the quarter despite the pullback experienced in June 2021. The U.S. dollar strengthened near the end of the quarter as the U.S. Federal Reserve joined the Bank of Canada with a more hawkish tone. Within the fixed-income portion, our overweight to corporate credit in lieu of government bonds continued to benefit the Portfolios. Corporate bonds benefited from both declining yields (higher prices) and tighter credit spreads over the last quarter.

Segregated fund net total returns in % at June 30, 2021	1 year	3 years	5 years	10 years	MER[3]	10-year standard deviation
ivari CI Conservative GIP	8.27	4.31	3.54	4.40	3.37	5.6
ivari CI Canadian Balanced GIP	10.97	4.70	4.13	4.20	3.68	6.1
ivari CI Balanced GIP	14.87	5.54	5.39	5.49	3.40	7.1
ivari CI Growth GIP	19.50	6.51	6.77	6.45	3.41	8.6
ivari CI Maximum Growth GIP	27.06	7.40	7.88	6.87	3.71	10.4

[3]MER: Management expense ratio.
Source: CI GAM | Multi-Asset Management, Bloomberg Finance L.P. and FTSE as at June 30, 2021.

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MER: annual audited financial statements as of December 31, 2020 (imaxx GIF 75/100 Class).
Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value. Past results should not be construed as indicative of future performance. Actual fund performance is expected to vary.
ivari CI Portfolios are available as Guaranteed Investment Portfolios within select ivari segregated funds contracts and as Managed Portfolio Index Interest Options within select ivari Universal Life Products. Segregated Fund Net Returns are for the imaxx Guaranteed Investment Funds product (imaxxGIF-75/100). Returns are after the management expense ratio (MER) has been deducted. The MER includes the management fee, the insurance cost for segregated fund guarantees, operating expenses and the applicable taxes of the fund. Policyholders do not pay for these expenses directly. The MER reduces the return of the investment. The Manager, at its discretion, may waive or absorb a portion of the operating expenses otherwise payable by a Fund class. These waivers may be terminated at any time by the Manager. MER and MER before waiver can be found in the ivari Segregated Fund Financial Statement under the section "Financial Highlights." For details please refer to the Information Folder and contract, and to www.ivari.ca for the returns on other products.

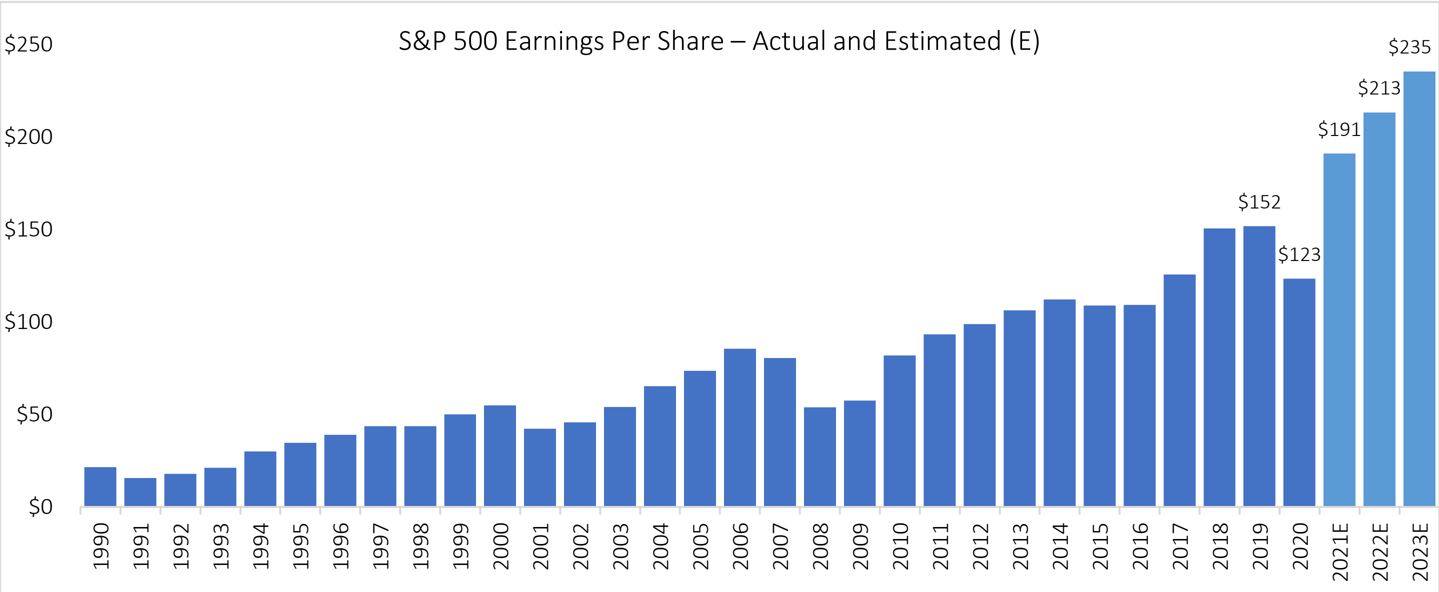
Outlook and positioning

We have heard and read concerns that the markets are due for a large correction. This mainly due to above-normal valuations and recent strong performance. We respect these opinions, however, we are way more constructive in our views. Strong past performance is an outcome of improving economies and asset inflation driven by money supply growth. Unlike other recessions, household savings and wealth have grown during this pandemic. Consumers are eager to go out and spend money, which will support strong corporate earnings growth. We are confident the global economy will perform exceptionally well in 2021 and 2022. It is somewhat reflected in the market rally since mid-2020.

The question is, how do we take current market valuations that are above-average back to average? Will it be a sharp market correction as others have called for? We expect valuations in certain markets like the United State to fall gradually as earnings grow into their expectations. It is also important to note that valuations as expressed by price-to-earnings have two variables. We are confident that earnings growth will impress this cycle and more than offset any decreases in valuation, leading to strong returns for equity investors.

As a matter of fact, first-quarter earnings of the S&P 500 companies have already surpassed their earnings in the fourth quarter of 2019 – the quarter before the pandemic. With a large pool of excess capital due to money printing and the lack of alternatives (as bonds offer little yield), equity will remain favoured by investors. Outside of the U.S., the valuations are friendlier and for that reason, our Portfolios are currently overweight Europe, Japan and Canada for potentially larger upside compared to the U.S. However, you cannot ignore the U.S. as it has companies that are leaders in the world.

We would rather accept larger short-term volatility in our Portfolios than missing out on the gains. From time-to-time, the markets will be bumpy and we will feel these bumps, but it does not mean they are unsafe.



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Published July 26, 2021.

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