ivari Portfolio Commentary

Third Quarter – 2021

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Market performance

Investors continue to favour risk as they know central banks are alongside and consumers are eager to spend, hence boosting the near-term outlook for GDP and earnings. Equity seems expensive using a conventional matrix (such as the price-to-earnings ratio) but it does not capture the fact our world carries a significantly larger pool of money that can be used for both consumption and investing. In addition, there are not many choices for investments if you care about inflation protection. The recent U.S. CPI print of 5% inflation we believe is unlikely to be transitory. The only reason fixed income yields are priced below their fair value and inflation is and due to intervention by central banks. The major central banks are still buying large amount of bonds, artificially pushing yields lower and prices higher.

Benchmark returns in % at September 30, 2021	1 year	3 years	5 years	10 years	10-year standard deviation[2]
S&P/TSX Composite Index	28.02%	11.06%	9.64%	8.85%	11.33%
S&P 500 Index (C$)	23.66%	15.21%	16.09%	18.87%	11.09%
MSCI World Index (C$)	22.54%	12.38%	12.96%	14.84%	10.66%
FTSE Canada Universe Bond Index	-3.35%	4.31%	2.29%	3.33%	3.94%

[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

Portfolio performance

Our overweight equity and underweight bond positions continue to reward investors with extra returns. We have discussed the importance of inflation protection in the past and we are pleased to report our income portfolios have delivered on that. The bond index, however, lost 3% over one year plus investors in that index lost a further 5% due to erosions of purchasing power. Our balanced and equity-centric portfolios have done exceptionally well amid big market rallies. Returns going forward will likely normalize near their long-term average, which is single-digit, not double. We continue to favour energy and financial sectors.

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Segregated fund net total returns in % at September 30, 2021	1 year	3 years	5 years	Since Inception[1]	MER[2]	Since Inception Standard Deviation
ivari CI Conservative Portfolio GIP	4.94%	4.38%	2.81%	4.75%	3.37%	5.5%
ivari CI Canadian Balanced Portfolio GIP	7.02%	4.43%	3.29%	4.67%	3.68%	6.1%
ivari CI Balanced Portfolio GIP	10.54%	5.31%	4.44%	6.22%	3.40%	7.0%
ivari CI Growth Portfolio GIP	14.09%	6.14%	5.65%	7.49%	3.41%	8.5%
ivari CI Maximum Growth Portfolio GIP	20.40%	7.01%	6.64%	8.40%	3.71%	10.3%

[1]Inception date: September 1, 2012; [2] MER: Management expense ratio.
Source: CI GAM | Multi-Asset Management, Bloomberg Finance L.P. and FTSE as at September 30, 2021.
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

Stock markets have been volatile since the end of August. During this period, a few things happened:

1. Mega Chinese property developer, Evergrande, with an estimated US$300 billion in liabilities got numerous downgrades by credit agencies as it was widely expected it would not be able to pay lenders in full and on-time without a government bailout. Some investors described this situation as potentially China's Lehman Brothers, which went bankrupt in the 2008 global credit crisis.
2. The Fed hinted it would begin winding down its bond purchase program in the coming months.
3. Investors feared the U.S. would default on its debt and the government would be shut down if the debt ceiling is not raised.
4. There was continued concern over the spread of the COVID-19 delta variant.
5. Inflation. It appears to us that inflation will not be transitory as major central banks described. Companies are paying higher wages to hire and retain employees, oil prices are surging, and the world continues to experience supply chain disruption. Rents are also rising from their lows during COVID-19.
6. China is having to restrict energy consumption as demand is exceeding supply, which is further impacting the supply chain issue.

The million-dollar question is does the above matter? Let us discuss one-by-one:

1. We are confident Evergrande is not Lehman Brothers. It is true Evergrande has a lot of liabilities, but it also has assets to cover these debts. The problem is if they are forced to de-lever, as requested by the Chinese government, there will be losses as they will have to sell assets at liquidation value, not market value. However, the loss is not US$300 billion. It will be a lot less. Also, keep in mind the majority of Evergrande's debt is in the local currency RMB, and its liquidity has recently been enhanced by China's central bank through adding balances into the banking system. It will probably take a while for Evergrande to de-lever, and it will likely not have a material impact on the banking system and investors will move on. The shareholders will feel most of the pain, but rest assured, the stock is not broadly owned. The chairman owns 70%!

2. Markets don't believe central banks will print large amounts of money forever. The Bank of Canada has been ahead of the Fed in unwinding its program. As an emergency measure, central banks around the world added US$10 trillion since December 2019. That's a 62% growth in the money supply! Central banks will continue to expand their cash balances probably until the second half of 2022, albeit at a slower rate compared to the last twelve months. There is enough money and savings in the system to fuel growth. For example, U.S. consumers have approximately US$2 trillion in excess savings. U.S. companies are also carrying almost US$7 trillion in cash. The U.S. economy does not need the money supply increased to generate growth, rather it needs money spent.

3. This one is easy. Who really thinks the U.S. government will default? It's more political posturing between the Republicans and Democrats.

4. Vaccines have proven effective and booster shots will soon be available. Merck also recently announced an antiviral pill that could lessen symptoms. In addition, children between age five and 11 will likely get their special version by end of the year. We have no doubt science will win.

5. Inflation will run higher for a while, likely 4% near term, and above 3% in the near future. Near term is driven by lack of supply in labour and commodities. Long-term, we still expect higher inflation due to the march of ESG investing. There is a cost to being cleaner, greener, more socially aware and growing wages globally. However, central banks are generally reactive and dovish, causing interest rates to be set below inflation. This actually creates demand for equity as the world has limited investment options to earn returns above inflation.

6. Quite frankly, it is unknown how this is happening. We do know though that commodity prices will be higher as a result of China playing catch up buying commodities, including coal and oil. This disruption will likely be felt in the fourth quarter, but we think economic activity will pick up again in the first quarter of 2022 as China has aggressively acquired coal to boost energy capacity.

The bottom line is the world is still in an early phase of economic recovery. Savings and corporate cash are being turned into spending and global economies will continue to grow at a faster than normal pace. The worst of the delta variant is hopefully behind us. Although there is no quick fix, scientists are making progress in fighting COVID-19. Market corrections are a normal part of the investment cycle, especially after the very strong first eight months of the year that we've had. Investors have limited options to fight inflation as cash and government bonds offer little yields. Neither do corporate bonds offer much of a premium for their risk. Equity remains the favourite asset class of investors. We are seeing investors rotate within equity. Last year, they favoured the "stay at home" theme, now they like "epicenters" such as airlines and energy companies as we are closer to the end of the pandemic than the beginning. Both industries have posted positive returns since August when the broader markets were lower. Stock market corrections have been shallow as bargain hunters look for entries. We continue to overweight equity and underweight bonds across all our portfolios.

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