ivari Portfolio Commentary

Fourth Quarter – 2020

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Market performance

Without a doubt, 2020 was a "loss" year. Individually, we lost the ability to live our normal way of life. Globally, currencies lost their purchasing power as central banks added US$9 trillion to the system (leading to price increases in almost everything, including stocks and properties). But then – surprise! Markets finished the year stronger amid one of the worst pandemics in recent history.

Investors fell in love with growth style securities represented by the technology sector as performance outpaced value by 34% in 2020.[1] While they have strong fundamentals, we ask, "should we buy them at any price?" Regionally, the U.S. outperformed Canada as its economy and equity index have larger weights in the technology sector and less in energy.

It is fair to say that the current scenario of higher asset prices during a recession is not normal. The natural conclusion is that we are in a bubble, and we do not disagree. However, it is not a typical bubble where the issue is price speculation in a single asset. Rather, this bubble formed due to increased central bank balance sheets (or money supply). From 2011 to 2020, central banks printed approximately US$17 trillion, and half of that is attributed to 2020 alone. Imagine a transaction where someone is selling an asset and getting currency in return. The seller then demands more units of currency in exchange as the currency supply has dramatically increased, even though the asset supply has not changed, and demand may have slipped.

Benchmark returns in % at December 31, 2020	1 year	3 years	5 years	10 years	10-year standard deviation[2]
S&P/TSX Composite Index	5.6	5.7	9.3	5.8	11.7
S&P 500 Index (C$)	16.1	14.7	13.3	16.7	11.7
MSCI World Index (C$)	14.2	11.6	11.0	13.2	11.2
FTSE Canada Universe Bond Index	8.7	5.6	4.2	4.5	4.0

[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

[1] MSCI World Growth Index C$ vs. MSCI World Value Index C$, 1-year return as at December 31, 2020, Bloomberg Finance L.P.

Portfolio performance

Last quarter, global equity markets surged as news around vaccine availability gave investors hope that an economic recovery was plausible. Regionally, developed international equities provided the strongest returns, while beaten down sectors (real estate, energy and financials) and styles (value) came back into favour. Our portfolios delivered strong returns as overweight exposure to cyclical equities and credit contributed to performance.

We were pleased to see positive returns generated for investors in 2020 amid the challenges. While our decision to overweight foreign markets added value, stock selection detracted due to underweight growth exposure compared to our benchmark. Performance of the fixed income portion was strong and also outperformed. Long-term performance, which is our main focus, remains strong, and we continue to be patient with our positioning, expecting sector rotation to play out in our favour.

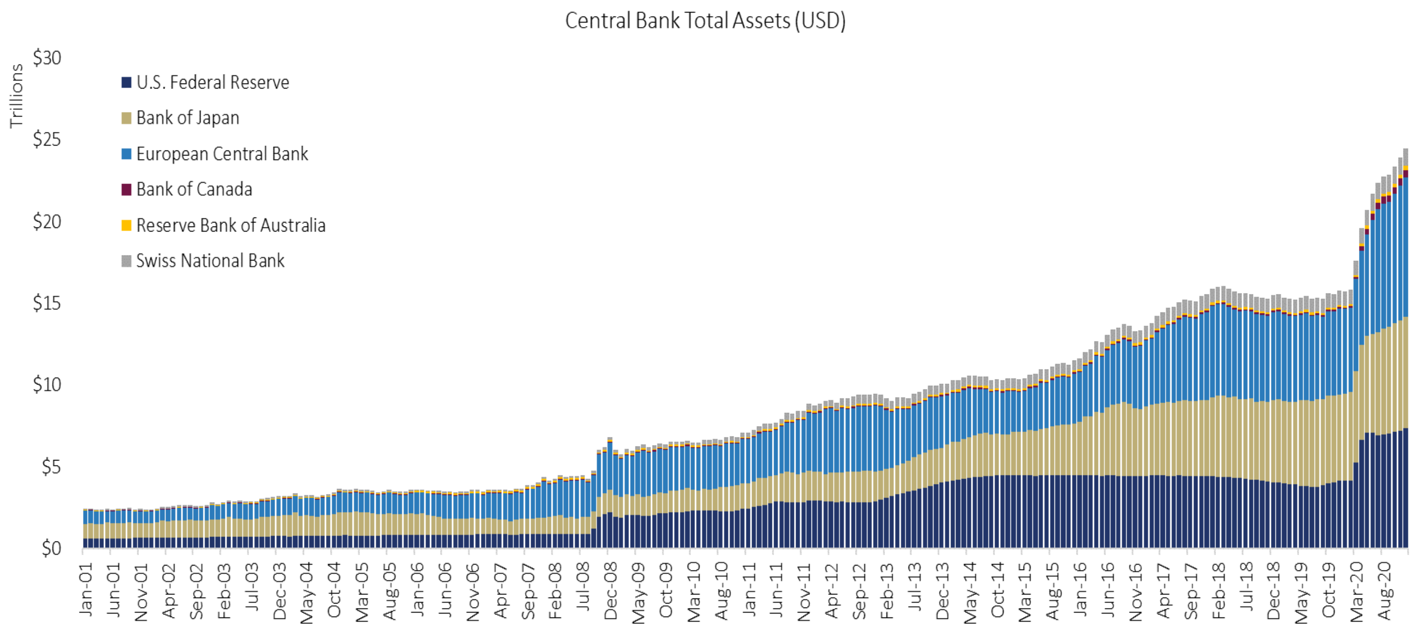
ivari CI Portfolios are available as Guaranteed Investment Portfolios within select ivari segregated funds contracts and as Managed Portfolio Index Interest Options within select ivari Universal Life Products. Segregated Fund Net Returns below are for the imaxx Guaranteed Investment Funds product (imaxxGIF-75/100). 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.

Segregated fund net total returns in % at December 31, 2020	1 year	3 years	5 years	10 years	MER[3]	10-year standard deviation
ivari CI Conservative GIP	5.6	3.7	3.1	4.3	3.30	5.7
ivari CI Canadian Balanced GIP	5.1	3.5	3.5	4.0	3.63	6.2
ivari CI Balanced GIP	5.6	4.0	4.1	5.1	3.33	7.2
ivari CI Growth GIP	6.2	4.3	4.9	5.8	3.35	8.8
ivari CI Maximum Growth GIP	6.4	4.2	5.1	5.9	3.65	10.6

[3]MER: Management expense ratio.
Source: CI GAM | Multi-Asset Management, Bloomberg Finance L.P. and FTSE as at December 31, 2020.
MER: annual audited financial statements as of December 31, 2019 (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.

Outlook and positioning

Bubbles typically burst when they run out of steam (new money is no longer in increased supply). But when the bubble is initiated by central banks, it could last as long as the central banks want. Will central banks eventually shrink their balance sheets and trigger a burst? Expanding is usually an easier decision than shrinking, as decreasing money supply has the opposite effect of lower asset prices, which is typically perceived as negative. Unless we have a very strong economy to offset, then this is usually the last thing on policymakers' minds. Using history as a guide, central bank balance sheets last peaked at US$16.0 trillion in 2018. With effort, mainly by the U.S. Federal Reserve, that balance fell to US$15.2 trillion in 2019. You may notice the reaction to reduce spending was extremely slow compared to the growth since 2008 (see chart below).



Source: Bloomberg Finance L.P., as at December 21, 2020.

With interest rates already at or close to zero, central banks have aggressively used money supply as a tool to combat the market disruption brought on by the pandemic, similar to the Global Financial Crisis of 2008-09. Policymakers seem very comfortable leaving the bubble as is, and most of us are not complaining as higher prices is not a problem for investors. However, this doesn't mean economies are growing rapidly. Rather, the wealth gap is widening in favour of those who own assets.

For example, inflation – as tracked by the Consumer Price Index (CPI), which measures changes in consumer prices – has been mild over the last decade. However, we believe the basket of data used to calculate CPI does not accurately capture the inflation of assets such as real estate. According to CPI, prices have grown at an average annual rate below 2% over the last 10 years, but Toronto real estate has gone up by more than 8% per year over the same period. Potential homeowners have effectively been priced out of the market because they do not own inflated assets to sell and they cannot save enough to keep up with the rapid price increases of real estate. As a result, asset owners become wealthier, while those with little net worth fall further behind. That being said, we believe central banks are still likely to focus on boosting prices for the "majority" of the population. This means, the large increase in money supply and renewed currency debasement could continue for years if not decades to come. While unfair, it is not up to us to decide.

While central banks are aggressively printing money, we believe being defensive and "hiding cash under the mattress" is a losing strategy. We expect to see improvement in economic activities as vaccination takes hold in 2021. Over the last few months, our goal has been to protect our investors' purchasing power in these very unusual market conditions, and we have actively deployed cash and trimmed government-bond holdings for larger equity exposure. We also believe some underperformers, such as cyclical sectors and small caps, will outperform as they have been overlooked by investors that wanted the same thing. As always, we continue to monitor market conditions and may from time to time cut back on our equity exposure to manage downside volatility.

Source: CI GAM | Multi-Asset Management, Bloomberg Finance L.P. and CI Global Asset Management as at January 11, 2020.

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