Canada Life Risk-Managed Portfolios
Quarterly update

The Canada Life Risk-Managed Portfolios™ can provide clients with a single-fund solution that brings together risk management strategies and traditional and non-traditional investments. These portfolios are specifically designed to help guard against volatility while still allowing them to participate in the markets.

Q3 2023 highlights

- Equity markets were negative in the third quarter (Q3).
- A strong rally in July was more than offset by falls in September on the back of stickier than expected inflation and concerns about 'higher for longer' policy rates.
- Against this backdrop, yields rose and equities fell over the quarter.

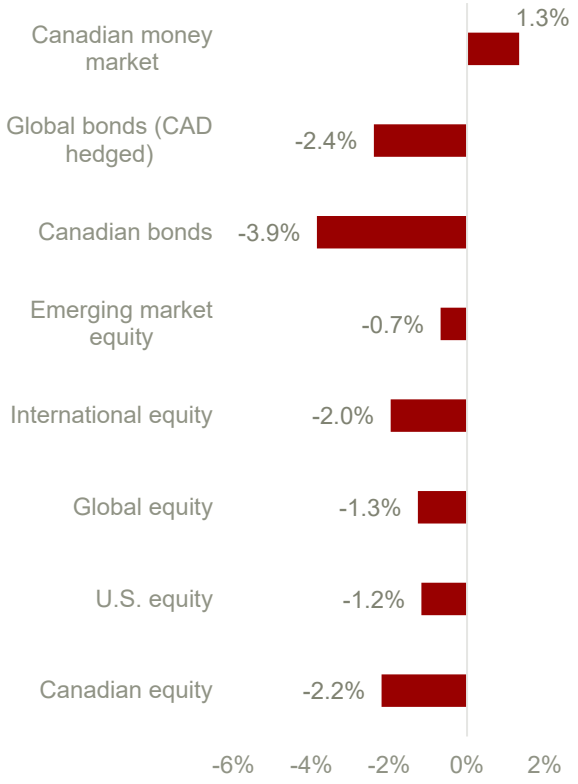
Market commentary

The equity market rally of 2023 came to a halt in September as markets shed some of their gains year to date (YTD). The MSCI World fell -1.3% in Q3, although equities remain up 11.3% YTD. The equity market retreat at the end of the quarter was driven by central banks reiterating the need for policy rates to remain higher for longer in 2024, persistent – albeit weakening – inflation and signs of an economic slowdown in the Eurozone and China.

In July, equity markets gained against a broadly favourable macroeconomic backdrop, although the U.S. economy displayed greater resilience than elsewhere. August was a relatively flat month for equities, and in September, equities were repriced by the markets given the likelihood of rates remaining higher for longer. The MSCI World fell by -4.35%.

As noted above, global developed equity markets ended the quarter in negative territory, falling by 1.3%. Emerging markets led equities over the quarter with a -0.7% return, while U.S. equities returned -1.2% and international (EAFE) equities returned -2.0%. Canadian equities lagged, returning -2.2%. On the fixed income front, global bonds hedged to Canadian dollars returned -2.4% and Canadian bonds returned -3.9%. All returns quoted in this section are in Canadian dollars.

Market returns[1]



[1] Source: Factset, as of Sept. 29, 2023. Total return in CAD or CAD$. Market returns use the following benchmarks: 1-Month Canadian Banker Acceptance Rate, ICE BofA Global Broad Market 100% CAD HEDGED, ICE BofA Canada Broad Market, MSCI Emerging Markets, MSCI EAFE, MSCI World, S&P 500, Canada S&P/TSX Composite.

Asset allocation

All fund weights were in line with their strategic targets over the course of the quarter.

- Within equities, even though most allocations were negative for the quarter as markets sold off, the Canada Life Risk Reduction Pool offered protection against the market fall, finishing the quarter in positive territory.
- Within fixed income, most funds detracted from performance as yields climbed higher. The largest detractors were the Canada Life Global Multi Sector Bond Fund and the Canadian Aggregate Bond ETF, while the allocations to the Canada Life Global Multi-Sector Fixed Income Fund and Canadian Short-Term Bond Index ETF contributed positively to relative returns versus the benchmark.

Asset classes	Local curr-ency	CAD
Fixed income	-	-
Equities	-	-

Contributor (+) or detractor (-)[2]

Weighting:[3]

Underweight neutral overweight

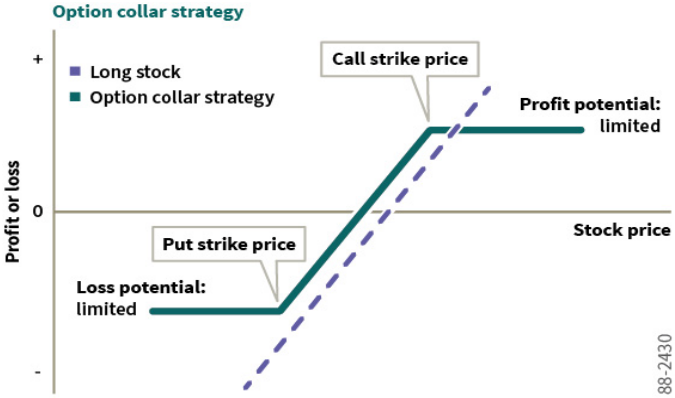
Canada Life Risk Reduction Pool[4]

The Risk Reduction Pool returned 0.5% during Q3. The fund has returned 6.3% per year since inception, underperforming its benchmark by -0.5% per year.

The target delta of the strategy ranged between 32-50% in Q3, a result of a tactically underweight equity position. This underweight was removed at the beginning of August, bringing the fund target delta back to 50.

The primary aim of the strategy is to deliver protection relative to the equity market and the fund achieved that in Q3 when markets sold off. Breaking down performance by security type, equity exposure in the strategy contributed negatively by -1.3%, while both puts and calls contributed positively, 0.3% and 1.1% respectively.

The tactical equity underweight has been removed and the strategy is currently being managed to its structural target delta of 50%.



The Risk Reduction Pool is an equity collar strategy that looks to reduce the volatility of an underlying equity investment, in this case the S&P 500 index. The objective of the strategy is to provide a smoother journey to investors. The strategy looks to reduce volatility through the use of an option strategy overlay.

[2] Contributor/detractor denotes absolute performance of the asset class between the reporting periods.

[3] Over/underweight reflects the weighting of the underlying funds in the portfolios versus their strategic asset allocation.

[4] The Risk Reduction Pool may be over/underweight cash/equity at any given time that may not be reflected in the asset allocations over/underweight table. The Risk Reduction Pool is not available to be purchased on a stand-alone basis.

Portfolio performance

Net returns in Canadian dollars (%)

Mutual funds

F series	3 months	6 months	1 year	SI*
Conservative Income	-1.7	-1.1	3.5	-0.7
Balanced	-1.3	-0.3	5.7	1.5
Growth	-1.3	0.7	9.2	3.1

Segregated funds

75/75 (P) series	3 months	6 months	1 year	SI*
Conservative Income	-1.8	-1.2	3.1	-0.9
Balanced	-1.4	-0.4	5.5	1.2
Growth	-1.4	0.6	9.0	2.8

For all series performance see fund overview and performance.

*SI = since inception. Inception date for mutual fund portfolios is Nov. 4, 2020 and Oct. 21, 2020 for segregated fund portfolios.

Short-term market outlook

Global equities have proved resilient in 2023 as recession fears have receded and a peak in central bank policy rates has come into view. While global earnings are forecast to be only modestly higher this year by approximately 0.5%, they've held up better than was feared at the start of the year. That's because sales have surprised to the upside in the better economic backdrop and the margin squeeze for corporates has been less than anticipated.

Global equity valuations are below long-term averages, trading on a 12-month forward price-to-earnings (P/E) multiple of 15.6x against a long-term average of 16.0x. The 12-month forward P/E for the MSCI USA is 18.3x against a long-term average of 17.2x. Equities outside the U.S. offer better value. Europe ex-U.K. equities trade at a multiple of 12.3x against a long-term average of 13.1x and Japanese equities trade at 14.8x versus a long-term average of 15.8x, while U.K. equities trade at 10.5x against a long-term average of 12.2x. Equities remain expensive against both bonds and cash given the high yields available on these assets.

Sovereign bond yields are broadly higher this year on the back of a slower than expected pace of moderation in inflation, resilient economic activity and an upward reset for the level and timing of peak policy rates. With inflation having clearly peaked and central banks now suggesting that the end of the tightening cycle is very close, bond yields are expected to decline over the next 12 months.

Long-term market outlook

Despite equities appearing close to fully valued, the outlook for equities on a medium-term view is positive, with upside of approximately 7% per year expected on a 5/10-year view. Central banks are likely to pivot towards looser policy in 2024 as inflation continues to fall. An increasing probability of a soft landing in 2024, with a rebound in both growth and earnings, should also provide support. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market. The ongoing green-related capital expenditure cycle could also boost earnings over the medium term. Any short-term volatility in markets is likely to be offset by the above factors resulting in positive returns in a 12-month time frame.

We believe fixed income offers a strong risk-reward profile at this stage in the cycle and is attractive from a wealth preservation perspective. The current, relatively high levels of bond yields and central banks' commitment to bring inflation down means bonds should remain attractive on a multi-year basis with high single-digit returns possible over the next 12 months in riskier segments of fixed income.

ILIM Multi-Asset Solutions Team

Irish Life Investment Managers (ILIM) is a global asset management business based in Dublin, Ireland. The Multi-Asset team is responsible for the design and development of ILIM's range of multi-asset strategies. ILIM currently manages over C$47 billion* in multi-asset solutions in both proprietary funds and in tailored solutions for third party distributors. In addition to the development of multi-asset solutions, ILIM's internal investment capabilities include indexation, quantitative investment strategies and real estate.

*As of June 30, 2023

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