Partners | QUARTERLY PROFILE

3rd Quarter 2023

FORSTRONG GLOBAL

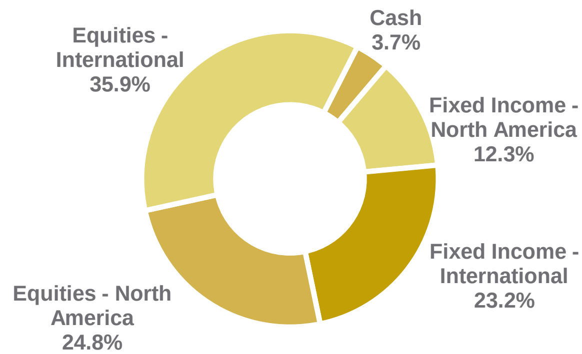
GLOBAL BALANCED

PORTFOLIO OBJECTIVE

The Forstrong Global Balanced mandate seeks to provide income and capital appreciation by constructing a balanced portfolio comprised of globally diversified exchange traded funds (ETFs).

Forstrong utilizes a global, multi-disciplined investment approach, focusing upon a long-term investment horizon and providing stability through all investment climates with an emphasis on risk management and low turnover.

ASSET ALLOCATION



MAJOR HOLDINGS

COMPANY	% OF PORTFOLIO
VANGUARD VAL ETF	9.85%
ISHARES J P MORGAN EM LCL ETF	9.17%
SPDR BLOOM S/T INTL BND TREAS	9.16%
DBX ETF TR XTRACKERS HARVEST	7.55%
VANGUARD US AGR BD HEDG ETF	7.45%
VANGUARD FTSE EUROPE ETF	7.36%
ISHARES TR 1-5 YEAR INV ETF	6.55%
ISHR COR S&P500 HEG CAD IX ETF	5.76%
VANGUARD FTSE PACIFIC ETF	4.28%
BMO EQUAL WEIGHT US BANKS ETF	3.91%

3rd Quarter 2023	QTD	1YR	3YR	5YR	10YR
Forstrong Global Balanced*	**-1.2%**	**10.4%**	**3.0%**	**4.1%**	**6.8%**
Customized Benchmark	-1.3%	10.1%	0.8%	3.8%	6.8%

*Return Data Source: Inception to March 2017 returns are from eVestment which are linked thereafter to RJ Partners Program composite, gross returns. All performance data represents past performance and is not necessarily indicative of future performance. Benchmark: 45% Citi WBIG, 5% 91D TBill, 50% MSCI ACWI - Gross.

RAYMOND JAMES®

PORTFOLIO REVIEW

Like the previous quarter, the third quarter of 2023 was marked by shifting consensus expectations; particularly in the United States. But whereas the prior change in market narrative from recession to resilience emboldened investors, this quarter's change had the opposite effect as the reality of higher for longer interest rates (as shown in the Federal Reserve's "dot plot") set in.

Developed market bond yields came under significant upwards pressure, which weighed on stocks and bonds alike. The trade-weighted US dollar surged anew; in part attributable to both risk-off sentiment and widening interest rate differential expectations.

Major central banks tightened further during the quarter, as the Federal Reserve hiked rates by 0.25% in July, the European Central Bank (ECB) hiked by 0.25% in both July and September and the Bank of Japan (BoJ) widened the parameters on its yield curve control policy in late-July. However, the BoJ move underwhelmed investors and the Japanese yen devaluation trend reasserted itself following the announcement.

Chinese assets remained under pressure during the quarter. In addition to the lacklustre recovery out of COVID lockdowns and corresponding absence of meaningful monetary and fiscal stimulus, property sector woes made new headlines with major developers reportedly on the brink of default. Energy-related assets were the notable standout during the quarter, as oil prices grinded higher amidst continued production cuts from Saudi Arabia and Russia.

The portfolio had negative absolute returns over the quarter and modestly underperformed the benchmark. Net asset mix positioning bolstered performance during the period, as overweight exposure to equities slightly outperformed fixed income. Short duration fixed income positioning helped insulate the portfolio against losses as long-term bond yields faced considerable upwards pressure during the quarter. Overweight emerging markets (EM) equity exposure outperformed global equity indices, despite historically carrying a high beta to developed market risk assets. Overweight cash and equivalents exposure outperformed as global stocks and bonds posted negative returns for the period.

A partial hedge on US dollar exposure detracted from performance as the risk-off sentiment and widening US interest rate differential expectations helped the greenback rally against most major currencies. Overweight exposure to local currency emerging markets (EM) sovereign bonds underperformed as in addition to the pressure on yields emanating from developed markets, the initiation of EM rate cutting cycles in a few key markets weighed on currency returns. Overweight exposure to Chilean equities underperformed as lithium producers suffered amidst a continued plunge in lithium prices.

OUTLOOK

David Foster Wallace once told a joke about two young fish who meet an older fish swimming the other way. The older fish says, “Morning boys, how’s the water?” The two young fish swim on for a while before one turns to the other and asks, “What the hell is water?”

For the last decade, our water has been ultra-low interest rates. Investors became conditioned to low and declining rates. Debt, demographics and digitization themes drove a narrative that any other environment wasn’t even possible. Everyone became convinced that prices could never rise materially again. We became Wallace’s fish, unaware that rates were abnormally low.

The point is that today’s investment environment is unfamiliar territory. Many have no experience with inflation. Many have no experience with rising interest rates. And, nearly everyone seems to be flailing around, struggling for oxygen — for a clear worldview that will tell them what to do with their capital.

To be fair, there aren’t many historical frameworks for the current environment — cyclical or secular — to rely upon. Pandemics and war have not been regular features since WWII. It’s no surprise, then, that the forecasting business has been abysmal. The key miss this year has been recession. In fact, global growth is still humming along nicely, labour markets remain robust and the much-feared deep downturn in corporate earnings has yet to materialize. Resilience, rather than recession, has suddenly become today’s watchword.

Most investors, positioned ultra-conservatively earlier this year, are now sweating through one of the most painful U-turns in the forecasting business ever. Only a few months ago, those who dared to dream of soft landings were viewed on the same level as fairytale believers. Now? To put it lightly, things have changed.

Just because recession has been postponed, does it automatically follow that a soft landing is now the most likely scenario? Investors are ditching their recession forecasts in droves and assuming a return to a world of benign inflation and continuing growth — in other words, the same environment that dominated the 2010s. Yet the scenario that should be upgraded is the structurally higher inflation and growth one. Why? Because receding recession risks and reaccelerating growth are likely to feed into higher prices and create stickier inflation.

Meanwhile, at Jackson Hole, the annual jamboree for global central bankers, US Federal Reserve Chairman Powell had a snoozer speech. But ECB President Christine Lagarde’s took on a far different tone. She didn't discuss near-term policy choices facing the ECB at all. Instead, she gave an expansive talk about the big, macro factors that will keep monetary policymakers on their front foot for years: persistent fiscal deficits, the changing structure of the labour market, climate change, state-led investment in the green transition, and new patterns developing in global trade. Lagarde’s main point was that the job of the central banker is now far different than the 2010s. Back then, the main challenge was to generate higher employment and aggregate demand. Now managing inflation has once again entered the mandate.

Looking ahead, investors should conclude that the macro environment is much different. We aren't swimming in water anymore. The problem is the same as it always is during transition periods: people don't give up their paradigms easily, anchoring themselves to the prior regime. Our job as portfolio managers, then, is to assess and anticipate this new environment, and which asset classes will outperform.

As near-term recession concerns ebb, money that was sitting on the sidelines should work its way back into risk asset markets. Professional investor surveys show this trend is well underway, with cash positions declining from near-historically high levels. We expect continued flow into global stock and bond markets and have reduced cash and equivalents exposure to neutral this quarter.

Investors have a lot to digest these days, as tightening monetary policy and rising energy costs are offset by resilient corporate profits and fiscal expansion. On balance, the outlook for equities remains favourable as fiscal stimulus has a more potent "real economy" impact and corporations opportunistically extended liabilities when interest rates were low. We remain overweight equity exposure.

Market capitalization-weighted emerging market indices are light on "real economy" sectors that should thrive in an inflationary growth environment. Conversely, dividend-weighted indices overweight commodity-centric sectors such as materials and energy, in addition to bolstering portfolio yield. We have pivoted EM equity exposure to a high dividend orientation this quarter.

With nominal yields grinding higher in numerous markets during the past quarter, some prominent bond investors have declared an attractive buying opportunity. We disagree that bond yields will quickly revert back to pre-pandemic lows. However, the higher yields are becoming more attractive from an income generation standpoint. Fixed income exposure has been increased, but remains underweight versus benchmark.

The transition away from fossil fuel-derived energy sources will intensify the reliance on "bridge" fuels such as natural gas and nuclear (uranium), as renewable sources including solar and wind will take time to scale up. Natural gas looks particularly attractive at present as Europe remains vulnerable to a harsh winter, global supply/demand conditions are tight and the Henry Hub price appears to be bottoming. A position in natural gas equities has been initiated in balanced and growth-oriented strategies this quarter.