Partners | QUARTERLY PROFILE

4th Quarter 2020

FORSTRONG GLOBAL

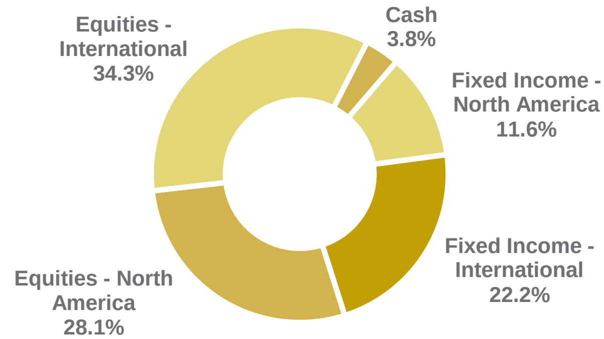
GLOBAL BALANCED

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
ISHR COR S&P500 HEG CAD IX ETF	10.62%
SPDR BLOOM BARC INTL TREA BD	8.83%
ISHARES J P MORGAN EM LCL ETF	8.19%
VANGUARD US AGR BD HEDG ETF	7.05%
VANGUARD FTSE PACIFIC ETF	4.84%
SPDR BLOOM BARC S/T INTL TREAS	4.41%
SECTOR SPDR TR INT FNCL	4.30%
ISHARES INC MSCI SWEDEN ETF	3.73%
VANGUARD FTSE EMERG MKTS ETF	3.60%
VANGUARD FTSE EUROPE ETF	3.41%

4th Quarter 2020	QTD	1YR	3YR	5YR	10YR
Forstrong Global Balanced*	**8.3%**	**12.0%**	**7.4%**	**7.0%**	**8.5%**
Customized Benchmark	4.0%	11.4%	8.5%	7.1%	9.0%

*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

The stars aligned for risk assets during the fourth quarter of 2020, as a slew of market-friendly news turbocharged global equity markets. In November, both Pfizer and Moderna released extremely promising test results for their respective COVID-19 vaccines. With significant capital deployed towards vaccine development (namely “Operation Warp Speed” in the US), investors generally expected drug companies to succeed in relatively short order. However, the test results likely came quicker than generally expected and provided a behavioural “light at the end of the tunnel”; spurring a rotation from perceived “COVID winner” to “COVID loser” stocks.

The US election results were also interpreted favourably. Biden’s victory should help reduce policy uncertainty and erraticism, while a split Senate and weakening House majority should limit the Democrats’ ability to aggressively pursue their agenda (particularly the potential to unwind the 2017 corporate tax cuts). Additionally, a USD 900 billion stimulus package was approved in late December, removing the tail risk of a government shutdown.

In Europe, government bond yields (particularly in southern Europe) fell as the European Central Bank announced an expansion and extension of its quantitative easing program. Despite renewed lockdown measures in numerous countries, European equities were buoyed by a number of positive developments involving the European Union (EU). The bloc was able to appease objections from Poland and Hungary in order to pass a EUR 1.8 trillion budget and the United Kingdom and EU were able to reach a post-Brexit trade agreement.

The portfolio had positive absolute returns over the quarter and outperformed the benchmark. Net asset mix positioning contributed positively to performance during the period, as overweight exposure to equities sharply outperformed fixed income. Overweight exposure to global metals and mining industry equities bolstered performance, as industrial metals rallied on an improving global economic outlook and weak US dollar. Additionally, a financial sector equity overweight in Europe and the US outperformed on fading balance sheet impairment concerns and expectations of a steepening yield curve.

Overweight exposure to US homebuilder equities detracted from returns, as investors reacted to the fervent pace of mortgage applications showing signs of leveling off. Additionally, the portfolio’s short duration fixed income positioning detracted from returns, as the relative stability of global bond yields during the quarter allowed higher yielding long-term bonds to outperform.

OUTLOOK

A Joyous Environment Unfolds

No, we are not referring to season's best wishes … though we would also like to pass on these greetings at this time of year. What we are referring to is our anticipation of an economic boom in 2021.

Wizened people will therefore recognize these gifts from afar: re-globalization; recovery; re-stocking; release of household savings, and global economic recoupling. Consider that were it not for the cross-border cooperation of various drug companies around the world, a successful vaccine would have taken much longer to launch.

While it is not expected that the surge phase will last for long, it will surely bring a lot of goodwill to emancipated consumers. Joy will break out … if not already. Consider the response of financial markets in November 2020 to the announcements of the arrival of highly effective COVID-19 vaccines.

Not only did equity markets soar, but a massive change in investment preferences also occurred. COVID-19 beneficiaries (online services, IT companies … etc.) corrected, and COVID-19 losers (i.e. airlines, energy companies, banks, etc.) soared.

Some pundits have called this one of the biggest "factor" shifts of all time. Is this rotation now over done? We would say no. Why? Scale and proportionality. The counter recoveries of the COVID casualties have been picayune to date, when viewed against the long outperformance of the of COVID winners throughout the first 10 months of the year.

However, with such violent market movements, shouldn't one now hunker down and lower market risks? Looking forward to mid-2021, again we think not. Saying this, we recognize this to be a risqué statement.

When pessimism or optimism surges, seasoned portfolio managers normally know not to lose their heads in such emotional investment environments. Extraordinary market moves tend to usher in reversals and reversions to the mean. The key questions therefore are these: What is normal? What are the new risks?

For one, the COVID pandemic was not a normal occurrence. It is was an exogenous event. Second, it had a global impact bar none; and it was the most reported and followed event in probably all of history. There was nothing normal here. Therefore, the recovery phase is also not likely to be normal.

As such, a frenzied demand boom in North America and elsewhere is anticipated. Already, China's exports have been booming. In November 2020, China's export volumes rocketed 21.1% higher than the same month of the year prior — the highest ever on record. Exports to the U.S. actually soared by 41% versus the same month of 2019. One can be forgiven any puzzlement. Was not the Trump administration trying to lower imports from China?

While joyousness is likely to last for some time, an eye must now be kept on new risks.

For example, given the large surge in trade with Asia, just how will the new Biden administration respond?

Also, one must be on the lookout for rising inflation. There are likely to be many bottlenecks and restocking challenges in the economic recovery phase. That can be expected to push up prices and also to back up interest rates.

Another condition to acknowledge is that valuation metrics for equities and bonds are now very high vs. historical levels. We see this as a one-time adjustment in response to the massive expansion of central bank balance sheets and Modern Money Theory (MMT) ideas taking root. Valuations are likely to remain elevated.

In the meantime, consumers have been cautious, instead choosing to hold on to savings. Canada and the United States (compared globally per capita) generated the biggest debt boost over the past year. The consumer cash cache in the US is running at a 30% savings rate. Dry tinder had been accumulating on household balance sheets for most of this year. Once consumers feel secure, cash will again be spent.

Economists and money managers are inclined to watch cyclical trends … to find validating patterns in the data that support market expectations today. But, as already mentioned, the world is not experiencing a traditional economic cycle. Markets can be expected to enjoy their gifts.

Our base case scenario of a surging global economy provides a fertile environment for strong equity performance. Equities trading at valuation multiples well above historical averages may thus be well-warranted, but the recent surge in prices has nonetheless contributed to froth in some areas of the market. Given our economic outlook, we continue to view an equity overweight as the most rational positioning. However, with signs of investor exuberance, we have scaled back exposure modestly this quarter.

The COVID-19 pandemic and corresponding lockdown measures implemented worldwide gave rise to significant dispersion amongst equity sectors and regions. Internet-based businesses (particularly those in the technology and consumer discretionary sectors) reaped the benefits of a widespread consumer pivot online, while economies in East Asia were able to keep economic activity moving and boost export market share after successfully thwarting domestic virus transmission. With vaccine deployment upon us, the massive performance gap versus other sectors and regions is set to narrow. We have trimmed East Asian equity exposure and maintained overweight exposure to “real economy” cyclical sectors including financials and industrials.

Global bond yields remain near historic lows, providing insufficient income and an asymmetric risk profile skewed to the downside. However, fixed income still offers critical portfolio ballast as we enter a period of elevated equity risk. We remain underweight fixed income (and short duration) but have increased exposure this quarter to protect against potential volatility emanating from equity holdings.

Hong Kong equities have performed poorly as the city has been roiled by political regime change and social unrest, while the government's fiscal response to the pandemic has been muted (leading to collapsing household income). However, numerous tailwinds have emerged. The Hong Kong dollar's peg to the US dollar effectively imports significant monetary stimulus and has put downwards pressure on the trade-weighted exchange rate (thus boosting export competitiveness), while the outsized real estate sector trades at historically low valuation multiples and has not yet responded to the collapse in interest rates. We have added Hong Kong equity exposure to the portfolio this quarter.