

SECOND QUARTER 2024

GROWTH WITH ENHANCED INCOME

Financial markets benefited from a supportive macroeconomic backdrop in the second quarter, with modest gains in fixed income and more varied performance across equities and real assets. U.S. economic activity remained solid while showing signs of moderation later in the quarter. Investors welcomed a resumption in disinflationary trends after some concerns on U.S. inflation data in early 2024. Major developed market central banks began cutting rates, with 25 basis-point rate cuts from the European Central Bank and Bank of Canada in June. Fixed income returns were modestly positive even as interest rates and credit spreads were both slightly higher overall in the second quarter. Regional equity performance trends diverged as U.S. markets pushed higher with considerable support from megacap tech companies while the recovery in China and strong performance in India and Taiwan helped emerging market equities finish as a top-performing major asset class. Non-U.S. developed markets struggled later in the quarter as French equities dipped due to election uncertainty while Japan was a drag throughout most of the quarter.

We made no asset allocation changes in the quarter. The tactical asset allocation approach of the portfolio focuses on positioning appropriately for the current financial market and economic backdrop with a focus on downside mitigation.

The portfolio underperformed in the second quarter as drag from strategic positioning outweighed some benefits from fund implementation. Strategic positioning weighed on performance as real assets and high yield fixed income failed to keep pace with global equities. Fund implementation in the portfolios is geared towards providing additional income. This approach modestly helped performance in the quarter, with benefits from non-U.S. equities overcoming some headwinds from fixed income and U.S. equities. With regards to fixed income fund implementation, our value-scored high yield fixed income (HYGV) was the largest detractor. Within equity fund implementation, our quality dividend international equity (IQDF) was the main contributor while our quality dividend U.S. equity (QDF) was a detractor as yield-related factor exposure struggled more in the U.S. in a quarter of relatively narrow gains driven by megacap tech in the broader U.S. equity benchmarks.

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