SECOND QUARTER 2024

MAXIMUM GROWTH

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 one change in asset allocation in the quarter. In May, we increased U.S. equities, developed ex-U.S. equities and emerging market equities, funded by reductions across natural resources, global real estate, global listed infrastructure and high yield fixed income. The tactical change returned the portfolio to an overweight stance across global equities, reflecting a more-favorable macroeconomic backdrop with the resilient U.S. economy and some improvement in the non-U.S. growth outlook. Currently, the portfolio has an overweight across each major global equity region and high yield fixed income funded by underweights in natural resources, global real estate and global listed infrastructure. The portfolio ended the quarter with a slightly lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

The portfolio underperformed in the quarter with headwinds from strategic positioning and fund implementation, partially offset by benefits from tactical positioning. Strategic positioning detracted from performance largely driven by weaker performance in real assets and high yield fixed income relative to global equities. Tactical positioning helped performance primarily due to the underweight to natural resources, the overweight to U.S. equities and the underweight to global real estate. Our broader-based U.S. market factor tilt (TILT), our broader-based emerging markets factor tilt (TLTE) and our value-scored high yield fixed income (HYGV) were the main detractors in terms of fund implementation, while our quality large cap U.S. equity (QLC) and our global natural resources (GUNR) were the main contributors.

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