Desjardins Wealth Management
INVESTMENTS

W E A L T H

QUARTERLY COMMENTARY

DECEMBER 31, 2017

Chorus II Corporate Class Dynamic Growth Portfolio

Portfolio Asset Allocation (%)

	Target	Real
FIXED INCOME	**26.0**	**22.9**
Canadian Bond		
- Canadian Bond†	9.4	6.8
- Enhanced Bond†	9.4	6.8
- Short-Term Income†	2.0	2.0
Foreign Bond		
- IBrix Global Bond†	2.6	2.4
- Global Tactical Bond†	0.8	0.4
- Emerging Markets Bond†	0.8	3.1
- Global Inflation Linked Bond†	0.5	0.6
- Floating Rate Income†	0.5	0.5
Other		
- Cash and Equivalents	0.0	0.3

	Target	Real
GROWTH	**74.0**	**77.1**
Canadian Equity		
- Canadian Equity†	7.8	7.6
- Dividend Growth†	7.8	7.6
- Canadian Equity Growth†	5.1	5.1
- Canadian Equity Value†	2.6	2.6
- Canadian Small Cap Equity†	2.6	2.6
American & Overseas Equity		
- American Equity Growth†	2.6	3.3
- Overseas Equity Growth†	1.9	2.5
- American Equity Value†	0.0	0.5
- Overseas Equity Value†	0.0	0.6
Global Equity		
- Global Equity Growth†	13.0	12.4
- Global Dividend†	6.5	6.0
- Global Equity Value†	6.5	6.0
Global Small Cap Equity		
- Global Small Cap Equity†	8.8	10.4
Emerging Markets Equity		
- Emerging Markets†	8.8	9.9

Annual Compound Returns (%)

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
Series A	-0.3	4.0	5.0	10.4	5.9	7.8	-	8.2
Series T6	-0.3	4.0	5.0	10.4	5.9	7.8	-	8.2
Series T8	-0.3	4.0	5.0	10.4	5.9	7.8	-	8.2

Stronger-than-expected earnings continued to fuel the major stock markets in the fourth quarter of 2017. U.S. stock markets stood out in particular, boosted by the adoption of the Trump administration's tax reform package after months of uncertainty and a jump in earnings for the tech sector.

In Canada, unemployment fell to a record low of 5.7% in December. Positive economic indicators helped drive the S&P/TSX Composite Index up by 4.5% over the quarter. However, its advance was held back by the energy sector, which returned just 0.7% despite rising oil prices. Furthermore, the Bank of Canada (BoC) opted to pause its monetary tightening, holding its overnight rate steady at 1%. Meanwhile, the Canadian bond market, as represented by the FTSE TMX Canada Universe Bond Index, posted a quarterly return of 2.0%.

In Europe, political conditions in several countries continued to pose substantial risks for the region. These include the re-election of a separatist government in Catalonia and Angela Merkel's difficulties forming a new coalition

† Desjardins Funds

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government in Germany. The result was muted growth for European stock market indices.

This was the final quarter in a year marked by better-than-expected global economic growth, which lifted global stock markets. Stock markets in emerging countries, especially in Asia, led the way in 2017, with the MSCI Emerging Markets Index[1] turning in annual growth of 28.3%. In the United States, tech companies and the tax reform package contributed to a 13.8% increase for the S&P 500 Index[1], which has now posted gains for nine years running. After three tough years for Europe, positive economic news and election results that were mostly welcomed by investors helped heat up European stock markets, which delivered a 17.3% annual return[2]. Although the underperformance of the energy and materials sectors took a toll on the S&P/TSX Composite Index, the index as a whole still rose by 9.1%. As for fixed income, rosier economic outlooks encouraged major central banks around the world to tighten their monetary policies. The Bank of Canada and the U.S. Federal Reserve (Fed) both hiked their key interest rates. As a result, their respective bond markets suffered, with the Canadian market growing by just 2.5%[3], while the U.S. market slid by 3.3%[4]. It is also worth noting that throughout 2017 the Canadian dollar appreciated against the U.S. dollar, biting into returns on U.S. dollar-denominated securities. In contrast, Canada's currency depreciated against the euro, magnifying the performance of euro-denominated investments.

Portfolio performance (fourth quarter 2017)

For the quarter ending on December 31, 2017, the Chorus II Corporate Class Dynamic Growth Portfolio (Class A shares) posted a 4.02% return, compared with 4.70% for its benchmark index[5]. Unlike the index, the portfolio's performance is net of fees and expenses. Over the quarter, all of its underlying funds recorded increases ranging from 0.18% to 7.89%. Of its growth assets, the U.S., global and small-cap equity funds delivered the strongest gains. Meanwhile, Canadian bond funds outperformed the rest of the fixed income holdings.

- **TARGET ALLOCATION – INCOME: 26% (ACTUAL ALLOCATION: 26.6%)**

  The fixed-income component made a positive contribution to the portfolio's quarterly performance. The Canadian Bond Fund was the top contributor for the quarter with a 1.77% return.

- **TARGET ALLOCATION – GROWTH: 74% (ACTUAL ALLOCATION: 73.4%)**

  Capital appreciation assets generated a positive return for the portfolio. With a return of 5.89%, the Global Equity Growth Fund made the greatest contribution to performance.

Portfolio performance (2017)

The Chorus II Corporate Class Dynamic Growth Portfolio (Class A shares) returned 10.40% in 2017, compared with 10.64% for its benchmark index. Unlike the index, the portfolio's performance is net of fees and expenses. The funds making up the portfolio posted returns ranging from -2.32% to 34%. Growth assets contributed the most to the portfolio's overall performance, especially the Global Equity Growth Fund, which ranked in the top quartile of its category thanks to a return of 22.48%. The portfolio's substantial allocation to the Enhanced Bond Fund meant that this fund, with its 1.25% return, made the strongest contribution of all the fixed income investments.

Dynamic portfolio management – Tactical interventions

Decisions on allocation between the various asset classes are based on short-term forecasts grounded in observed market trends. A higher allocation to developed European markets, emerging markets and global small- and mid-cap securities proved beneficial. The manager remains optimistic with respect to global growth, consumer confidence and corporate profits.

[1] Returns are expressed in Canadian dollars.
[2] Based on the return of the MSCI Europe NR Index expressed in Canadian dollars.
[3] Based on the return of the FTSE TMX Canada Universe Bond Index.
[4] Based on the return of the Bloomberg Barclays U.S. Aggregate Bond TR Index expressed in Canadian dollars.
[5] The index is composed as follows: 11% FTSE TMX Canada Universe Bond Index, 4% FTSE TMX Canada Short Term Bond Index, 6% Barclays Multiverse Index (CAD-hedged), 6% S&P/TSX Preferred Share Index (total return), 22% S&P/TSX Composite Index (total return), 7% S&P/TSX Composite Dividend Index (total return) and 44% MSCI World Index (total return).