

## PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2020

### Global Markets Review

2020 was a tumultuous year and surely a year for the history books. The 2020 stock market crash marked the fastest correction in market history; yet numerous stock markets defied expectations and closed at all-time highs. All in all, global markets finished the year with stellar performance, especially when taking into account the major correction that took place in March. The MSCI World Index gained 16.5% with the Information Technology sector as the best performing sector, gaining 44.3% during the year; Consumer Discretionary was the second best performing sector, outperforming the MSCI World Index by 20.5%. In North America, the S&P 500 was up 18.4%, while the S&P/TSX Composite was up 5.6%, both of which were led by strong performance from the Information Technology sector. In Europe, the STOXX 600 was down 1.4% for the year. Germany and Switzerland had the best performance, where the DAX and SMI were up 3.5% and 4.3%, respectively. France's CAC 40 Index declined 5.0%. Spain and U.K. also finished the year in negative territory as the IBEX 35 and FTSE 100 declined 12.7% and 11.4%, respectively.

During the fourth quarter, global economies continued the path to recovery while certain parts of the world combated a resurgence of COVID-19. In general, Asian countries have been able to control the spread of COVID-19 much better than North America and Europe. In November, significant progress was made with the development and the rollout of COVID-19 vaccines. Pfizer and Moderna's vaccines both showed efficacy rates above 90%. AstraZeneca's vaccine also showed efficacy rate above the 50% threshold set by the World Health Organization. Several countries have granted emergency approval for these vaccines and are undergoing the inoculation process. At the same time, we saw sequential improvement in manufacturing production and sequential declines in the unemployment rate after peaking in April. In the U.S., Democratic presidential nominee Joe Biden was elected the 45th president of the United States and was inaugurated on January 20, 2021. The two Georgia Senate runoff elections in January 2021 resulted in Democratic control of the Senate by the slimmest of margins. Democrats gained control of both the Congress and the White House for the first time since 2011. A Democratic win in combination with vaccine news pushed stock markets to new highs in November. The more cyclical parts of the economy benefited the most, including Energy, Financials, Materials and Industrials. Performance of Information Technology stocks remained robust, as the work from home theme continue to be a secular tailwind for the sector. In December, equity markets rallied further despite the implementation of lockdown measures in certain countries. Risk appetites continue to favor pro-cyclical stocks as additional coronavirus relief is passed by the U.S. congress.

Effective central bank policies played an essential role in the recovery of global equities. In the U.S., the Federal Reserve remained highly accommodative in the fourth quarter and kept policy rates at 0%-0.25% throughout the period. The latest dot plot suggests that the Federal Reserve sees rates at the zero lower bound through to and including 2023. In December, President Trump has signed another coronavirus relief package in the amount of approximately US\$900 billion, the stimulus package encompasses areas like unemployment support, vaccine distribution and rental relief. During the most recent FOMC meeting in December, the Fed saw continued recovery in the fourth quarter led by improvements in labour market conditions and industrial production. The U.S. economy continued to show resilience in the face of the pandemic. The take-up of labor and production market slack is expected to lead to a gradual increase in inflation. Inflation is expected to overshoot 2% beyond 2023 under the Fed's new flexible form average inflation targeting framework.

In Canada, following three rate cuts in the first quarter, the Bank of Canada (BoC) has kept interest rates unchanged at 0.25% for the remainder of the year to combat the impact of COVID-19 on the economy. At the same time, the rate is expected to remain at the effective lower bound until the 2% inflation target is sustainably achieved, which is not expected to happen until at least 2023. Record high cases of COVID-19 in parts of Canada caused the re-imposition of restrictions during the fourth quarter. The BoC will continue to offer market support through its quantitative easing program at the current pace of at least \$4 billion per week.

In Europe, the European Central Bank expects to keep the benchmark interest rate unchanged at -0.50% until inflation outlook improves. The Governing Council also increased the envelope of the pandemic emergency purchase programme (PEPP) in the face of a resurgence COVID-19 cases, by EUR500 billion to EUR1,850 billion, and extended the horizon for the PEPP to at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. During the fourth quarter, France announced another US\$23.7 billion in aid to small businesses and furloughed workers; funding for loans to business was extended to June 2021. Italy passed a fourth stimulus package worth US\$6.4 billion for rent support, subsidies and wage support. U.K. Prime Minister Boris Johnson's Brexit deal gained approval in the House of Lords and became law just hours before the Brexit transition period ended on December 31, 2020.

At the end of 2020, the number of confirmed infections worldwide exceeded 84 million, with cumulative deaths approaching 2 million- more than double the number of infections at the end of the third quarter. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in October 2020, global gross domestic product is projected to contract 4.4% this year, a less severe contraction than the previous forecast in June as activity began to improve sooner than expected after lockdowns were scaled back in May and June. The IMF projected the global growth rate for 2021 to be 5.2%. The path to recovery will follow a choppy trajectory as it is predicated upon a confluence of factors including public health response, progress with vaccines rollouts and the size and effectiveness of the policy response. The intricacy of interactions between multiple factors at play makes forecasting a difficult exercise.

Looking forward to 2021, we think several factors are at play to support the sentiment rotation of pro-cyclical sectors. First, the rollout of COVID-19 vaccines should allow societies to gradually normalize in the coming year. Second, we expect additional stimulus to be passed under the Biden administration which should be supportive for economic recovery. Third, the personal savings rate is sitting at the highest rate that it's been in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth. Overall, we are optimistic about equity performance heading into 2021. U.S. large capitalization stocks are likely to participate in the market rally but not necessarily lead the performance. Pro-cyclical sectors should extend their leadership that we saw since November into 2021.

#### **Portfolio Review:**

Units (1 Class A share plus 1 Preferred share) of Global Dividend Growth Split Corp. (the "Fund") were up 1.5% for 2020, outperforming the MSCI World High Dividend Yield Index, which was flat over the same period.

The Fund benefited from its overweight positions in Information Technology and Consumer Discretionary. Information Technology has led the swift recovery in global equities as the sector benefits from a surge in demand for remote access tools given COVID-19 related confinement measures. Consumer Discretionary names such as Target and Lowe's delivered strong performance during the year, partly driven by a spike in e-commerce shopping and home refurbishment during lockdowns.

Offsetting some of the gains from our Information Technology and Consumer Discretionary calls were our overweight positions in Industrials and Financials. Both of these sectors were heavily impacted by the COVID-19 pandemic. Within the Industrials sector, airlines and leisure stocks bore the brunt of COVID-19 impact as nations closed borders and discouraged travelling. However, positive news around vaccines have alleviated some pressure on these subsectors, especially towards the end of the year. In December, the Federal Reserve started to allow U.S. financial institutions to resume share buybacks beginning in Q1 2021. This signaled the health of U.S. financials and reaffirmed their ability in coping with the COVID-19 turbulence. We are bullish on both of these sectors heading into 2021. An overweight position in Energy was also a deterrent to the Fund's gains due to the collapse in oil prices during the year. In September, we have trimmed the Fund's allocation to the sector to market weight. We expect stabilized and slightly upward sloping energy prices in the first half of 2021 as mobility returns.

Alongside easing U.S. election uncertainties and the rollout of COVID-19 vaccines, we increased the Fund's allocations to Materials, Consumer Discretionary and Information Technology. Exposure to Utilities and Consumer Staples were trimmed. Our bullish outlook for 2021 led us to overweight pro-cyclical sectors and underweight more defensive sectors in the stock market. Base metal and industrial demand should recover at a faster pace during the recovery phase. Utilities tend to underperform during periods of rising 10-year treasury yields, we are cautious on the sector overall but see attractive investment opportunities in renewables. Consumer Staples also tend to lag when investor sentiment shifts to risk-on. We believe these changes position the Fund well to benefit from the cyclical tailwind in 2021.

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Annual Compound Returns <sup>1</sup>	1-YR	Since Inception <sup>2</sup>
Global Dividend Growth Split Corp. - Class A	(1.0%)	6.9%
MSCI World High Dividend Yield Index	0.0%	6.1%
Global Dividend Growth Split Corp. - Preferred	5.1%	5.1%
S&P/TSX Preferred Share Index	6.1%	0.2%
Global Dividend Growth Split Corp. - Unit	1.5%	5.9%

<sup>(1)</sup> Returns are for the periods ended December 31, 2020. The table shows the Fund's compound returns on a Class A share, Preferred share and unit for each period indicated, compared with the MSCI World High Dividend Yield Index ("MSCI High Dividend Index") and the S&P/TSX Preferred Share Index ("Preferred Share Index") (together the "Indices"). The MSCI High Dividend Index targets companies from the MSCI Index (excluding Real Estate Investment Trusts) with high dividend income and quality characteristics and includes companies that have higher than average dividend yields that are expected to be both sustainable and persistent. The Preferred Share Index tracks the performance, on a market weight basis, of a broad index of preferred shares trading on the TSX that met the criteria relating to size, liquidity and issuer rating. The Fund invests in an actively managed portfolio. It is therefore not expected the Fund's performance will mirror those of the Indices which have more diversified portfolios. The Indices are calculated without the deduction of management fees, fund expenses and trading commissions whereas the performance of the Fund is calculated after deducting such fees and expenses. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares

<sup>(2)</sup> Inception date June 15, 2018.

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