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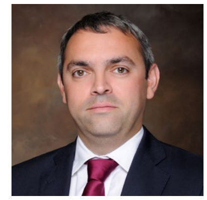
Quarterly Outlook – Fixed Income

MINDFUL OF RISKS THAT COULD TRIGGER BOUTS OF VOLATILITY



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KEY INSIGHTS

- We believe that financial markets will stay in a holding pattern until there is more clarity around the U.S. election and coronavirus concerns dissipate.
- In the currency sphere, several indicators, including the Federal Reserve's ultra-easy monetary policy and the likelihood of a slower economic recovery in the U.S. than its peers, point to dollar weakness over the medium term.
- Against this backdrop, we feel that it's important to maintain defensive hedging positions to keep risk in the portfolio balanced.

A handful of consensus trades that have dominated financial markets and outperformed in recent months started to show signs of fatigue in September. For example, the euro and U.S. technology stocks came under heavy selling pressure late in the quarter as a combination of political uncertainty, rising coronavirus cases, and concerns about the global economic recovery hit investor sentiment. Going forward, we believe financial markets will stay in a holding pattern until there is more clarity around the U.S. election and coronavirus concerns dissipate.

U.S. DOLLAR AT A KEY INFLECTION POINT

In the currency sphere, our short bias in the U.S. dollar remained one or our strongest convictions in the portfolio. After a multi-year run of strength, we believe that the U.S. currency is at a key inflection point. Several indicators, including the Federal Reserve's ultra-easy monetary policy and the likelihood of a slower economic recovery in the U.S. than its peers, point to dollar weakness over the medium term.

Overall, we believe a tactical approach is needed in the current environment. Any positive news on a coronavirus vaccine could support risk sentiment and put government bonds under pressure. At the same time, we have been mindful of risks that could trigger bouts of volatility and weigh on investor sentiment in the future. These include Brexit negotiations, the upcoming U.S. presidential election, and the possibility of further shutdowns in response to second coronavirus waves.

“We believe a tactical approach is needed in the current environment.”

FLEXIBILITY TO ADAPT QUICKLY TO CHANGES IN MARKET CONDITIONS

Against this backdrop, we feel that it’s important to maintain defensive hedging positions to keep risk in the portfolio balanced. We also maintain a high level of duration with long positioning in a range of high-quality markets. This should give us flexibility to adapt quickly to changes in market conditions and take advantage of any pricing anomalies and dislocations that might occur. We will continue to follow our trusted investment process and maintain a portfolio that strikes the right balance between specific risk-seeking positions and more risk-defensive positions.

RISKS

The following risks are materially relevant to the portfolio.
ABS/MBS risk – These securities may be subject to greater liquidity, credit, default and interest ra te risk compared to other bonds. They are often exposed to extension and prepayment risk
Contingent convertible bond risk – contingent convertible bonds have similar characteristics to convertible bonds with the main exception that their conversion is subject to predetermined conditions referred to as trigger events usually set to capital ratio and which vary from one issue to the other.
China Interbank Bond Market risk – market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the China Interbank Bond Market may result in prices of certain debt securities traded on such market fluctuating significantly.
Country risk (China)- All investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licenceor the Stock Connect programmay be subject to additional risks.
Country risk (Russia and Ukraine)- In these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries.
Credit risk- A bond or money market security could lose value if the issuer's financial health deteriorates.
Currency risk- Changes in currency exchange rates could reduce investment gains or increase investment losses.
Default risk- The issuers of certain bonds could become unable to make payments on their bonds.
Derivatives risk- Derivatives may result in losses that are significantly greater than the cost of the derivative.
Emerging markets risk- Emerging markets are less established than developed markets and therefore involve higher risks.
High yield bond risk – a bond or debt security rated below BBB- by Standard & Poor's or an equivalent rating, also termed 'below investment grade', is generally subject to higher yields but to greater risks too.
Interest rate risk- When interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.
Issuer concentration risk- To the extent that a portfolio invests a large portion of its assets in securities from a relatively small number of issuers, its performance will be more strongly affected by events affecting those issuers.
Liquidity risk- Any security could become hard to value or to sell at a desired time and price.
Prepayment and extension risk- With mortgage- and asset-backed securities, or any other securities whose market prices typically reflect the assumption that the securities will be paid off before maturity, any unexpected behaviour in interest rates could impact fund performance.
Sector concentration risk- The performance of a portfolio that invests a large portion of its assets in a particular economic sector (or, for bond funds, a particular market segment), will be more strongly affected by events affecting that sector or segment of the fixed income market

General Portfolio Risks

Capital risk- The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.
Counterparty risk – an entity with which the portfolio transacts may not meet its obligations to the portfolio.
Geographic concentration risk- To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area. **Hedging risk**- A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended. **Investment portfolio risk**- Investing in portfolios involves certain risks an investor would not face if investing in markets directly. **Management risk**- The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably). **Operational risk**- Operational failures could lead to disruptions of portfolio operations or financial losses.

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