# Symmetry Equity Portfolio Class †‡ – Series A

Q3-2015 COMMENTARY

## Performance Summary

- Over the third quarter of 2015, Symmetry Equity Class Series A (the "Portfolio") returned -5.0% underperforming its benchmark (75% MSCI AC World Index net-$CDN/25% S&P/TSX Composite Index) which returned -4.4%.
- To note, Symmetry's foreign allocation will typically be higher than this benchmark.

## Contributors to Performance

- Though Canadian equities were net detractors to performance as they underperformed global equities, the Portfolio's Canadian large cap managers outperformed relative to the S&P/TSX Composite.
- Low volatility stocks also contributed positively for the quarter and was represented by an allocation to the Ivy team's global mandate.
- The Portfolio's U.S. mandates contributed positively to performance as U.S. stocks outperformed the global benchmark.

## Detractors from Performance

- Overweight emerging market equities detracted from performance as they substantially underperformed relative to developed market equities.
- The Portfolio's EAFE mandates also contributed negatively to performance as stock selection led to relative underperformance.
- Currency hedging detracted from performance as the Canadian dollar declined against the major currencies U.S. dollar, EUR, GBP, and JPY.

## Portfolio Activity

- The Symmetry Team remains underweight in its exposure to North American equities and overweight in its exposure to EAFE and Japanese equities along with an overweight exposure to global bonds (both sovereign and credit sectors). More tactically, the underweight to U.S. equities increased while EM exposure has been reduced. After a strong positive contribution to returns, exposure to the U.S. dollar has been trimmed in favour of exposure to the Euro and Yen, which are expected to appreciate relative to the Canadian dollar.

## Outlook

- The portfolio management team believes the Portfolio has an appropriate mix of fixed income and equity securities given its target risk profile. The current market environment highlights the importance of a balanced investment approach with a focus on risk management.
- Global financial and commodity markets experienced extreme volatility during the third quarter due to the re-emergence of the Greek sovereign debt crisis, and the collapse of Chinese stock markets. The latter event had a profound impact on energy-exporting economies, countries competing directly with China and those with direct trade ties to China. In Canada, equity markets declined as lower commodity prices put downward pressure on energy and materials stocks.
- The S&P/TSX Index returned -7.9% during the third quarter. Energy and Materials sectors weighed on market returns as commodity prices declined. Utilities, Telecommunications, Information Technology and Consumer Staples sectors posted positive returns. Financials, Health Care and Industrials posted negative returns in the quarter.
- In the United States, the bellwether S&P 500 Index was flat (CAD). Energy, Materials and Health Care were all negative. The Utilities sector was up the most as the U.S. 10-year Treasury yield fell which is positive for the interest-sensitive sector. Information Technology, Consumer Staples and Consumer Discretionary sectors were also positive.
- The MSCI World Index fell -2.2% (CAD). Energy and Materials sectors declined the most on the back of falling commodity prices. Financials, Telecommunications, Health Care and Industrials were modestly negative in the quarter. Utilities rose the most as the U.S. 10-year Treasury yield fell. Information Technology and Consumer Staples rose while Consumer Discretionary was flat.



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- As a result of the financial turmoil, the U.S. Federal Reserve delayed raising interest rates. However, recovery in the United States continued, underpinned by falling unemployment rates. With relatively lackluster growth in Europe and Japan, both the European Central Bank and the Bank of Japan maintained their massive monetary stimulus programs.
- This combination of market uncertainty and delayed monetary tightening is expected to dominate the market environment in the fourth quarter of 2015. In light of these developments and their continuation into this quarter, we believe investors should adopt a cautious approach in Q4.
- China's weakness has had serious knock-on effects around the globe. While the situation seems to have eased, the events have left a lingering sour taste in the form of a sizeable downshift in expectations for global growth. Investors are no longer as sanguine that Chinese authorities can engineer a return to 7%+ rates of real GDP growth in the near term. Moreover, they are concerned that official rate of growth in China are misrepresenting the true extent of the economy's weakness. Without a rebound in the cards, a major engine of global growth is sputtering.
- Europe is both China's largest export market and China's largest source of imports. When both China and Europe are experiencing varying degrees of economic weakness, they can feed on each other. While Germany's economy remains solid, it is facing a longer-term problem of insufficient foreign demand for its exports and an extremely acute shorter-term problem of finding a home for the hundreds of thousands of migrants that have arrived from the Middle East and Africa. Left unabated, what might appear to be a short-term problem threatens to become a severe long-term cost to Germany's economy. Meanwhile, Southern European nations such as Spain and Italy are still digging out from debt and are in no position to provide a source of sustainable growth.
- Turning to other Emerging Markets (EM), many EM are facing a 'perfect storm,' which includes tighter financial conditions stemming from the rising cost of servicing foreign debts denominated in U.S. dollars, the prospect of higher U.S. interest rates and the risk of higher non-performing loans after years of rapid credit growth. At the same time, many EM economies are contending with weaker commodity prices and a slowdown in the growth of their key trade partners.
- Domestic liquidity conditions are likely to tighten further in EM economies, keeping local asset prices under pressure and restraining economic growth. Non-financial corporations and commercial banks are also likely to continue deleveraging their balance sheets to reduce U.S. dollar-denominated debts. The outlook for emerging markets is further negatively impacted by troubles in resource-based economies, like Brazil, Russia and Indonesia, which are beset by political instability. While India has been a relative bright spot in recent years, the move towards significant economic reforms seems to have stalled.
- Within our equity exposure, we favour Japan, Europe and the U.K. at the expense of the U.S., Canada and emerging markets. The U.S. is richly priced and further ahead in its business cycle, which provides less upside potential compared to other stock markets on a relative basis. Canadian stock valuations are better, but technical factors are weaker. In Europe and Japan, macro factors including Quantitative Easing (QE) may provide tailwinds for local equity markets. If everything else remains equal, QE should continue to boost relative asset prices in these markets as investors reallocate from low yielding bonds and the effects of increasing wealth stimulates higher spending.
- In terms of currencies, we also like the Euro and the Japanese Yen over the loonie. It would be appropriate to have more of these currencies unhedged than normal. We are long the U.S. dollar vs. the Canadian dollar – a view we have held for the last two years; however, our rationale has changed. We initially held this view for valuation reasons, but the Canadian dollar has since become undervalued after declining by about 25% since January 2014. At this stage, negative market sentiment and macro assessments lead us to believe that the odds are tilted toward more downside.
- Specifically, the strong Canadian dollar driven by high oil prices played a role in undercutting the international competitiveness of the manufacturing sector. A weaker Canadian dollar is needed to boost Canada's competitiveness as the economy transitions away from its dependence on energy.
- In summary, we have slightly lowered our allocation to global and U.S. equities due to current valuations, and increased our fixed income allocation. Within fixed income our strategies remain unchanged, as we still favour lower duration and spread products. We prefer to remain overweight exposures to the U.S. dollar and the Euro over the Canadian dollar.



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## PORTFOLIO MANAGEMENT TEAM:

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| **Mackenzie Asset Allocation Team** | Alain Bergeron | Siyan Tan | |
| | Andrea Hallett | | |
| **JPMorgan Asset Management** | Austin Forey | Emerging Markets Equity | Growth |
| **Mackenzie Investments** | | | |
| Mackenzie All Cap Value Team | Hovig Moushian | Canadian Equity | Value |
| Mackenzie All Cap Value Team | Scott Carscallen | Small Cap Equity | Canadian Small Cap Value |
| Mackenzie Systematic Strategies Team | Richard Weed | Global Securities | Capital Appreciation |
| Mackenzie Growth Team | Mark Grammer | International Equity (EAFE) | Growth |
| Mackenzie Growth Team | Phil Taller | U.S. Equity | Mid-Cap Growth |
| Mackenzie Ivy Team | Paul Musson | Low Volatility ( Foreign) | Quality Growth |
| Mackenzie Cundill Team | Andrew Massie | International Equity (EAFE) | Deep Value |
| Mackenzie Global Emerging Markets Team | Jan de Bruijn | Emerging Market Equity | Combination |
| **Manulife Asset Management** | Walter McCormick, Emory Sanders, Jr. | U.S. Equity | Large-Cap Value |
| **Waddell & Reed Financial, Inc.*** | Erik Becker, Gus Zinn | U.S. Equity | Large-Cap Core |
| | Gil Scott | Small Cap Equity | U.S. Small Cap Growth |

† On September 28, 2012, the Fund changed its name from Symmetry Equity Class.
‡ On September 28, 2012, the Fund changed its investment objective to permit the Fund to seek equity exposure by investing in other mutual funds on more than a temporary basis or by investing directly in securities.
*The portfolio sub-advisor is Ivy Investment Management Company, a wholly owned subsidiary of Waddell & Reed Financial Inc.

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Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in investment products that seek to track an index.

On September 28, 2012 the Fund changed its objectives to permit the Fund to seek equity exposure by investing in other mutual funds on more than a temporary basis or by investing directly in securities. The past performance before this date was achieved under the previous objectives.

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To the extent the Fund uses any currency hedges, share performance is referenced to the applicable foreign country terms and such hedges will provide the Fund with returns approximating the returns an investor in a foreign country would earn in their local currency.

| **Fund and Benchmark Performance as at:** September 30, 2015 | 1 year | 3 years | 5 years | Since inception (Dec. 2006) |
|---|---|---|---|---|
| Symmetry Equity Portfolio Class Series A | 8.2% | 15.6% | 11.2% | 3.5% |
| Blended Index (comprised of 75% MSCI AC World Index NR- $CDN and 25% S&P/TSX Composite Index) | 12.9% | 18.5% | 13.8% | 5.0% |
| S&P/TSX Composite Index | -1.2% | 11.1% | 8.3% | 4.4% |
| MSCI AC World Index NR - $CDN | 17.9% | 21.0% | 15.6% | 5.0% |
| S&P 500 Index (C$) | 25.8% | 25.6% | 21.2% | xx% |