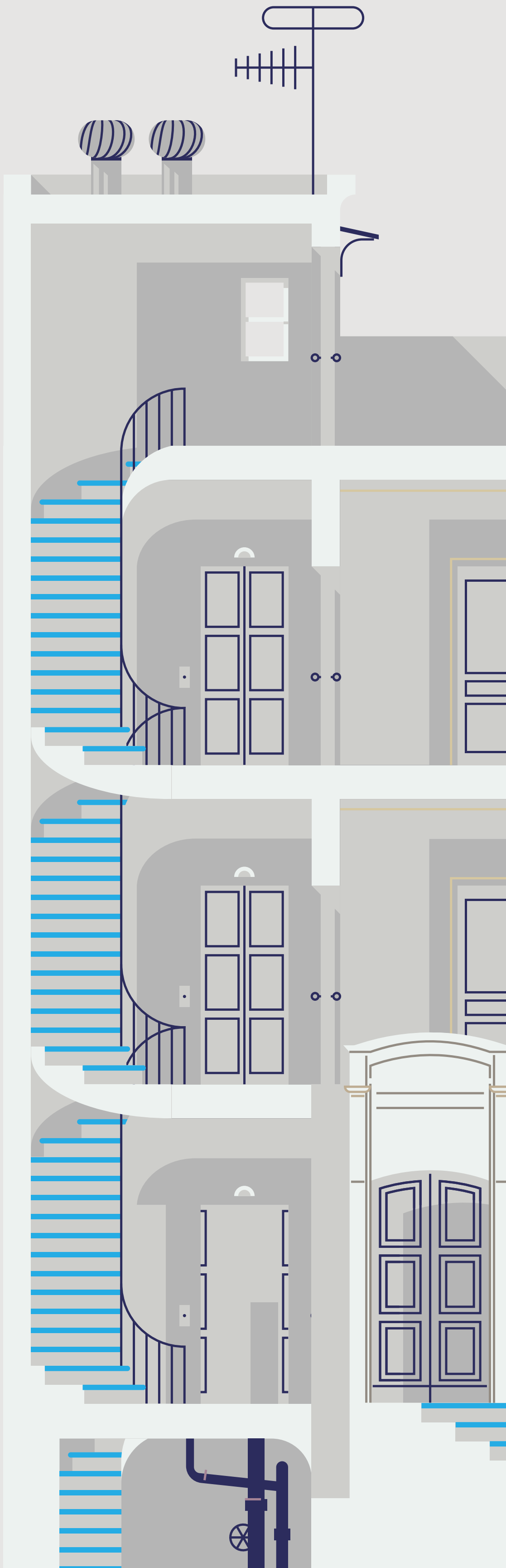
WHEN DE-RISKING PORTFOLIOS, DON'T JUMP, TAKE THE STAIRS



During periods of market volatility, investors often respond to uncertainty by raising cash. For example, the Investment Funds Institute of Canada reports that the best-selling category of mutual fund during the first six months of 2020 was money market funds, which captured nearly two-thirds of all net inflows, with CAD$ 4.965 billion-plus in net sales.[1]

However, investors who move to cash may miss out on the opportunity to capture returns as markets recover. This is exactly what happened when the S&P/TSX Composite Index (TR) returned 33.85% over the subsequent 12 months.

Instead of going to cash during periods of volatility, consider using solutions designed to help mitigate, diversify or hedge the equity risk in your portfolio. In this way, you can more precisely adjust the risk exposure of your portfolio – and stay invested.

HERE ARE FOUR STEPS YOU CAN TAKE TO DE-RISK YOUR PORTFOLIO WITHOUT GOING TO CASH

1

ACCESS HEDGING TOOLS

Use liquid alternative equity solutions that hedge to mitigate downside risk

By using hedges and shorting unattractive securities, experienced portfolio managers can seek to provide a smoother equity investing experience. Hedging tools and short positions can help to potentially dampen volatility and reduce downside risk, compared with traditional long-only equity portfolios. The aim is to offer a more comfortable investment experience, by mitigating the severe impact of extreme drawdowns so that investors can stick to their strategy and stay on track to meeting their goals.

2

DIVERSIFY

Reduce equity exposure and add exposure to multi-asset/multi-strategy solutions

Gaining exposure to several diversifiers and inflation/crisis hedges – such as precious metals, industrial metals, energy and grains – in one comprehensive investment product may offer better potential for growth, reduced losses and differentiated returns than a traditional "balanced" strategy. The aim is to access a more diversified set of return drivers, so that there is potential to perform well across a broader range of potential economic scenarios.

FOUR STEPS YOU CAN TAKE TO DE-RISK YOUR PORTFOLIO (CONTINUED)

3

MOVE UP THE CAPITAL STRUCTURE

Reduce equity exposure and add exposure to corporate credit

Historically, high-yield bonds have generated equity-like returns with approximately half the volatility, helping reduce downside risk without sacrificing much in the way of return potential. Bonds rank above equity in the capital structure, and this seniority can help protect investors during extreme market events. Alternative credit strategies can also use tools such as hedges and short positions in unattractive securities to further dampen volatility and reduce downside risk, compared with traditional long-only credit portfolios.

4

SEEK ABSOLUTE RETURNS

Reduce equity exposure and add uncorrelated alpha strategies

By investing in strategies that rely on a manager's skill to generate returns, rather than the level or direction of the market, you can improve portfolio resilience. Market neutral and other uncorrelated alpha strategies may offer diversification, lower levels of volatility and, in the current low-interest-rate environment, a higher return potential than other low-volatility strategies such as traditional core bonds.

SO NEXT TIME MARKETS ARE GETTING VOLATILE AND YOU ARE THINKING ABOUT SELLING STOCKS TO RAISE SOME CASH, CONSIDER TAKING A MORE MEASURED APPROACH. AFTER ALL, WHY JUMP WHEN YOU CAN TAKE THE STAIRS?

[1] https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=25170&lang=en_CA

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