NCM PENSION PORTFOLIOS
MONTHLY UPDATE

Pension Style Investing for
ALL CANADIANS

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February was a very mixed month for capital markets in general and the Pension Portfolios saw varied results. For many of our investments, it represented a significant rebound from January's weakness, for others the losses continued. The table below provides some highlights from February. Evident in the table is the rebound in some of the Pension Portfolios' secular growth themes. Growth, as a theme, had a particularly difficult January. This means that companies identified as "Growth" investments were particularly hard hit with lower prices. In February many "growth stocks" saw some relief. The top panel in the table below shows some of our growth investments. These investments reflect themes that we think are secularly attractive. Directly associated to the European conflict is the price response of our assets that follow Clean Energy, Cyber Security and Global Agricultures. In February they all enjoyed higher prices.

Performance February 2022	
Evolve Cyber Security Index Fund (TSX:CYBR)	6.2%
iShares Trust - iShares Global Clean Energy ETF (TSX:ICLN)	10.5%
iShares Global Agriculture Index ETF (TSX:COW)	9.9%
Vanguard FTSE Canada All Cap Index ETF	0.1%
iShares Core S&P 500 Index ETF (CAD-Hedged)	-2.7%
BMO Short Provincial Bond Index ETF (TSX:ZPS)	-0.1%
iShares Core Canadian IG Universe Bond Index ETF (TSX:XBB)	-0.7%

Source: S&P capital IQ

Higher interest rates and escalating inflation continues to take bond prices lower. While fixed income in most markets saw lower prices, we have managed to avoid much of the pain by maintaining short-maturity positioning in our Funds. Fixed income investments with shorter maturities are less sensitive to higher interest rates. Comparing the performance of the longer term Core Canadian Investment Grade index (TSX:XBB) to the short term Provincials index (TSX:ZPS) in the lower portion of the table, helps make this point.

Canadian indices have benefited from their resource exposures and their measurably higher investment value. Canada, as shown by the Vanguard FTSE Canada All Cap Index ETF, continues to produce better total returns so far this year, when compared to the S&P 500. While not shown here, Canada also continues to create higher and more stable returns than many other international stock markets as well.

Canada continues to be a significant part of our tactical positioning in all the NCM Pension Portfolio mandates.

Inflation Coupled with Lower Growth is Called Stagflation

The well telegraphed central bank tightening objectives will undoubtably be tempered by the turmoil in eastern Europe. Chairman Powell, the head of the Fed, called the Russian invasion of Ukraine "a game changer" that could have unpredictable consequences. The potential for a more aggressive 50 bp Fed funds hike that we talked about last month, has all but disappeared. Global growth is now being threatened and an aggressive Fed runs the risk of stagnating growth. Stagnating growth and rampant inflation is called Stagflation, a term coined in the mid 60's; a concept that painfully endured into the early 80's.

Policy decisions globally are certainly complicated by Russia's aggression. The near unanimity by the Western world in punishing Russia economically is not without negative implications for countries implementing the sanctions and boycotts. For policy makers, the term "a rock and a hard place" comes to mind. Inflation is now making 40-year highs and there is little relief in sight.

Clearly one of the most obvious and perhaps most noticeable examples is the price of fuel. Everyone has winced at the pumps over the last few weeks, but gas is not the only burgeoning issue. Russia is a major exporter of fertilizer, and the price of this commodity has also spiked, similarly to oil. To make matters worse, Ukraine and Russia also produce 30% of the world's wheat and corn. Clearly the production and exports from both countries will be comprised. It won't take long for foodstuffs, globally, to see higher prices across the board. Along with fuel, food costs are guaranteed to rise.

The problem the Fed and other policy makers face is that stemming rising prices in fuel and food with tighter rate policies will not work. Higher food and fuel prices lead to "cost-push" inflation and "cost-push" inflation isn't fixed by lowering consumer demand. Inflation is being fueled by bottle necks in supply and now soaring input costs. Extreme consumer demand is not the issue, consumers don't take out loans to buy gas and food. Higher interest rates will only have a secondary and modest impact on consumer buying behavior for these essentials.

Global growth will invariably be impacted by the situation in Europe and the economic punishment of Russia. If growth is at risk, cranking interest rates might not be the smartest policy. This means central banks must balance between inflation and the potential for lower economic growth.

This quandary for policy makers has obvious implications for capital markets. The allocations in the Pension Portfolios have already been positioned to reflect this.

Asset Allocation

We believe that capital market liquidity will remain accommodative. As we discussed above, central banks are somewhat stuck. This means equity markets remain relatively attractive compared to fixed income alternatives. We also think being selective in equity markets will pay off. Canada remains a favoured allocation in the Pension Portfolios. Canada's advantage in resources, which includes energy, metals and other commodities such as fertilizers, makes Canada a great investment choice today.

We maintain a significant Canadian exposure but have hedged this allocation by making a meaningful shift to Canadian assets we expect to have measurably higher stability. Last month we shifted our Canadian focus to NCM Core Canadian fund. This Fund's mandate is to hold securities in companies that will be less volatile yet still provide investments in great Canadian companies. This tactical shift has been paying off. NCM Core Canadian has been a great performer but with less overall price fluctuations, also known as volatility. The Pension Portfolios are currently avoiding assets with higher fixed income risk. We are also continuing to diversify into secular new economy growth themes such as cybersecurity, global clean energy and others. We believe it is this unique positioning that sets these funds apart from other Global Balanced funds.

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