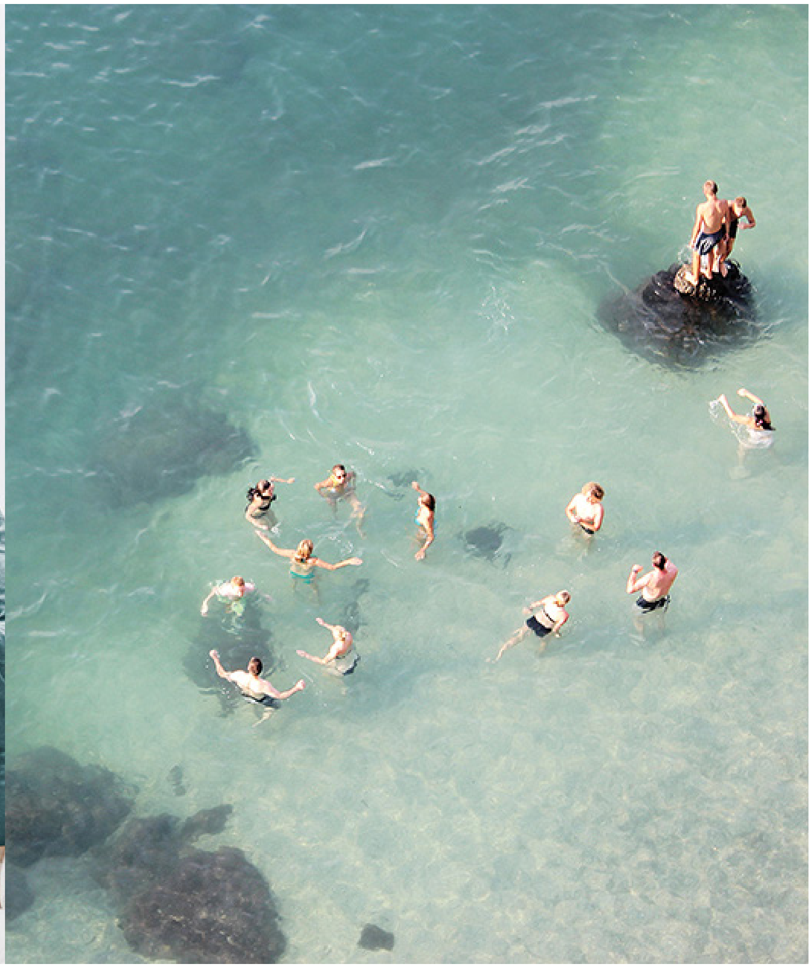
PORTFOLIO GUIDE

Connor Clark & Lunn Private Capital

Evaluating your investment manager

What you need to know

A Wealth of Thinking

The investment environment has changed dramatically over the last twenty years. Bond yields have fallen and are expected to remain low for the foreseeable future. Equities markets have been unpredictable, with unexpected events – like the emergence of COVID-19 early in 2020 – causing extreme market fluctuations. This volatility creates significant variability in annual returns, which can be a major risk for investors who rely on their investment portfolio to meet their spending needs.

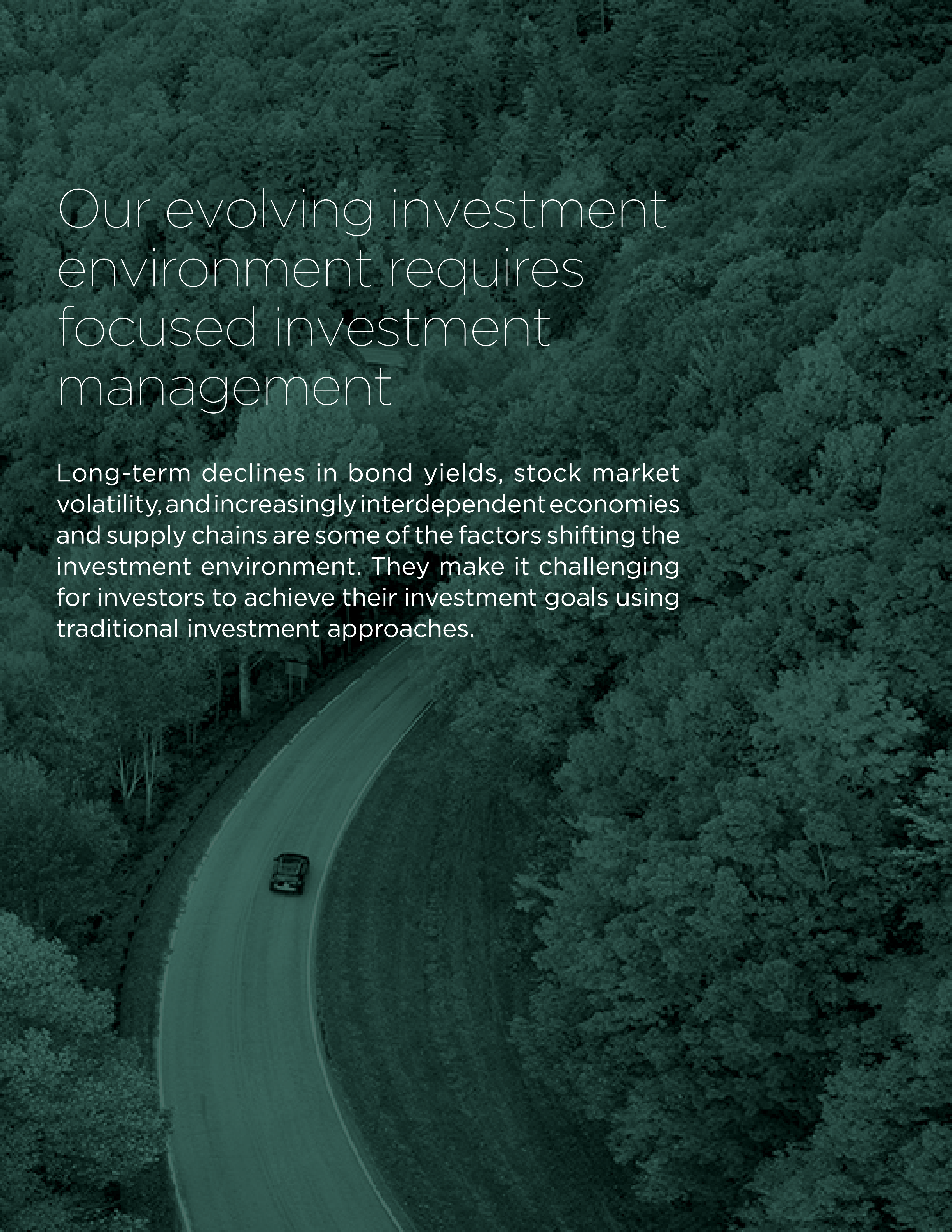
Such variability can also be hard to stomach. Too often, we see investors making changes to their portfolios reactively rather than proactively, possibly sabotaging their investment strategies and their ability to create wealth over the long term.

Working with an experienced and innovative investment manager can make a big difference in getting the most from an investor's portfolio while navigating potential pitfalls. It is particularly true for anyone who has grown their wealth through hard work and wants to rely on it during retirement.

This Portfolio Guide examines how the current investment climate is changing what investors need from their investment managers. We then identify key attributes investors should look for when evaluating investment managers to be more confident in the ability to reach their financial and life goals.

Our evolving investment environment requires focused investment management

Long-term declines in bond yields, stock market volatility, and increasingly interdependent economies and supply chains are some of the factors shifting the investment environment. They make it challenging for investors to achieve their investment goals using traditional investment approaches.



In our Portfolio Guide, *Beyond stocks and bonds* we examine the changing nature of the investment market. We also identify how innovative investment managers use alternative investment approaches to help investors achieve the returns they desire while managing their risks and trade-offs.

Main asset classes: returns and forecasts

Asset class	Benchmark	10 year historical annualized returns[1]	10 year median-growth forecasts[2]
Core bonds	Canada Universe Bond Index	3.8%	1.6%
Canadian equities	TSX Composite	6.8%	6.9%
Global equities	MSCI World ex Cda	13.7%	6.2%

When it comes to recommending investments and outlining portfolio potential, many investment firms continue to focus on asset classes' past performance. While there is a role for this, investors need to recognize that many factors driving portfolio performance have changed tremendously – or even disappeared. For example, there remains a place for bonds in most portfolios. However, investors who expect bonds to perform as well as they have in the past could find their portfolios falling well short of their financial objectives.

Investors want to be confident that their investment portfolio strategy will provide their desired long-term results. They need to work with an investment manager who understands how the market is evolving, recognizes the opportunities offered by alternative investment approaches, and can explain the potential of different options while ensuring investors fully understand potential trade-offs.

[1] To May 31, 2021. The returns for the market indices represent total returns (including dividends).

[2] Compounded annual growth rate. Based on 1,000 simulated trials. Reflects Connor, Clark & Lunn Private Capital estimates and capital market conditions as of December 31, 2020. Does not represent past performance and is not a guarantee of future specific levels of risk or return

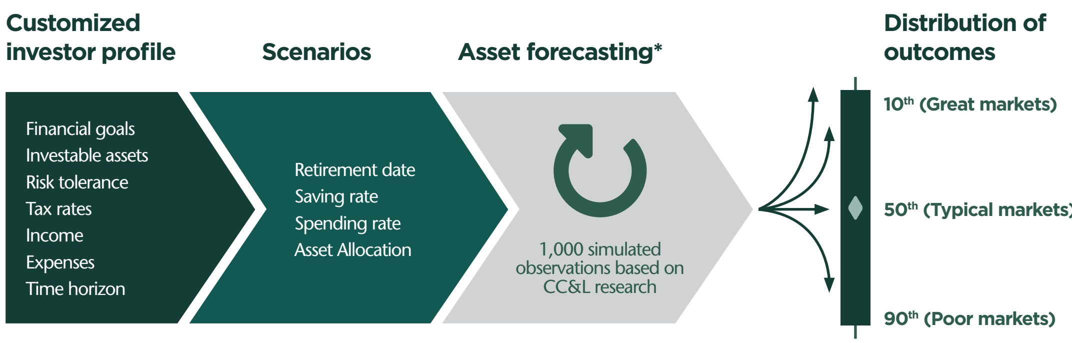
Three attributes to look for in an innovative investment manager

Creating a robust portfolio strategy designed to confidently perform at or above expectations despite shifting market factors and potential market volatility is a complex process. While every investment firm will have its approach to developing an effective portfolio strategy, investors should look for certain attributes when evaluating a potential investment manager.

1 A focus on investment planning

Why do you have the portfolio you have? Many investors do not understand whether or how their portfolio aligns with their long-term objectives and financial goals. As a starting point, investors should know what constitutes a resilient portfolio – and what does not. For example, there is too much variability in annual returns to accurately determine sustainable spending or future wealth values by compounding a static rate of return. For a portfolio strategy to be robust, it must consider and incorporate the dynamic nature of markets.

Our investment planning process



*The model is a Monte Carlo analysis based on CC&L inputs of asset class returns, standard deviations, and correlations among the various asset classes.

This is why successful investment managers put a considerable amount of focus on investment planning, working to understand each investor's situation, goals, and potential limiters fully. When they work with an investor, they are committed to building a customized portfolio strategy that is highly personalized to the investor's unique objectives. They ensure the investor understands the choices being made and how different aspects of the portfolio work together. This process can empower an investor and give them confidence that their portfolio can meet their objectives.

As part of the process, an investment manager should consider traditional investment planning factors – like risk tolerance and spending requirements. They should also understand how much an investor saves and spends and have knowledge of other controllable factors contributing to portfolio outcomes to help investors understand risks, rewards, and trade-offs. This is particularly important for investors who are looking to meet ongoing spending needs from their portfolio. Any weaknesses in their portfolio strategy could affect their ability to maintain their lifestyle and achieve their financial goals.

At CC&L Private Capital, we use sophisticated asset allocation modelling to combine and contrast variables for our clients using a process refined through our experience working with institutional investors. Our process includes creating estimates for each asset class within an individual's portfolio in order to assess the building blocks for return. This approach helps us align a portfolio strategy to each investor's unique needs, considering potential risks. We incorporate the factors an investor can control, such as retirement date, spending, saving, or giving, rather than focusing solely on the portfolio's annual returns to determine what an investor can achieve with their wealth.

2 Forward-thinking

Today, an investment portfolio strategy must consider how market dynamics are changing and how they might evolve. In this shifting environment, determining the appropriate mix of asset classes has never been more critical. In part, this is because fixed-income investments are no longer a solid source of return. Meaningful diversification is becoming harder to achieve.

Diversification is a much-used buzzword when it comes to developing portfolio strategies. It is often quoted as the “one free lunch” in investing. The reality is that investors need to dive deeper into what diversification means within their portfolio. Global markets and supply chains are more integrated than ever before, with higher correlations despite perceived differences. It makes the ability to truly diversify investments and mitigate risk within a traditional portfolio quite difficult.

This is where evaluating alternative asset classes and considering modest investments in less mature markets can add tangible value. However, before moving forward, investors should know how these investments act differently from more traditional assets, may provide diversification and offset market risks.

At CC&L Private Capital, we work to educate clients about the current environment. As a professional money manager with a broad platform of asset classes, we guide them to develop a portfolio that can deliver on their desired outcomes. Part of this process includes helping clients understand the risks associated with specific investments required to achieve their financial goals. Our efforts are focused on giving our clients confidence that their portfolio strategy will succeed while understanding short-term market dynamics.

3 Recognize that markets don’t move in straight lines

Many traditional financial advisors use straight-line calculations to drive portfolio strategy. For example, they might show an investor that with a balanced portfolio, the weighted average of their forecast is 6% and use the 6% to model future income. While this approach is simple, investors should not use it to determine if they are well-positioned to meet future spending needs. Markets can be volatile, so it is important to incorporate their dynamic nature into expectations, particularly for investors looking to spend from or add to capital their portfolio.

A strong investment portfolio strategy considers more than an investor’s current state. It also considers different scenarios and how market volatility or changes to the investor’s situation might affect income and growth. Conducting scenario analyses can help investors understand the probability of achieving their financial goals and how different scenarios could affect the range of returns they might experience.

At CC&L Private Capital, we strive for clients to understand their portfolio strategy. We show them how returns can fluctuate in the short term while contributing to income and growth over the long term. We use proprietary analysis to allow clients to *pre-experience* how their portfolio could be affected – positively and negatively – so they are prepared for a range of potential future outcomes. We believe this process helps investors maintain confidence in their portfolio strategy when markets are turbulent. It can keep them from making reactive changes that could affect the ability of their portfolio to achieve the results they desire. We also help clients focus on the factors they control, such as spending, saving, and their retirement date. This moves the focus from market influence to decisions they can make that will significantly impact meeting their objectives.

Setting the stage for success

Recent world events have taught us to prepare for the unexpected. For individuals planning retirement and who want to use their investment portfolio to meet their spending needs or create a wealth legacy, being prepared is critical for success. Relying on traditional approaches to investment management is insufficient to generate the returns most investors desire, given the current investment environment and how it is expected to evolve.

Investors with long-term financial objectives need to make sure they have the right foundation to support their investment journey. This starts with selecting an investment manager that understands changing market dynamics, works with clients to understand their investment options and potential trade-offs, and has a process that ensures investors understand how their portfolio works so that they do not sabotage their goals by making poor decisions during periods of market volatility.

By working with a highly experienced investment manager with the right focus, investors can be confident that they will get the most from their portfolio, leaving them to concentrate on achieving other goals.

Working together to achieve your financial goals

At CC&L Private Capital, we are committed to giving clients confidence that their investment portfolio will meet their desired objectives. We also empower clients to make financial decisions about what their wealth can afford them. To learn how we can help you get more from your investment portfolio, **please get in touch.**

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