2025 Long-term strategic asset allocation

March 2025

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Key takeaways

Economy

Cautiously optimistic around the global economy alongside elevated tariff risks

With the return of Donald Trump to the White House, we face particularly uncertain times. However, from a fundamental viewpoint, we believe the global economy remains resilient and has the scope to deliver decent growth in 2025, with less reliance on the US.

We expect that the majority of any US tariffs ultimately levied on Canadian goods will be short lived. This means the negative hit to Canadian and US growth can be limited and our constructive fundamental view for the global economy and financial markets could prevail relatively intact. That said, the policy environment is highly uncertain and far less predictable than usual. Unfortunately, a heightened tariff risk will likely remain for the foreseeable future.

Fixed income

Spreads are tight, but all-in yields remain attractive

With the policy rate now in a neutral range, we expect the Bank of Canada to be selective with more gradual rate cuts; however, tariff wars could lead to a substantially bigger policy response, and a much deeper cut in the BoC's policy rate than currently expected.

Looking out through 2025, we have a slight preference towards US and UK rates over Canada due to higher starting yields. Although the threat of a tariff war between Canada and the US implies a risk of further Canadian rates outperformance in the first half of 2025. Meanwhile, developed markets credit and high yield had a strong 2024, resulting in tight spreads. Nevertheless, starting yields tend to be a strong predictor of long-term bonds returns, and the level of all-in yields remains attractive.

Equities

Strong equity gains in 2024, but likely a bumpier road ahead in 2025

2024 marked another year of US exceptionalism, which was largely driven by the continued outperformance of Artificial Intelligence (AI) stocks and the "Magnificent 7", which accounted for more than half of the S&P 500 Index's total returns. With ongoing enthusiasm for AI-driven growth, key market debates for 2025 centre around whether positive earnings momentum can continue, especially given lofty valuations in the US tech sector. The risk of renewed inflation, coupled with geopolitical factors and trade tensions, adds further uncertainty and higher near-term volatility is expected.

Overall, we expect to see positive equity returns in both Canada and the US in 2025. We expect positive TSX earnings and strong momentum relative to International (EAFE®) and Emerging Markets. While S&P 500 earnings growth and momentum are expected to slightly outperform, they appear to be aggressively priced by relative valuation metrics.

Alternatives

Alternatives likely to become an increasingly important asset in investor portfolios

Private market alternatives are generally expected to deliver strong returns relative to traditional public asset classes over the long term. From an asset allocation perspective, the ability to access private companies, diversify public market risk, and potentially generate excess returns should be additive to any portfolio.

However, private market investments may not be appropriate for all investors as liquidity can be a concern. Liquid alternatives can enhance expected returns and add diversification to a portfolio without the same liquidity constraints as investing in private markets, but a long-term perspective remains a prerequisite.

Portfolio strategy

Stick to investment goals

Following some significant portfolio adjustments over the past several editions, we are making no recommended changes to this year's Long-Term Strategic Asset Allocations.

Our long-term views are driven by the underlying financial productivity of the assets we invest in. Drivers of financial productivity include loss-adjusted starting yields for bonds, and corporate earnings for equities. On that basis, despite various geopolitical risks and continued uncertainty around tariffs, our baseline expectations for equities and bonds have not meaningfully changed. We expect equities to continue to be the cornerstone of long-term wealth generation, and we expect bonds to be an important ballast in portfolios in the face of economic and equity market headwinds.

Active vs. passive

Active managers might achieve better equity returns if markets become less concentrated

Over the past 15 years, active managers have faced several challenges to generating excess returns. This has been particularly acute in the US equity market. Arguably, the stiffest headwind for managers has been the ever-increasing concentration in the top 10 names in the S&P 500. This has resulted in reduced diversification benefits from active portfolio positioning.

Outperforming major global benchmarks has been difficult to do without taking on more US equity exposure, and even more importantly, buying into a very concentrated and richly valued subset of US equities. However, it is difficult to predict how long and to what extent markets will continue to concentrate. Ultimately, we believe that maintaining diversification is important because sentiment can shift quickly.

Client implication

Prepare clients for near-term volatility

In the two years following a rough 2022, diversified investors were amply rewarded with above-average equity market returns and falling interest rates that were a tailwind to fixed income markets. The environment was one of dampened volatility. However, short-term volatility is a recurring feature of markets and we believe it is prudent for investors to prepare themselves for this.

An ounce of preparation is worth a pound of prediction. Well-diversified portfolios can eliminate much of the idiosyncratic risk associated with a large exposure to a single investment or asset class. But non-diversifiable risks remain – this is the general risk of the markets. In these times, true diversification – investing in a range of assets with different drivers of financial productivity or with different risk exposures – is particularly useful.

Asset allocation recommendations

2025 Long-term strategic asset allocation recommendations

Canadian assets only

Asset class	Asset class category	Capital Preservation	Income	Income & Growth	Growth	Growth Plus
Canadian short-term fixed income	Traditional fixed income	10.0%	8.0%	4.0%	3.0%	0.0%
Canadian fixed income	Traditional fixed income	65.0%	52.0%	36.0%	22.0%	10.0%
Canadian equity	Traditional equity	25.0%	40.0%	60.0%	75.0%	90.0%

Asset class totals	Capital Preservation	Income	Income & Growth	Growth	Growth Plus
Fixed Income	75.0%	60.0%	40.0%	25.0%	10.0%
Equity	25.0%	40.0%	60.0%	75.0%	90.0%
Expected Return	3.8%	4.0%	4.3%	4.5%	4.7%
Expected Risk	5.5%	6.7%	8.7%	10.2%	11.9%
Historical Return	6.1%	6.6%	7.1%	7.5%	7.9%
Historical Risk	5.5%	6.7%	8.7%	10.2%	11.9%

Returns are in Canadian Dollars. Risk refers to volatility as measured by standard deviation. For illustrative purpose only.

Traditional global assets

Asset class	Asset class category	Capital Preservation	Income	Income & Growth	Growth	Growth Plus
Canadian short-term fixed income	Traditional fixed income	8.0%	6.0%	4.0%	2.0%	0.0%
Canadian fixed income	Traditional fixed income	55.0%	34.0%	20.0%	13.0%	3.0%
Global fixed income (hedged to CAD)	Traditional fixed income	7.0%	10.0%	7.0%	5.0%	3.0%
US high yield	Traditional fixed income	5.0%	10.0%	9.0%	5.0%	4.0%
Canadian equity	Traditional equity	8.0%	10.5%	16.5%	21.0%	23.0%
US equity	Traditional equity	8.0%	15.0%	25.0%	30.0%	36.0%
International equity	Traditional equity	7.0%	12.0%	15.0%	19.0%	24.0%
Emerging market equity	Traditional equity	2.0%	2.5%	3.5%	5.0%	7.0%

Asset class totals	Capital Preservation	Income	Income & Growth	Growth	Growth Plus
Fixed Income	75.0%	60.0%	40.0%	25.0%	10.0%
Equity	25.0%	40.0%	60.0%	75.0%	90.0%
Expected Return	3.9%	4.2%	4.4%	4.7%	5.0%
Expected Risk	5.3%	6.3%	7.9%	9.2%	10.5%
Historical Return	6.2%	6.9%	7.6%	8.1%	8.7%
Historical Risk	5.3%	6.3%	7.9%	9.2%	10.5%

Returns are in Canadian Dollars. Risk refers to volatility as measured by standard deviation. For illustrative purpose only.

Diversified portfolio with alternatives

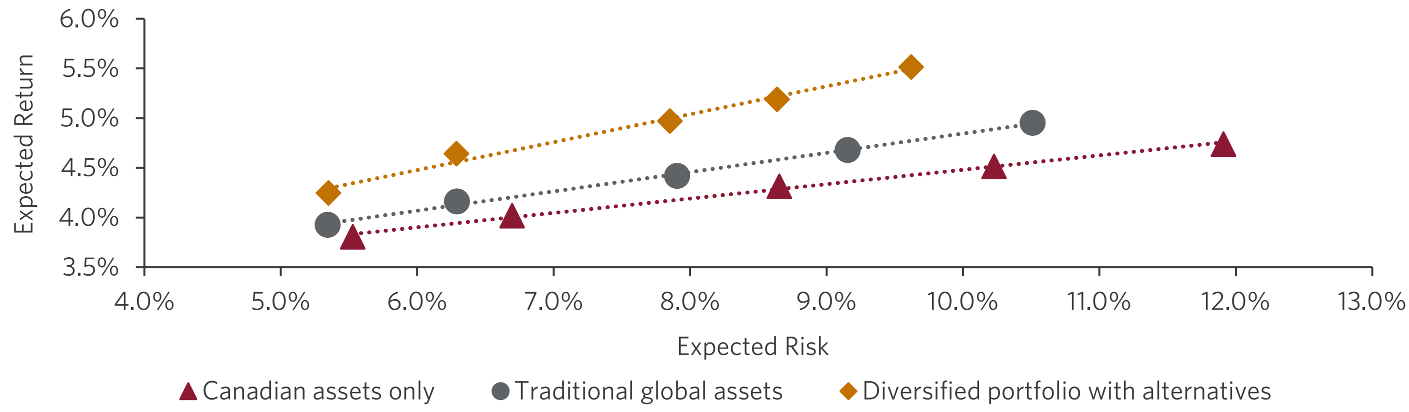
Asset class	Asset class category	Capital Preservation	Income	Income & Growth	Growth	Growth Plus
Canadian short-term fixed income	Traditional fixed income	8.0%	5.0%	3.0%	2.0%	0.0%
Canadian fixed income	Traditional fixed income	53.0%	30.0%	18.0%	8.0%	0.0%
Global fixed income (hedged to CAD)	Traditional fixed income	2.0%	6.0%	2.0%	2.0%	0.0%
Emerging market bonds	Traditional fixed income	2.0%	3.0%	3.0%	2.0%	2.0%
US high yield	Traditional fixed income	4.0%	9.0%	8.0%	5.0%	3.0%
Canadian equity	Traditional equity	7.0%	9.5%	14.5%	18.0%	20.0%
US equity	Traditional equity	7.0%	13.5%	22.0%	26.0%	30.0%
International equity	Traditional equity	6.0%	11.0%	13.5%	16.0%	20.0%
Emerging market equity	Traditional equity	2.0%	2.0%	3.0%	4.0%	6.0%
Global infrastructure	Alternative equity	3.0%	2.0%	2.0%	2.0%	0.0%
Liquid alternatives (fixed income)	Alternative fixed income	3.0%	4.0%	4.0%	3.0%	2.0%
Liquid alternatives (equity)	Alternative equity	0.0%	2.0%	3.0%	2.0%	3.0%
Private equity	Alternative equity	0.0%	0.0%	2.0%	4.0%	6.0%
Private credit	Alternative fixed income	3.0%	3.0%	2.0%	3.0%	3.0%
Private real estate	Alternative equity	0.0%	0.0%	0.0%	3.0%	5.0%

Asset class totals	Capital Preservation	Income	Income & Growth	Growth	Growth Plus
Fixed Income	75.0%	60.0%	40.0%	25.0%	10.0%
Traditional Fixed Income	69.0%	53.0%	34.0%	19.0%	5.0%
Equity	25.0%	40.0%	60.0%	75.0%	90.0%
Traditional Equity	22.0%	36.0%	53.0%	64.0%	76.0%
Total Alternatives	9.0%	11.0%	13.0%	17.0%	19.0%
Expected Return	4.2%	4.6%	5.0%	5.2%	5.5%
Expected Risk	5.3%	6.3%	7.9%	8.6%	9.6%

Returns are in Canadian Dollars. Risk refers to volatility. For illustrative purpose only.

2025 expected return and risk (10-year forward looking) of 2025 LTSAA Portfolio

Adding granular global assets and alternatives improves the reward for risk characteristics of each investor profile



Source: CIBC Asset Management Inc., as of December 31, 2024. Expected returns are in Canadian Dollars. Expected Risk refers to volatility. For illustrative purpose only.

Asset class expectations

Asset class long-term expected returns (10-year average, %) and 20-year historical

Source: CIBC Asset Management's 2025 long-term expected returns.[1] CIBC Asset Management Inc. using data from: Bloomberg; LSEG Datastream; PitchBook, as at December 31, 2024. *Liquid Alternatives include both liquid fixed income and liquid equity alternatives. Historical 20-year return for private assets from Pitchbook as of June 30, 2024. Expected returns are in Canadian Dollars. For illustrative purpose only. This hypothetical scenario is shown for illustrative purposes only and is not indicative of future results. Please refer to the Disclaimer page for further information.

Asset class expected volatility and historical 10-year correlations

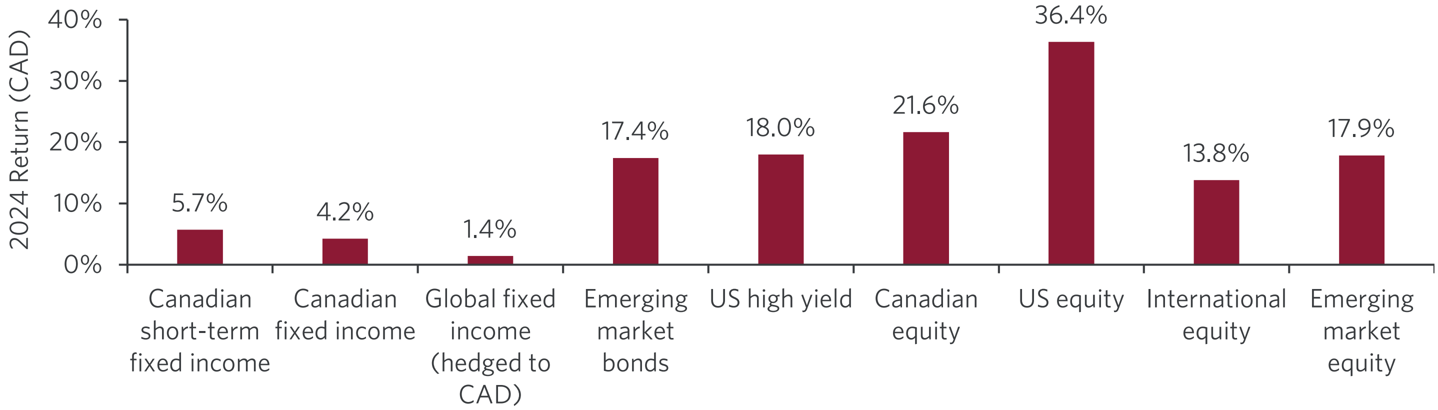
Asset class	CA ST fixed income	CA fixed income	Global fixed income (hedged)	EMD	US HY	CA equity	US equity
Expected Volatility (%)	1.4	5.2	4.8*	6.8	6.7	13.0	12.5
Canadian short-term (CA ST) fixed income	1						
Canadian (CA) fixed income	0.86	1					
Global fixed income (hedged to CAD)	0.76	0.83	1				
Emerging market bonds (EMD)	0.72	0.78	0.63	1			
US high yield (HY)	0.50	0.53	0.25	0.73	1		
Canadian (CA) equity	0.25	0.34	0.14	0.19	0.45	1	
US equity	0.31	0.42	0.12	0.48	0.68	0.76	1
International (EAFE®) equity	0.37	0.43	0.18	0.53	0.63	0.68	0.84
Emerging market (EM) equity	0.39	0.42	0.17	0.43	0.48	0.64	0.66
Global infrastructure	0.42	0.51	0.36	0.42	0.47	0.74	0.57
Liquid alternatives**	0.31	0.30	-0.02	0.54	0.76	0.36	0.72
Private equity	0.31	0.42	0.14	0.43	0.65	0.86	0.98
Private credit	0.01	0.09	-0.01	-0.03	0.20	0.57	0.45
Private real estate	-0.52	-0.37	-0.29	-0.39	-0.30	-0.22	-0.28

Asset class	EAFE® equity	EM equity	Global infrastructure	Liquid alternatives**	Private equity	Private credit	Private real estate
Expected Volatility (%)	11.8	13.2	12.9	8	9.4	5.1	7.9
International (EAFE®) equity	1						
Emerging market (EM) equity	0.83	1					
Global infrastructure	0.63	0.54	1				
Liquid alternatives**	0.70	0.49	0.36	1			
Private equity	0.84	0.68	0.64	0.66	1		
Private credit	0.36	0.40	0.36	0.21	0.50	1	
Private real estate	-0.36	-0.35	-0.08	-0.18	-0.28	-0.06	1

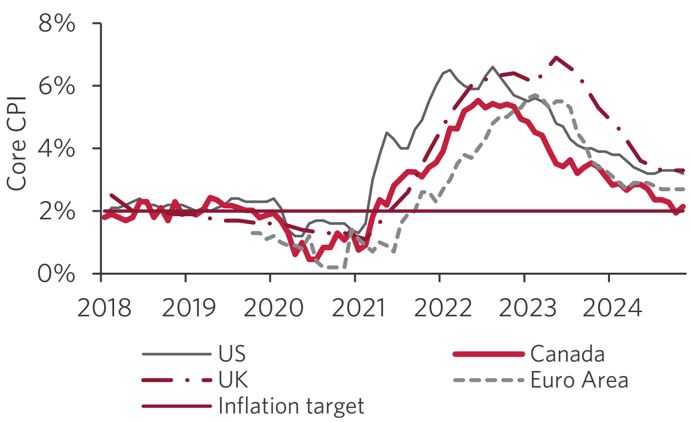
Source: CIBC Asset Management's 2025 long-term expected returns.[1] CIBC Asset Management Inc. using data from: Bloomberg; LSEG Datastream; PitchBook, as at December 31, 2024. *Global fixed income (hedged) expected volatility is based on 10-year historical volatility of Barclay's Global Aggregate Bond Index (Hedged to CAD). ** Liquid Alternatives include both liquid fixed income and liquid equity alternatives. Historical 20-year return for private assets from Pitchbook as of June 30, 2024. Expected returns are in Canadian Dollars. This hypothetical scenario is shown for illustrative purposes only and is not indicative of future results. Please refer to the Disclaimer page for further information.

2024 review in charts

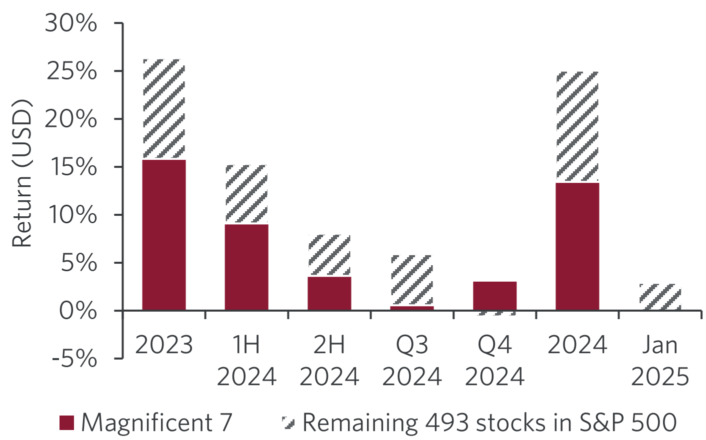
2024 saw positive returns across important fixed income and equity asset classes



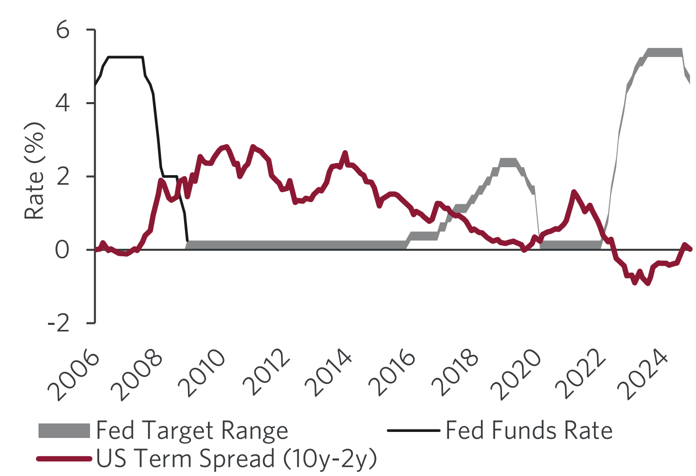
Inflation has come down in most parts of the developed world



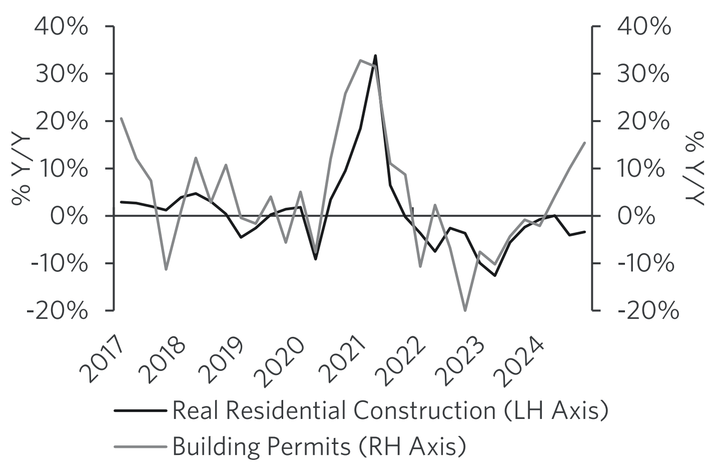
2024 marked another year of narrow leadership in the S&P 500, however there were signs of improved market participation in Q3 and at the beginning of 2025



Policy Rates have come down though remain elevated; while the Term Spread (measured by the 10y - 2y rate) is improving



Robust real incomes and an increase in residential construction in Canada suggest we're well positioning for economic growth, especially in the second half of 2025.



Data as of January 4, 2025.

Sources: Bloomberg; US Bureau of Labor Statistics; Statistics Canada; UK Office for National Statistics; Eurostat; LSEG Data & Analytics (formerly, Refinitiv); Data as of December 31, 2024 unless stated otherwise.

Economic outlook: Cautious optimism alongside elevated tariff risks

Michael Sager, Managing Director & CIO, Multi-Asset and Currency

With the return of Donald Trump to the White House, we face particularly uncertain times. Based upon economic fundamentals, global inflation is likely to continue its gradual path lower. Also from a fundamental viewpoint, the US economy remains resilient. Activity is expected to broaden with investment spending likely to deliver healthy, trend-like growth. Other developed economies haven't yet delivered the gross domestic product (GDP) growth recovery we expected. But there are tentative signs that this is changing—particularly in Canada. Thanks to aggressive policy easing by the Bank of Canada (BoC), robust real incomes and signs of improvement in residential construction, we expect a meaningful growth recovery in the second half of 2025. We also foresee a modest improvement in Europe. By contrast, we remain relatively pessimistic regarding the economic outlook in China. Overall, the global economy has scope to deliver decent growth in 2025, with less reliance on the US.

There are always risks to any forecast. Our constructive fundamental view assumes an increase in tariffs imposed on US imports from China, as well as some tariffs on a limited set of Canadian exports, amongst other countries. Because of their painful economic—and political—consequences, we expect that the majority of any US tariffs ultimately levied on Canadian goods will be short lived. This means the negative hit to Canadian and US growth can be limited and our constructive fundamental view for the global economy and financial markets could prevail relatively intact. That said, the policy environment is highly uncertain and far less predictable than usual. Unfortunately, a heightened tariff risk will likely remain for the foreseeable future.

Longer term, our assessment of the global economy remains constructive, reflecting several themes. These include investment spending to upgrade aging existing infrastructure and in newer areas such as emerging market power grids, electric vehicle infrastructure, digital infrastructure to support artificial intelligence, renewable energy, and construction to address housing shortages in developed markets. Additionally, rising geopolitical tensions, especially between the US and China, will likely lead to increased defense spending. These tailwinds are expected to dominate demographic headwinds and keep economic growth above the average levels observed over the past 15 years.

Partly reflecting our long-term outlook for global GDP growth, we expect persistent inflation challenges for central banks. Inflation will likely remain sticky and modestly above central bank targets globally. We consider the decade of low inflation following the 2008 global financial crisis (GFC) a historical outlier. Additionally, aging populations in developed markets suggest higher trend inflation.

Economic forecasts (next 12 months)

Region	Current GDP	GDP - consensus	GDP - CIBC AM view	Current inflation	Inflation - consensus	Inflation - CIBC AM view	Policy rate - CIBC AM view
Canada	1.6%	1.7%	2.0%	1.9%	2.0%	2.0%	-75 bps
United States	2.7%	2.2%	2.2%	2.7%	2.5%	2.6%	-75 bps
Eurozone	0.9%	1.1%	1.0%	2.2%	2.0%	2.0%	-125 bps
China	4.6%	4.5%	4.4%	0.2%	0.8%	0.8%	+40 bps
Japan	0.5%	1.2%	1.3%	3.0%	2.3%	2.3%	+40 bps
World	2.5%	2.7%	2.8%	3.1%	2.8%	N/A	N/A

Source: The information is provided by CIBC Asset Management Inc. Inflation refers to CPI. Forecasts are as of February 2025. For illustrative purposes only.

Fixed income outlook: Spreads are tight, but yields remain attractive

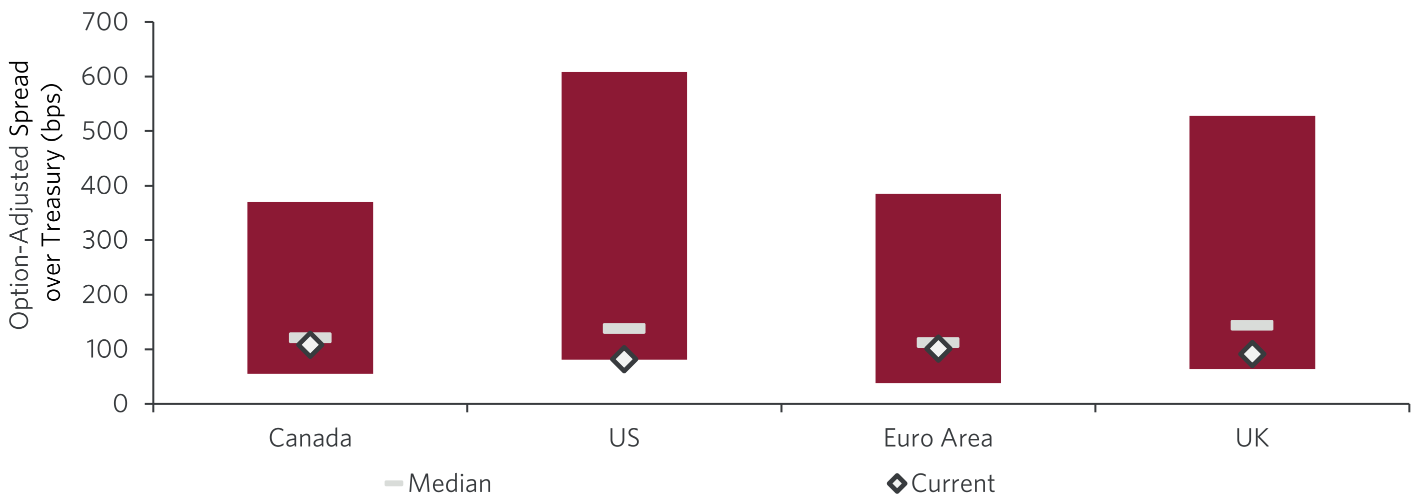
Gaurav Dhiman, Portfolio Manager, Global Fixed Income
Francis Thivierge, Senior Portfolio Manager, Multi-Asset and Currency

In 2024, most major central banks started their path towards policy easing, which led to renormalization of the yield curve. The Bank of Canada (BoC) cut its policy rate from 5.0% to 3.0% by January 2025. With the policy rate now in a neutral range, we expect the BoC to be selective with more gradual rate cuts; however, tariff wars could lead to a substantially bigger policy response, and a much deeper cut in the BoC's policy rate than currently expected. In the US, the Federal Reserve (Fed) moved from a 5.33% effective rate at the start of the year to 4.33%. We also expect to see it deliver fewer additional rate cuts in the next year. Canada 10-year rates outperformed most developed markets in 2024 due to aggressive policy easing . Looking out to 2025, we have a slight preference towards US and UK rates over Canada due to higher starting yields. Though with the threat of a tariff war between Canada and the US, there is a risk of further Canadian rates outperformance in the first half of 2025. But we continue to prefer US and UK rates over the course of 2025 as a whole.

Developed markets credit delivered strong excess returns over government bonds in 2024. At the start of the year, spread levels were attractive as uncertainty around an economic slowdown or stagflation was priced in. However, credit fundamentals improved significantly during the year as corporations deleveraged balance sheets. Momentum was extremely strong, and higher all-in yields attracted strong inflows into the asset class.

Globally, Investment Grade (IG) spreads rallied 20 to 40 bps among the major markets. Europe and UK outperformed and spreads reached post-Global Financial Crisis lows. US IG spreads tightened to levels not seen since the mid-1990s. Looking out through 2025, US exceptionalism seems fully priced into US IG spreads. CAD and EUR IG spreads look relatively more attractive given our positive baseline outlook for global growth and risk assets.

Investment Grade Spreads are near long-term lows



Source: CIBC Asset Management Inc., using data from: Bank of America, Bloomberg. Data from December 31, 1999 to December 31, 2024.

High Yield (HY) spreads also had a very strong 2024. Spreads narrowed 50 to 85 bps with EUR HY outperforming. The HY spread over IG has compressed close to their narrowest level post-GFC and as such we are less constructive on HY generally and are focusing more on security selection within this asset class.

Longer term, we expect higher returns from bonds compared with a few years ago due to the relatively higher current level of yields, as well as improving roll-down yields as yield curves normalize.

Across the asset class, we expect Global Bonds with currency exposure hedged to outperform Canadian Bonds. We expect the highest returns to come from EM bonds (local currency), supported by high-yielding countries such as Brazil, India, Indonesia, Mexico and South Africa, though these bonds exhibit relatively higher volatility. We also expect credit risk to be rewarded over medium- and long-term investment horizons. Despite tight current credit spreads, starting yields tend to be a strong predictor of long-term bonds returns, and the level of all-in yields remains attractive.

Equity outlook: Strong gains and AI dominance in 2024, likely a bumpier road in 2025

Crystal Maloney, Head of Equity Research
Francis Thivierge, Senior Portfolio Manager, Multi-Asset and Currency

In 2024, the Toronto Stock Exchange (TSX) and S&P 500 posted strong gains of 21.6% and 25.0%, respectively, in local currency terms, fueled by resilient economic performance in the US, particularly. The BoC and Fed reduced interest rates, providing relief amid moderating inflation.

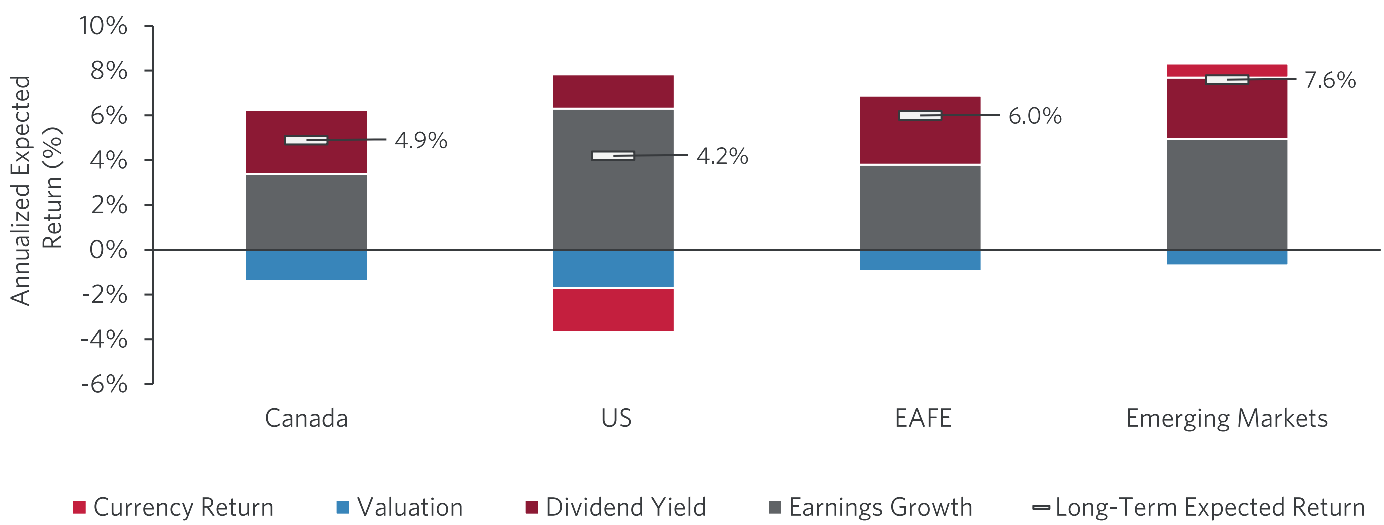
A major driver of US exceptionalism was the continued outperformance of Artificial Intelligence (AI) stocks and the "Magnificent 7" (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla), which accounted for over half of the S&P 500's 2024 total returns. Post Trump's election victory, markets surged amid anticipated lower tax rates and deregulation, but renewed inflation concerns led to some pullbacks toward the end of the year.

With ongoing enthusiasm for AI-driven growth, key market debates for 2025 centre around whether positive earnings momentum can continue, especially given lofty valuations in the US tech sector. The risk of renewed inflation, coupled with geopolitical factors and trade tensions, adds further uncertainty and higher short-term volatility is expected. In Canada, there are further debates about the impact of negative population growth and tighter immigration policies. Meanwhile, a potential shift toward more business-friendly federal leadership created optimism around the potential to unlock economic growth. These uncertainties may create opportunities to capitalize on market dislocations.

Overall, we expect to see positive equity returns in Canada and the US in 2025, though the threat of tariffs could weigh on this view. Fundamentally, the TSX is poised for positive earnings and strong momentum relative to International (EAFE®) and Emerging Markets (EM). While S&P 500 earnings growth and momentum are expected to slightly outperform, they appear to be overly priced into relative valuations.

Longer term, we anticipate global equity markets to deliver solid returns, despite unattractive valuations in several cases. This expectation reflects our view that trend economic growth will be moderately above the average over the last 15 years. With patience, in CAD-terms, Canadian equities are expected to slightly outperform US equities but underperform EAFE® and EM based on the combination of valuations, dividend yield, and expected growth. The balance of risks, however, for Canadian equities, are skewed to the upside, reflecting the potential for strong dividend growth. The outlook for EAFE® is relatively favorable supported by constructive views of Japan and Australia, helping offset a less favorable outlook for Europe. EM has the highest annualized expected returns over the next 10 years, driven primarily by earnings growth, a smaller valuation headwind, and currency tailwinds. Meanwhile, although US equities have relatively unattractive valuations, higher conviction sources of returns such as expected growth and dividend yield remain reasonably strong . Also, the range of outcomes for US equities is relatively wide in light of potentially significant upside from innovation.

Decomposition of Long-Term Expected Returns



Source: CIBC Asset Management Inc.'s 2025 Long-Term Expected Returns using data from: Bloomberg; LSEG Datastream; PitchBook, as at December 31, 2024. Expected Returns are in Canadian Dollars. For illustrative purposes only.

Alternatives outlook: An increasingly important asset class in investor portfolios

Ohm Srinivasan, Head of Manager Research & Alternatives, CIBC Private Wealth US

Alternatives have become increasingly popular in investor portfolios due to their unique reward for risk profiles and their low correlation to traditional equity and fixed income.

Growth in private credit has been justifiably strong, benefiting from cash interest rates staying higher for longer. Compared to the previous Zero-Interest-Rate-Policy (ZIRP) environment, corporate direct lending gross yields are approximately 7-10% with limited volatility. At these levels, a greater share of the economic value generated by businesses now accrues to debtholders through higher interest payments versus equity shareholders who earn the residual profits. Against this backdrop, we might expect private credit to generate returns commensurate with public equity, while in many ways exhibiting less risk.

Our outlook for private equity is positive. Although valuations went through an adjustment phase in 2022-2023 due to rising rates, private equity should be in a stronger position to generate excess returns going forward, especially in comparison to public equity whose valuations have arguably outpaced business fundamentals over the last two years. Private equity funds buy private companies or take public companies private, and seek to increase the value of their portfolio companies through institutionalization, expansion, and operational improvement over a five-to-ten-year time horizon before selling them at a higher valuation. Over rolling ten-year periods, private equity has historically generated 2-3% excess annualized returns compared to public equity.

Our outlook for real assets, such as real estate, infrastructure, energy infrastructure, and other asset-backed private equity investments, is more mixed. The 2022-2023 rising interest rate environment was a major headwind for real assets. Rising rates drove asset-backed loan interest costs higher and cap rates adjusted to reflect lower prices to compete with higher long-term interest rates. Although cash interest rates declined in recent quarters, the US ten-year Treasury yield remains near its recent highs and is close to the level we expect to prevail on average over the next 12 months. Generally, high rates keep a lid on price appreciation for real assets. However, this ceiling may be offset by lower asset prices and growing revenues that can create a good recipe for the next bull cycle, especially if long-term interest rates start to show signs of easing. Notwithstanding economic uncertainty, owning a revenue-generating tangible asset can provide a great deal of comfort for most investors, while real assets are also expected to provide some inflation protection. Long-term fundamentals in certain pockets, such as housing-themed real estate, remain strong due to shortages in many geographies .

Overall, private market alternatives are expected to deliver strong returns relative to traditional public asset classes. From an asset allocation perspective, the ability to access private companies, diversify public market risk, and generate excess returns should be additive to any portfolio. However, private market investments may not be appropriate for all investors as liquidity can be a concern.

Liquid alternatives can enhance expected returns and add diversification to a portfolio without the same liquidity constraints as investing in private markets. Liquid alternatives focus on generating risk-adjusted returns in excess of cash interest rates, while providing low correlation to broad public markets.

Similar to private credit, higher interest rates have been a boon for absolute return strategies, which now target 7-10% returns on 4-7% standard deviation. Lower returns and weak sentiment during the previous ZIRP environment are starting to reverse with justifiably rising return expectations and improving sentiment for liquid alternatives strategies.

Portfolio recommendations: Stick to investment goals

David Wong, CIO, Managing Director & Head, Total Investment Solutions
Leslie Alba, Head, Portfolio Solutions, Total Investment Solutions

Following some significant portfolio changes over the past several editions, we are making no recommended changes to this year's Long-Term Strategic Asset Allocations.

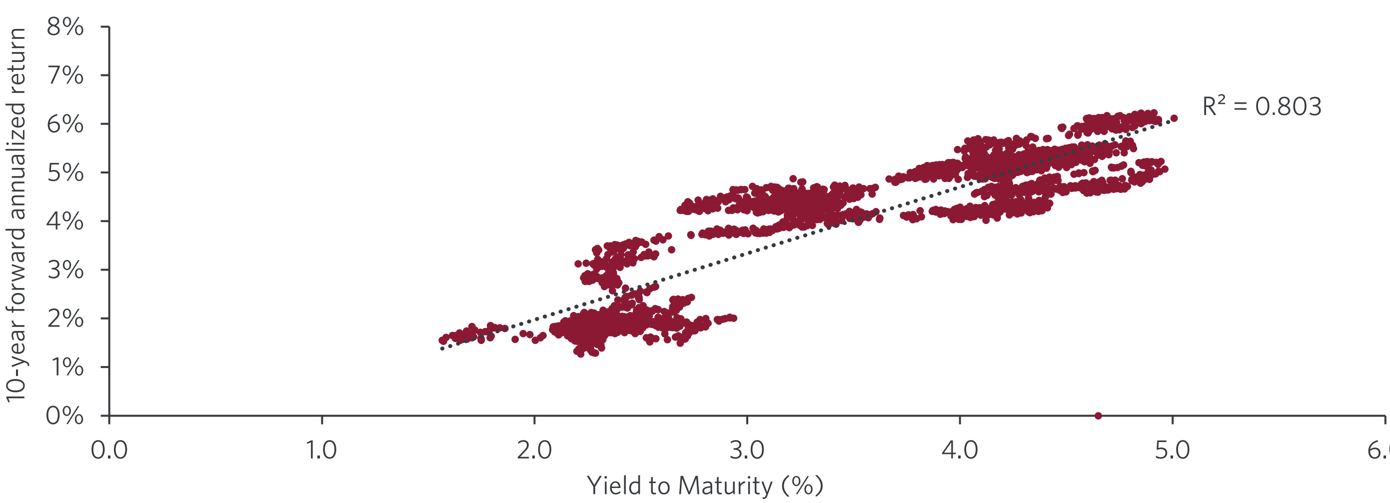
Our long-term views are driven by the underlying financial productivity of the assets we invest in. These include loss-adjusted starting yields for bonds and corporate earnings for equities. On that basis, despite heightened uncertainty around various geopolitical risks and continued uncertainty around tariffs, our baseline long-term expectations for equities and bonds have not meaningfully changed. We expect equities to continue to be the cornerstone of wealth generation, and we expect bonds to be an important ballast in portfolios in the face of economic and equity market weakness.

Our constructive view of equities considers both the downside risk from the high valuation in US equities against the upside potential for Artificial Intelligence (AI) to drive the next Industrial Revolution. This could reverse the long decline in total factor productivity, propel corporate profit margins higher for longer, and deliver greater economic productivity growth. If this proves true, then Big Tech could be reasonably priced, or even cheap at current levels. While we are broadly optimistic around this theme, there are several reasons to be cautious. Firstly, it's difficult to predict and quantify potential increases in labour or economic productivity from AI. Secondly, with adoption rates still low in industries outside of technology, they have a lot further to rise before we see a broader impact on the economy. And finally, future market leadership from any beneficiaries from AI is hard to identify. The potential paths around the known unknowns should therefore be managed through broad exposure to equity markets.

We are optimistic on bonds and their potential to provide useful diversification in investor portfolios. Although yields have come down from their peaks in 2023, they remain relatively higher than levels seen over much of the last decade. The diversification potential of bonds should shine through amid economic headwinds and equity market weakness given the higher coupons offered today, which should create some buffer for portfolio returns.

Also, long-term bond returns tend to closely follow the starting yield and all-in yields today remain relatively attractive. Although bonds have the risk of selling off when interest rates rise, our view is that the most likely trajectory for rates is down.

Long-term returns tend to closely follow yield



Source: CIBC Asset Management Inc. calculations on Bloomberg Canada Aggregate TR Index from October 1, 2000 to December 31, 2024. For illustrative purposes only.

Overall, we continue to believe that investors will be rewarded for being exposed to the credit risk premium. Despite spreads being at historical lows, we observe through history that spreads can stay tight for numerous years and that starting yield has been a good predictor of returns for those with the appropriate timeframe to invest. For example, if one was unfortunate enough to make a large allocation to US high yield bonds at the start of January 2020 when spreads were relatively tight at around 330 bps and rapidly widened to over 1000 bps in March, they would have experienced a Q1 2020 return of -13.2% based on the Bloomberg US Corporate High Yield index . However, between the start of 2020 and the end of 2024, the five-year annualized return of the index is 4.21%. Nevertheless, there could be near-term volatility that short-term investors may need to consider.

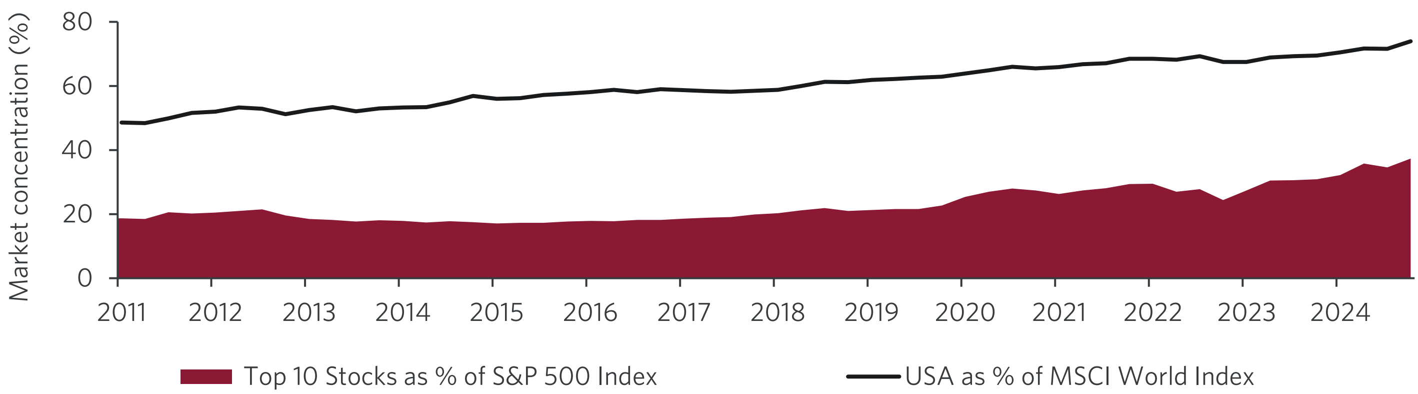
Finally, we also expect alternative assets, including private assets and liquid alternatives to continue to play an important role in portfolio diversification through low realized correlations to the traditional assets that make up the bulk of our recommended portfolios.

Active vs. passive: Active managers penalized for diversifying

Philip Lee, Executive Director, Manager Research, Total Investment Solutions

Over the last 15 years, active managers have faced several challenges to generating excess returns. This has been particularly acute in the US equity market. Arguably the stiffest headwind for managers has been the ever-increasing concentration in the top 10 names in the S&P 500 Index over this period. This has had the consequence of limiting the benefits of diversification and active positioning away from the index. Market leadership in the US, as measured by the S&P 500 Index, has been narrowly driven by momentum-fueled themes in Big Tech. From the end of 2010 to the end of 2024, the share of the top 10 holdings as a percentage of the S&P 500 Index market cap rose from around 20% to over 37%. Against this backdrop, active managers who seek diversification as a practice, struggled to beat the benchmark. The median manager in eVestment's US Large Cap Equity Universe has failed to beat the benchmark in 13 of the past 15 calendar years as a result.

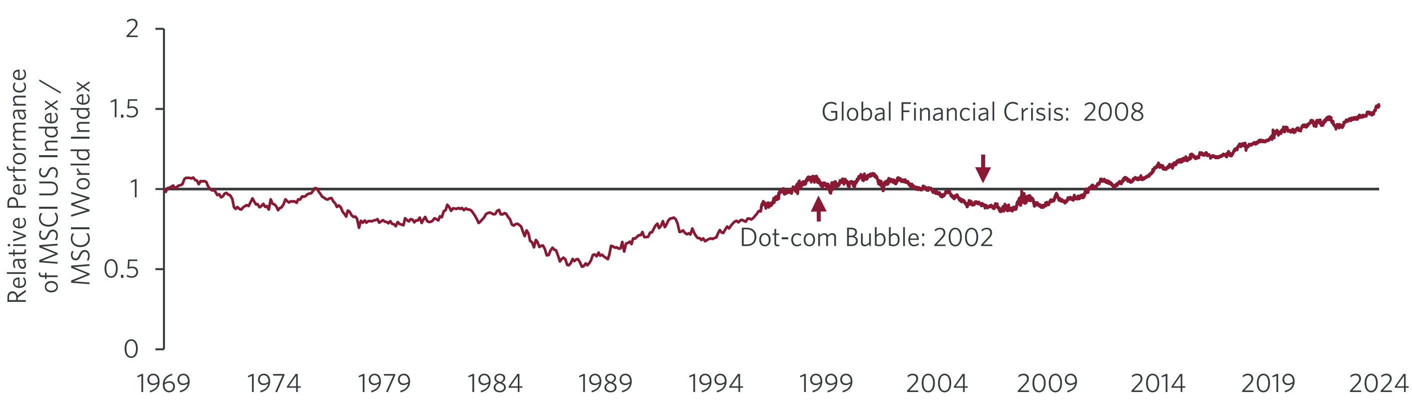
Momentum-fueled themes in Big Tech drove high concentration in the US and World markets



Source: CIBC Asset Management Inc., using data from Bloomberg as of December 31, 2024.

Meanwhile, developed global equity markets, as measured by the MSCI World Index, became increasingly concentrated from a geographical perspective, with the US representing close to 75% of world market cap at the end of 2024, compared to around 50% in 2010 (although it is worth noting that 75% is less exceptional using much longer spans of data) . The increasing proportion of US market cap is driven by the exceptional relative performance of US equities following the GFC.

US relative outperformance is now at a 50 year peak



Source: CIBC Asset Management Inc., using data from Longtermtrends as of December 31, 2024.

In essence, beating the global benchmark would have been difficult without taking on more US equity exposure, and even more importantly, buying into a very concentrated subset of US equities.

It is difficult to predict how long markets can continue to become more concentrated . Ultimately, we believe that maintaining diversification is important because sentiment can shift quickly. While indexes represent a full opportunity set on a market cap weighted basis, historically, concentrated markets do unwind and active management has typically been better rewarded when this happens. To wit, in the 10-year period between 2000 and 2009 when concentration in the top 10 names went from its then peak of 27% to around 20% by the end of the decade, the median active manager outperformed in 9 of 10 years. Active management might be a more effective approach to achieving equity returns should markets become less concentrated.

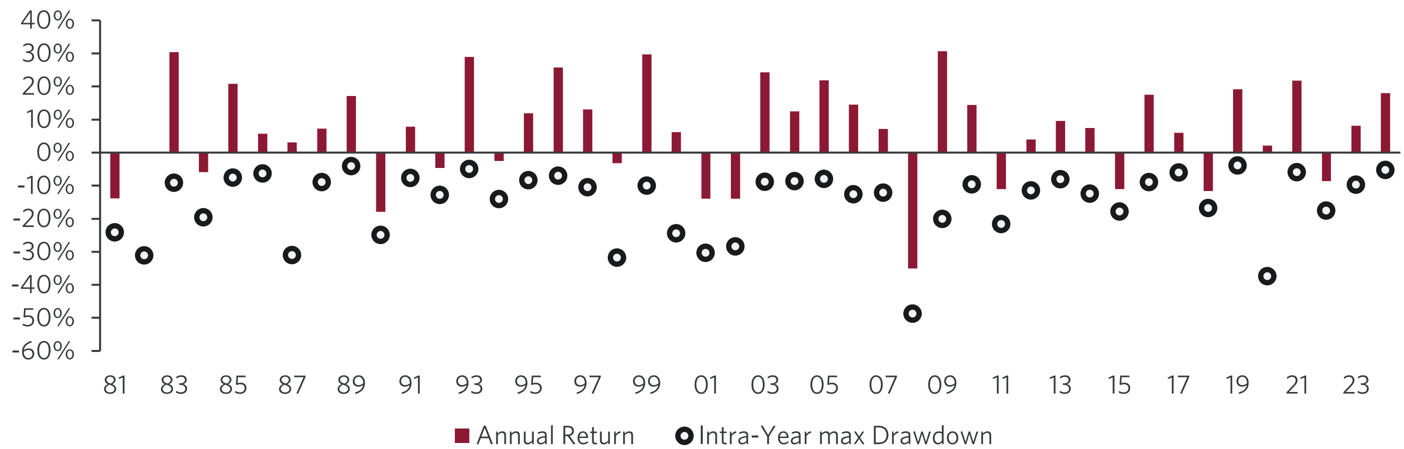
Client implications: Prepare for near-term volatility

Michael Keaveney, VP, Managed Solutions

In the two years following challenged markets in 2022, diversified investors have been amply rewarded with above-average equity market returns and falling interest rates that have acted as a tailwind to fixed-income markets. The environment was also one of dampened volatility. However, short term volatility is a recurring feature of markets. From 1981-2024, the annualized return on the TSX Index is 10%, while the average intra-year maximum drawdown is 15%. We believe it is prudent for investors to prepare themselves for an uptick in volatility, but acknowledge that volatility tends to smooth out over long time periods.

An ounce of preparation is worth a pound of prediction. Preparation begins with a review of investing goals, risk tolerance and time horizons. Some goals require future rates of return in excess of the risk-free rate; logically, this requires investors to accept some risk in portfolios. Well-diversified portfolios can eliminate much of the idiosyncratic risk associated with a large exposure to a single investment. But non-diversifiable risks remain – this is the general risk of the markets. What is a well-diversified portfolio? It is not just having many investments, but individual investments that respond differently in a range of circumstances.

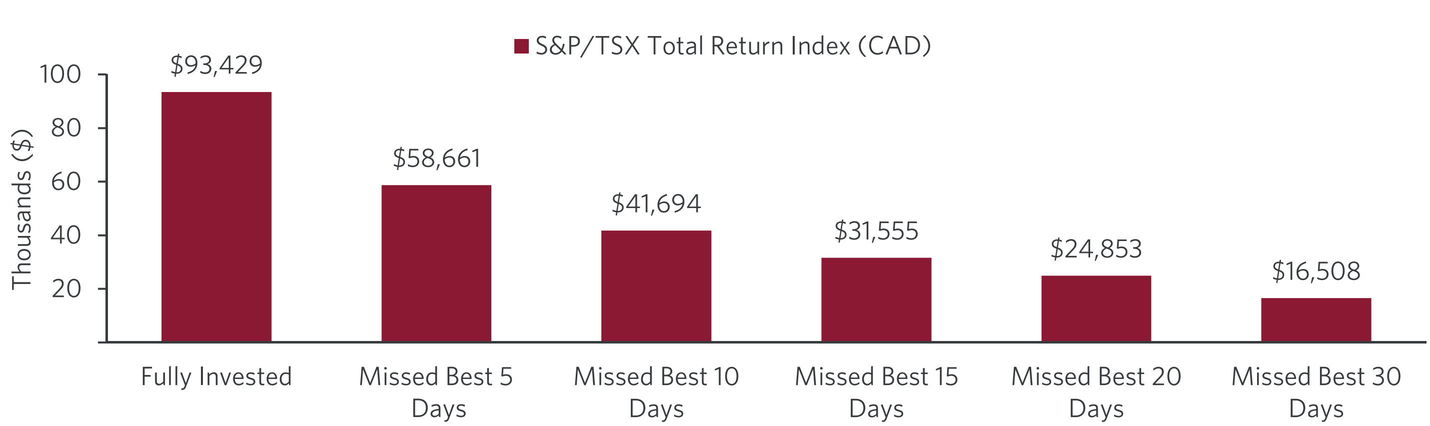
Prepare for volatility: Accept the lows, enjoy the highs



Source: CIBC Asset Management Inc. calculations on the S&P/TSX Price Index using Bloomberg as of December 31, 2024. Intra-year drawdown refers to market drops from peak to trough during the year. Returns are in Canadian Dollars.

The outlook for markets presented herein is generally constructive, with a measure of caution added in. Despite a wobbly start to 2025, markets have yet to exhibit any extreme volatility. Indeed, it approaches cliché that markets are constantly climbing a Wall of Worry. Nevertheless, the short-term movements revealed cracks in the generally positive investing sentiment which could grow wider with further adverse developments or shocks. These are times when true diversification - investing in a range of assets with different drivers of financial productivity or with different risk exposures in the portfolio - is particularly useful. While it can be tempting to sell out of the market when faced with uncertainty and therefore potential volatility, investors who stay invested tend to do better than those who attempt to time the market.

Impact of missing top market performance days since Jan 1st, 2000 (starting at $10,000)

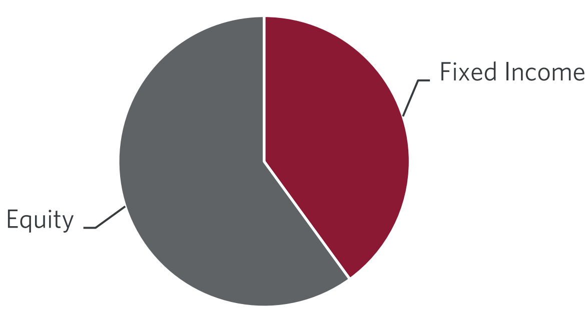


Source: CIBC Asset Management Inc. using data from Bloomberg, as of December 31, 2024.

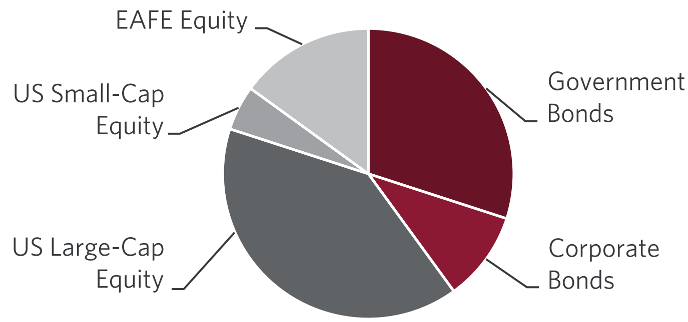
Total portfolio approach to asset allocation

The evolution of asset allocation

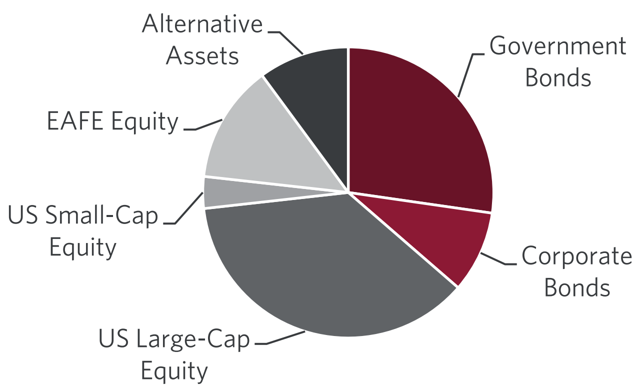
1950s: Modern Portfolio Theory and Diversification



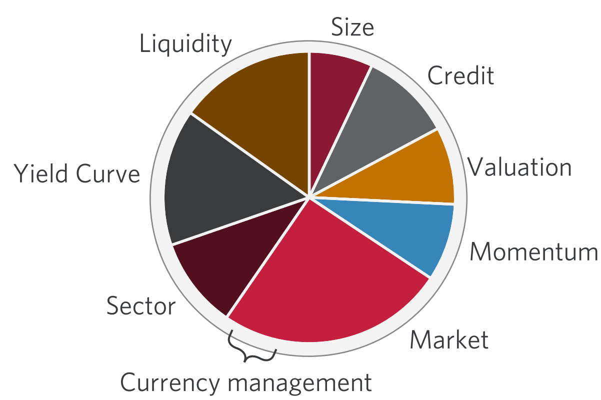
1980-90s: Globalization and Factor Investing



2010s: Risk Management and Alternatives



2025: Total Portfolio Approach and Outcomes



The above portfolios are hypothetical and are for illustrative purposes only.

Throughout the years, the investment industry's approach to asset allocation has evolved to accommodate new theories, tools and techniques to adapt to changing investment environments and evolving investor needs. In the 1950s, Harry Markowitz developed the Modern Portfolio Theory, which remains a cornerstone of asset allocation. It demonstrated that diversification – or combining assets with low or negative correlations like stocks and bonds – provides a potential path to reduce portfolio risk without necessarily sacrificing expected returns.

In the 1980s- and 1990s, shifts in investor sentiment as well as a more favourable regulatory environment helped to build interest in foreign investments. Sophistication was also introduced through the research of Eugene Fama and Ken French who developed the Three-Factor Model, which popularized targeted exposures to value and small cap stocks, in addition to the non-diversifiable market risk popularized by Markowitz.

Following 2008's Global Financial Crisis, there was renewed focus on risk management, which expanded the set of investment opportunities to include alternatives investments, such as hedge funds and private assets. These alternatives became more widely used in multi-asset portfolios given their attractive and diversifying expected reward and risk profile; they often provide exposure to different sources of return compared with traditional public market assets, tend to have low correlation to traditional asset classes and can experience lower volatility and smoother outcomes.

Modern Portfolio Theory and related asset allocation approaches tend to follow some degree of mean-variance optimization to determine the right mix of assets to minimize portfolio volatility for a certain level of expected return. While optimization models can be useful as a guide, they are limited in practice. One key drawback of mean-variance optimization models is that they overemphasize standard deviation as the measure of risk. This can often favour investments that have lower long-term volatility but can be subject to sharp declines. This overlooks the fact that some investors are more sensitive to drawdowns or other risk measures, including non-market risks such as geopolitical or regulatory risks. Optimizers also assume a normal distribution of returns, which can lead to poor assessments of tail risk.

Another important drawback is that optimizers tend to be highly sensitive to their input estimates. Expected returns, variance and covariances are often uncertain and prone to error. Small changes can lead to large differences in optimal portfolio weights. In practice, this leads to low confidence in recommended allocations suggested by a model and could lead to high portfolio turnover if there is over-reliance on the model output. The use of optimizers for asset allocation can also lead to very concentrated positions as they typically don't account for constraints like minimum or maximum position sizes, liquidity requirements, transaction costs, taxes, or other market frictions that may be present in real-world portfolios.

Given some of the challenges with past asset allocation processes, we have observed a wider adoption by large and sophisticated institutional asset owners of what is commonly known as a Total Portfolio Approach (TPA). This approach places investment outcomes, rather than sacrosanct inputs, at the center of portfolio construction. In this framework, the common links are that performance is assessed on desired outcomes rather than benchmark-relative success; success is measured by total fund returns rather than relative value added; investment opportunities are viewed in relation to their contribution to total portfolio outcomes rather than as asset classes; implementation is made by one team collaborating together rather than multiple teams competing for capital; and diversification is identified in terms of risk factors rather than by the asset class they belong in.[2]

While there are many well-known adopters of a Total Portfolio Approach to portfolio construction, such as CPPIB, Future Fund (Australia's Sovereign Wealth Fund), and GIC (Singapore's Sovereign Wealth Fund), there is no singular approach that is prescribed. We believe that a crisp understanding of the purpose of individual investments in the forward-looking view on an ongoing basis is key to setting expectations around performance patterns and whether the desired utility of an investment is being provided.

For example, an allocation to traditional bond portfolios is often thought to be the low risk, income generating base layer of a portfolio. However, at points in the cycle, such as August of 2020 when the yield on the 10-year Government of Canada bond traded below 50 basis points, the income and risk characteristics were no longer evident, and long-term return potential was mathematically challenged. While this is much easier to identify ex-post, a Total Portfolio Approach that reviews asset class purpose on an ongoing basis would more effectively challenge the notion of strategic asset allocation in these situations in real time. The aim would not be to unnecessarily create overreaction in an asset mix, but rather to ensure that the long-term purpose of an investment is not diminished due to unique circumstances, and to make prudent changes as needed.

Once purpose has been identified, it might be tempting to immediately find an investment manager to execute the strategy. However, before moving on to manager selection, it is important to ask if there is a way to invest in a purposeful asset that drives better efficiency from a structural point of view. An obsessive focus on "alpha" could lead to ineffective overall returns if the right structure of the purposeful asset isn't first identified. Global fixed income might be useful from a purpose perspective because of the counter-cyclical monetary policy effects on interest rates against global equity market exposure; however if the active management universe operates from a non-Canadian perspective and requires an unhedged approach to currency management, the net result will be higher volatility without any reward. Over the past 20-years to the end of 2024, the return on the global government bond market on a hedged to Canadian dollar basis was 2.98%, while the return on an unhedged basis was 2.18%[3]. More importantly, the volatility of the hedged return was only 3.67%, while the unhedged risk was 9.32%. Therefore, an unhedged global bond portfolio provided bond-like returns with equity-like volatility, while hedged global bonds behaved as expected on both measures. Before picking an investment manager, it is therefore critical to pick the right structural approach to the purposeful asset class to avoid taking on unnecessary risk.

Lastly, once assets are deemed purposeful, and structure is efficient, a decision around manager fulfillment needs to be made. Many approaches can be taken to find effective fulfillment, and certain environments might be more conducive to active methods than passive approaches. Ultimately, from a Total Portfolio Approach perspective, the greatest care with respect to fulfillment should be to avoid swamping the desirable effects of purpose and structure and instead complement those elements by adding value through selectivity that also understands the holistic needs of the overall asset mix.

Let's connect

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The 2025 Portfolio Solutions Research Forum

The views of our Portfolio Solutions Research Forum help guide CIBC Asset Management and our partners by providing strategic asset allocation recommendations, as well as strategic and tactical oversight for managed solutions.

"We carefully selected investment experts from across the organization, each with a unique perspective, to bring forward deep insights and best ideas around strategic asset allocation and portfolio construction"

- Leslie Alba, Chair, Portfolio Solutions Research Forum

"The Portfolio Solutions Research Forum is at the heart of our investment process for Managed Solutions. It's how we turn investment opportunities and threats into actionable investment decisions to drive desired outcomes for our clients"

- David Wong, CIO, Managing Director & Head, Total Investment Solutions

Portfolio construction

Total portfolio approach

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Alex Dyoujenko, CFA
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Structure

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Top-down economic insights

Multi-Asset and Currency

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Client portfolio management

Client perspectives and communications

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Vice President
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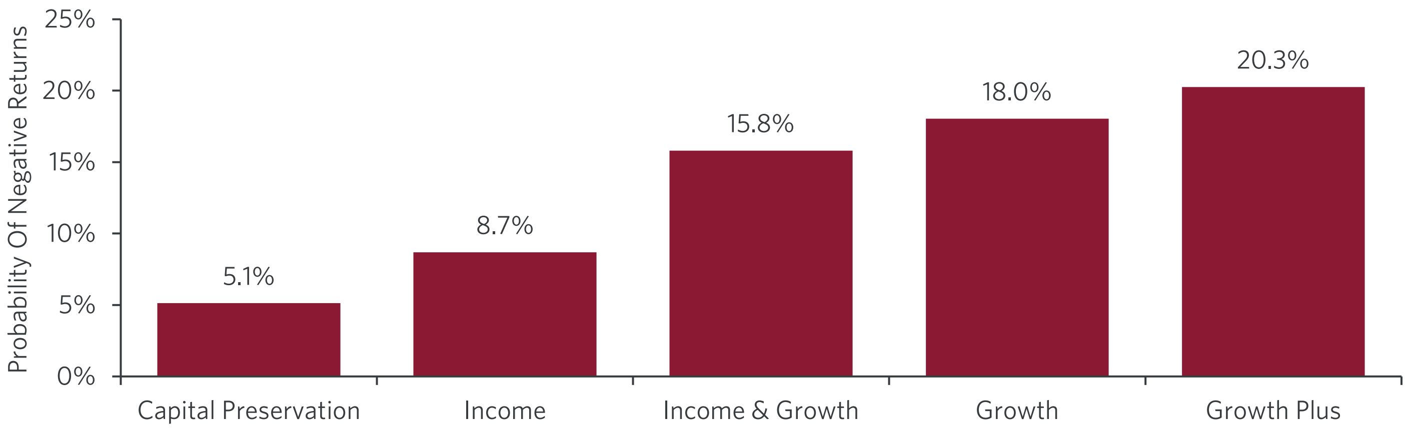
Appendix

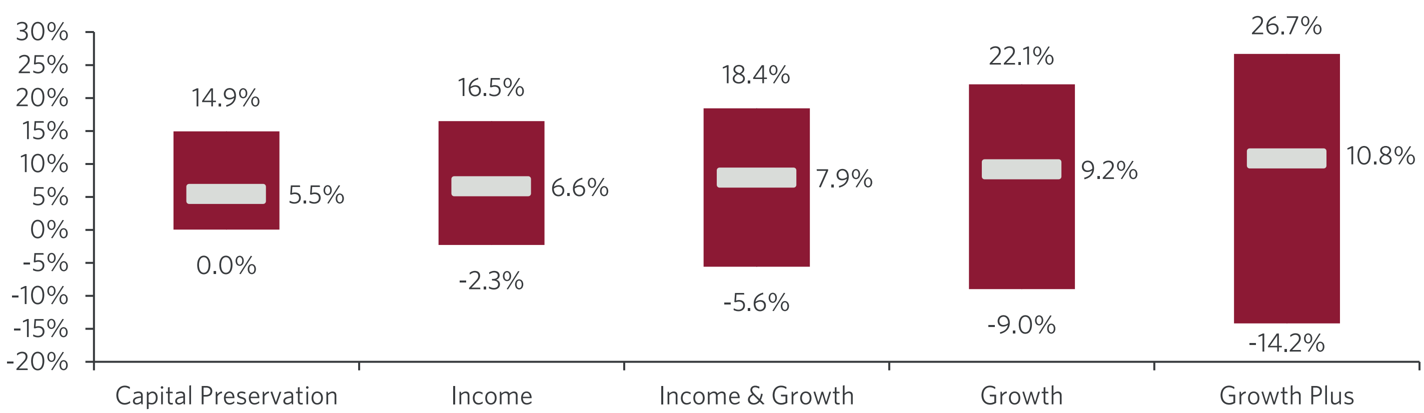
The following risk analysis is based on the 2024 recommended asset allocation for global traditional asset portfolios given their long track record of benchmark proxy indices.[4]

Probability of negative annual returns in one-year rolling periods (September 1986 to December 2024)



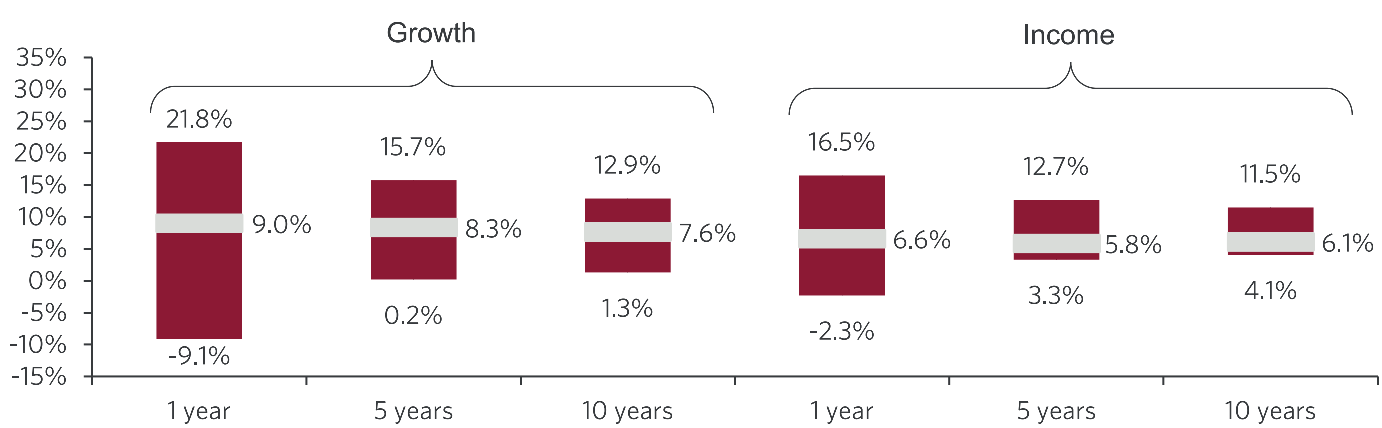
Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024.

5th, 50th and 95th annual return percentiles (September 1986 to December 2024)



Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024.

5th, 50th & 95th annualized return percentile over time (September 1986 to December 2024): Growth and Income Profiles



Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024.

Annualized return variability (September 1986 – December 2024, in %; not annualized if less than 1 year)

Profiles	1 month		3 months		6 months		1 year		3 years		5 years		10 years		% Negative
	best	worst	best	worst	best	worst	best	worst	best	worst	best	worst	best	worst	Months
Capital Preservation	4.7	-4.2	7.1	-6.0	11.6	-9.7	19.8	-8.1	15.6	-0.9	12.5	1.8	11.1	3.3	31.3
Income	5.5	-5.7	7.9	-7.4	14.0	-11.1	23.2	-8.7	17.1	0.3	13.7	1.9	12.3	3.4	32.4
Income & Growth	6.2	-7.6	10.0	-12.3	16.9	-14.8	26.9	-11.5	18.3	-3.2	15.0	0.4	13.8	2.2	33.3
Growth	7.8	-11.1	14.0	-16.5	20.8	-21.5	31.0	-18.5	19.4	-8.1	17.4	-1.7	15.3	0.4	35.2
Growth Plus	9.2	-15.6	17.9	-22.8	26.6	-29.9	35.7	-27.8	21.2	-13.2	19.5	-3.4	16.7	-1.2	35.4

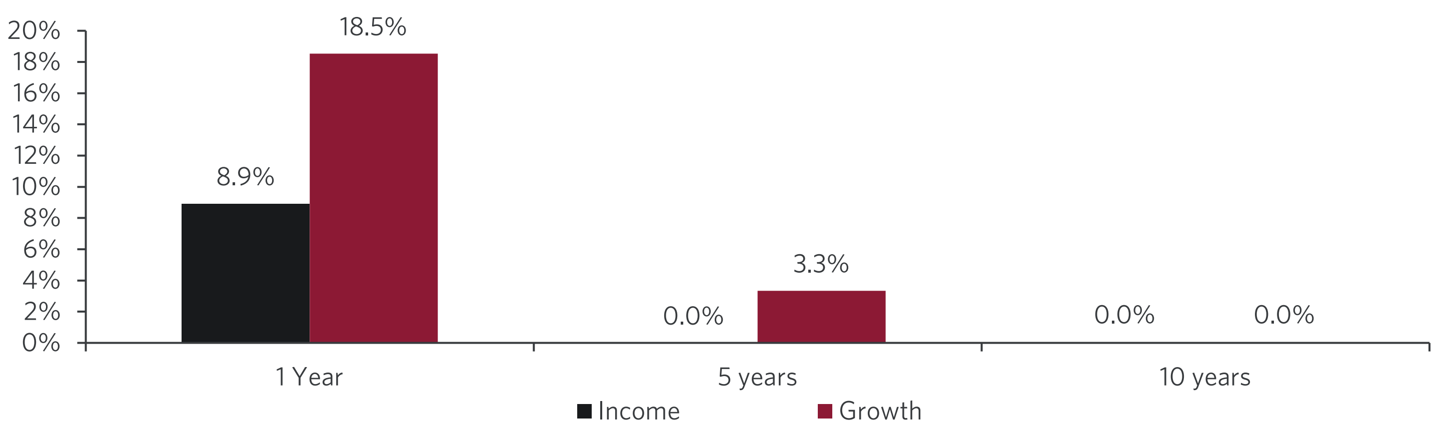
Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024.

Drawdown analysis (September 1986 – December 2024, in %; not annualized if less than 1 year)

Drawdown breakdown	Capital Preservation	Income	Income & Growth	Growth	Aggressive Growth
Average drawdown	-1.64%	-2.25%	-3.79%	-7.02%	-10.18%
Maximum drawdown	-9.68%	-11.06%	-16.56%	-26.57%	-36.97%
Maximum drawdown period	Jan 2022 - Jun 2022	Jan 2022 - Jun 2022	Sep 2008 - Feb 2009	Sep 2007 - Feb 2009	Sep 2007 - Feb 2009
Months to recover from the max drawdown trough to the previous peak	21	19	17	23	46
Longest drawdown length (# Months)	11	27	40	64	74
Longest drawdown period	Feb 1994 - Dec 1994	Sep 2000 - Nov 2002	Sep 2000 - Dec 2003	Sep 2000 - Dec 2005	Sep 2000 - Oct 2006

Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024.

Percentage of negative annualized returns for the Income and the Growth profiles (September 1986 – December 2024)



Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024.

Trailing performance of LTSAA portfolios

Canadian assets only

Risk Profile	1 Year	3 Years	5 Years	7 Years	10 Years	20 Years	Since Inception	Inception Date
Capital Preservation	8.56%	2.51%	3.39%	3.59%	3.35%	4.10%	6.08%	9/1/1986
Income	11.10%	3.25%	4.55%	4.53%	4.26%	4.85%	6.58%	9/1/1986
Income & Growth	14.52%	4.87%	6.54%	6.09%	5.65%	5.82%	7.13%	9/1/1986
Growth	17.17%	6.45%	8.43%	7.44%	6.83%	6.59%	7.46%	9/1/1986
Growth Plus	19.82%	7.57%	9.83%	8.52%	7.82%	7.30%	7.85%	9/1/1986

Traditional global assets

Risk Profile	1 Year	3 Years	5 Years	7 Years	10 Years	20 Years	Since Inception	Inception Date
Capital Preservation	9.02%	2.70%	3.49%	3.80%	3.93%	4.39%	6.24%	9/1/1986
Income	12.53%	3.97%	4.92%	5.09%	5.27%	5.36%	6.85%	9/1/1986
Income & Growth	16.91%	6.28%	7.82%	7.54%	7.49%	6.74%	7.61%	9/1/1986
Growth	19.17%	7.65%	9.56%	9.09%	9.22%	7.77%	8.08%	9/1/1986
Growth Plus	21.81%	9.03%	11.66%	10.90%	10.95%	8.85%	8.66%	9/1/1986

Diversified portfolio with alternatives

Risk Profile	1 Year	3 Years	5 Years	7 Years	10 Years	20 Years	Since Inception	Inception Date
Capital Preservation	11.32%	3.49%	5.09%	4.62%	4.20%	5.01%	5.01%	1/1/2005
Income	13.05%	4.31%	6.76%	5.56%	5.05%	5.68%	5.68%	1/1/2005
Income & Growth	16.74%	5.88%	9.24%	7.07%	6.58%	6.81%	6.81%	1/1/2005
Growth	19.32%	7.04%	11.40%	8.41%	7.94%	7.91%	7.91%	1/1/2005
Growth Plus	22.55%	8.30%	13.18%	9.41%	8.94%	8.63%	8.63%	1/1/2005

Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024. Historical performance is calculated on the recommended asset mixes published in CIBC Asset Managements Long-Term Asset Allocation papers from 2015-2024 for Canadian assets only and Traditional global assets portfolios; 2021-2024 for Diversified portfolio with alternatives, with the exception of the Capital Preservation Profile, which uses recommended asset mixes from 2023-2024. The earliest available asset mix is assumed to back-test the portfolio to the inception date of the analysis indicated in the tables. See Endnotes[5] for performance proxy indices.

Calendar year returns

Canadian assets only

Risk Profile	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Capital Preservation	8.56%	7.44%	-7.64%	2.68%	6.82%	8.48%	-0.14%	3.11%	4.18%	1.16%
Income	11.10%	8.26%	-8.48%	5.50%	7.55%	11.01%	-1.68%	4.28%	7.10%	-0.36%
Income & Growth	14.52%	9.39%	-7.93%	10.78%	7.44%	14.46%	-3.74%	5.79%	11.05%	-2.46%
Growth	17.17%	10.44%	-6.78%	16.43%	6.73%	17.66%	-6.31%	7.11%	14.98%	-4.82%
Growth Plus	19.82%	11.26%	-6.63%	20.65%	6.40%	20.39%	-7.86%	8.42%	19.02%	-7.16%

Traditional global assets

Risk Profile	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Capital Preservation	9.02%	7.25%	-7.36%	2.83%	6.57%	7.61%	1.64%	3.06%	4.03%	5.64%
Income	12.53%	8.52%	-7.97%	5.35%	7.41%	10.19%	1.02%	4.44%	5.38%	7.29%
Income & Growth	16.91%	11.75%	-8.11%	11.83%	8.52%	13.77%	0.34%	6.06%	6.83%	9.25%
Growth	19.17%	14.08%	-8.22%	15.38%	9.68%	16.32%	0.08%	8.61%	7.46%	12.60%
Growth Plus	21.81%	17.13%	-9.17%	20.66%	11.01%	20.25%	-1.18%	11.48%	8.63%	13.13%

Diversified portfolio with alternatives

Risk Profile	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Capital Preservation	11.32%	7.92%	-7.72%	4.80%	6.44%	9.96%	0.88%	4.16%	5.26%	5.78%
Income	13.05%	8.80%	-7.73%	7.73%	6.46%	12.17%	-0.14%	5.85%	6.15%	6.20%
Income & Growth	16.74%	10.71%	-8.17%	10.64%	8.00%	14.51%	-0.52%	8.92%	7.24%	7.57%
Growth	19.32%	12.64%	-8.75%	13.75%	9.04%	17.20%	-0.97%	11.22%	8.89%	9.06%
Growth Plus	22.55%	14.56%	-9.54%	15.12%	10.21%	18.95%	-1.59%	13.53%	9.77%	9.41%

Source: CIBC Asset Management Inc., Bloomberg, as at December 31, 2024. Historical performance is calculated on the recommended asset mixes published in CIBC Asset Managements Long-Term Asset Allocation papers from 2015-2024 for Canadian assets only and Traditional global assets portfolios; 2021-2024 for Diversified portfolio with alternatives, with the exception of the Capital Preservation Profile, which uses recommended asset mixes from 2023-2024. The earliest available asset mix is assumed to back-test the portfolio to the inception date of the analysis indicated in the tables. See Endnotes[5] for performance proxy indices.

Endnotes

[1] Expected returns and expected standard deviations for the component asset classes are based on 10-year forecast returns as explained in CIBC Asset Management's 2025 long-term expected returns for capital markets report, available in English and French ; expected returns and expected standard deviations are 10-year forward-looking hypothetical numbers. There are some unique exceptions where the expected return and expected standard deviations are not published, and are calculated by both CIBC Asset Management's Multi-Asset & Currency Team and Total Investment Solutions Team. The exceptions include forecasting the expected return of Liquid alternatives by US Cash plus 5%, converted to CAD; expected risk of Liquid alternatives as 10-year historical risk of three HFRI EH indices, blended equally: Long/Short Directional, Equity Market Neutral and Fund-of-Funds. Total Investment Solutions team uses Ares Capital Corporation (ARCC) NAV for private credit and NFI-ODCE Index for private real estate as these are truer reflections of the expected investor experience than broader market indices. Those expected risk and return numbers are 10-year forward-looking hypothetical estimates. The expected volatility for Global Bonds (Hedged to CAD) is based on the 10-year historical standard deviation of Barclay's Global Aggregate Bond Index (Hedged to CAD).

[2] Thinking Ahead Institute. 2019.

[3] 20-year risk and returns on FTSE World Government Bond Index as of December 31, 2024. Source: eVestment.

[4] Performance proxy indices for the global asset allocation are: FTSE Canada 91 Day T-Bills Index for cash; FTSE Canada Universe Bond Index for Canadian bonds since inception (1990), and All Government Canadian Bonds with 10yr +maturity prior to 1990; Barclay's Global Aggregate Bond Index for Global Bonds since inception (1990), the JP Morgan Global Government Bond Ex Canada index prior to 1990; Bank of America Merrill Lynch BB-B US Cash Pay High Yield Index since inception (Sep 1988), Merrill Lynch US High yield Master II Index for Sept. 1986 to Aug. 1988; S&P/TSX Composite Index for Canadian Equity; MSCI World Index for Global Equity.

[5] Proxy indices for historical portfolio performance are: FTSE Canada 91 Day T-Bills Index for cash; FTSE Canada Universe Bond Index for Canadian bonds since inception (1990), and All Government Canadian Bonds with 10yr +maturity prior to 1990; Barclay's Global Aggregate Bond Index for Global Bonds since inception (1990), the JP Morgan Global Government Bond Ex Canada index prior to 1990; Bank of America Merrill Lynch BB-B US Cash Pay High Yield Index since inception (Sep 1988), Merrill Lynch US High yield Master II Index for Sept. 1986 to Aug. 1988; S&P/TSX Composite Index for Canadian Equity; MSCI World Index for Global Equity. We also approximate the return of Liquid alternatives through three HFRI EH indices, blended equally: Long/Short Directional, Equity Market Neutral and Fund-of-Funds; and the return of Private Equity using a blend: 75% S&P 500 Index (CAD), 25% S&P/TSX Composite Index, plus 3.25% premium. Total Investment Solutions team also uses Private Credit Ares Strategic Income Fund (ASIF) Class I since inception (Jan 2023), ARCC NAV (USD) Jan 2005-Dec 2024 for private credit; and NFI-ODCE Index for private real estate as these are truer reflections of the expected investor experience than broader market indices.