Commentary as at June 30, 2020

The price of benchmark West Texas Intermediate crude oil fell to its lowest ever during the first half of 2020 amid plummeting demand for energy, after governments shut down much of the global economy in response to the spread of the new coronavirus. The reduction in demand was magnified by the failure of OPEC and Russia to agree on production cuts, resulting in a supply glut at the worst possible time. Oil prices fell from about US$60 in February to the single digits and then, at one point, dropped below zero for the first time ever as traders tried to avoid having to take delivery of actual barrels of oil. Shares of energy companies mirrored movements in crude-oil prices, declining by more than 30% during the first half of 2020 and significantly underperforming the broader stock market.

The Fund’s relative returns were bolstered in general by holdings in utility companies, which benefited from a period of historically low interest rates. Investments in companies that produce renewable energy, including Innergex Renewable Energy, Boralex, Brookfield Renewable Partners and NextEra Energy also aided returns amid optimism about prospects for environmentally friendly energy sources.

Overweight positions in Galp Energia, Equinor, and Total contributed to relative returns as integrated companies – those that produce oil, refine it and sell it to consumers - outperformed the broader energy market. Overweight positions in Cenovus Energy and Canadian Natural Resources held back the Fund’s relative performance, as did underweight positions in BP and Chevron, two integrated companies.

The balance between global supply and demand has started to stabilize as economies restart following COVID-19 restrictions. While the strength of the recovery remain uncertain, efforts by OPEC and non-OPEC countries to curtail production has improved the balance between supply and demand. In the view of the portfolio manager, integrated energy companies will likely benefit from greater flexibility to respond to changes in product demand.
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