Portfolio Management Commentary

Quarter ending June 30th, 2022

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Inside This Issue

Capital markets finished Q2 in a bad mood. Clearly the risks to investors are threefold:

1) Inflation is stubborn.
2) Russia/Ukraine war is not resolved.
3) COVID is still persistent.

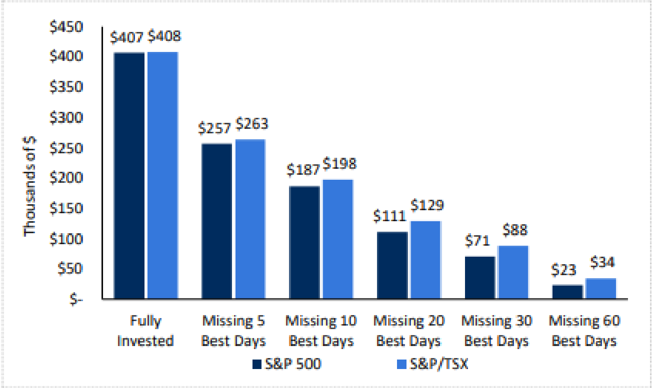
Any one of these issues has a negative impact on investor sentiment, but it seems that this unique combination has finally created an environment for the next bear market. For a reference point, the broad U.S. market, as measured by the S&P 500, has had its worst first half-year return since 1970. This fact has driven a lot of market pundits to stoke the fires of the next financial apocalypse.

And while this recent bout of market movement is uncomfortable, we believe that there are a lot of reasons to be optimistic once the recovery occurs. For starters, valuations are returning to normal, attractive levels. A year ago, it was hard to find outright bargains for good-quality companies. Now, they exist in multitudes. Excesses are being purged from the system. FAANG stocks have had their comeuppance, and rightfully so, as their decline allows for broader market participation on a go-forward basis.

Investor sentiment is highly pessimistic, which is a contrarian indicator, and consumer sentiment is now worse than back in 2008. We are not of the belief that the current macroeconomic climate is equivalent to the financial meltdown of 2008-2009.

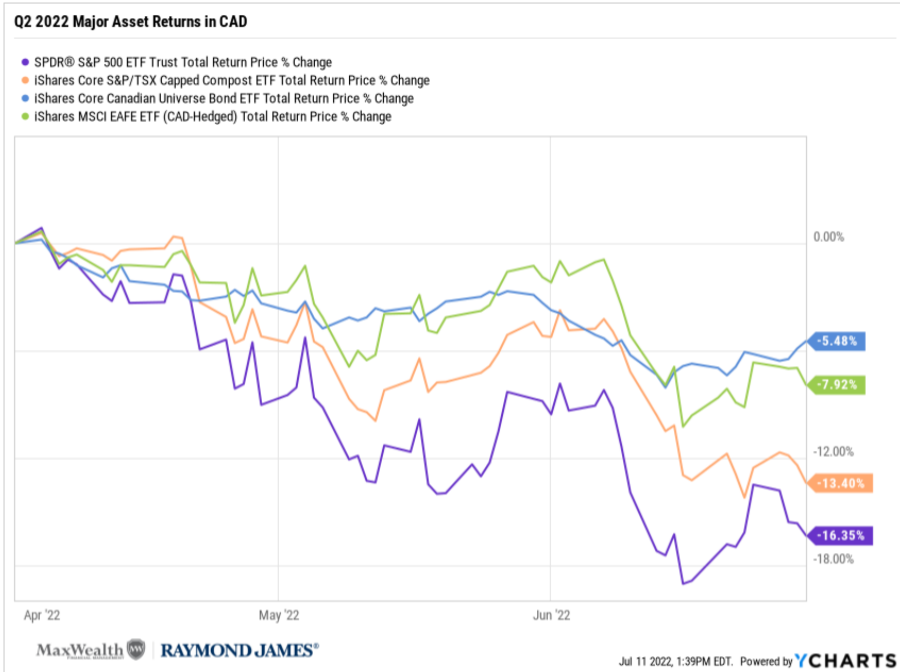
For the record, we are not dismissing the current issues: inflation is high, a recession looks imminent, consumers are getting squeezed, and Russia is not backing down. But in every case, we see these events as transitory in nature. Our reason is simple. History suggests that progress is not linear. It occurs in fits and starts, and its upward trajectory is eventual. For those of you who need reassurance of a long-term orientation, please see the graph below. As you can see, you are rewarded for being patient.

Markets Have Rewarded Long-Term, Patient Investors



Source: FactSet; Raymond James Ltd.; Data as of June 27, 2022. Illustration is based on S&P 500 Total Return Index and S&P/TSX Composite Total Return Index from January 1, 2000 to June 27, 2022. Does not take into account income taxes payable by the investor that would have reduced returns.

Presented below are the broad market returns for Q2, 2022. Market weakness was very obvious for the quarter. The S&P 500 was the worst performer by a significant margin, and Canadian fixed income held up the best on a relative basis.



Interestingly enough, international markets had less negative downside than North American ones. A plausible reason could be relative valuation. Many international companies trade at steep discounts to their U.S. counterparts. As you can see below, international companies are a better value, and that may have driven the difference in quarterly returns.

Symbol		Name	Weighte. Average PE Ratio	Weighte. Average Price to Book Ratio	Weighte. Average Price to Sales Ratio	Weighte. Average Debt to Capital	Weighte. Average Price to Cash Flow
IVV	+	iShares Core S&P 500 ETF	18.49	3.563	2.391	41.78	14.47
XIN.TO	+	iShares MSCI EAFE ETF (CAD-Hedged)	12.74	1.564	1.296	35.77	8.868

If we drill down into a sector analysis of the major Canadian and U.S. indices, we can see areas of both strength and weakness for this quarter. In Canada, energy and utilities were the best relative performers. Of course, the term “relative” in this case means “less negative” as all sectors were down for the quarter. Energy and utilities were the best relative performers as investors continued to hold commodities and defensive sectors. The bottom two sectors highlight the weakness in technology and health care. It is important to note that health care in Canada is largely concentrated in cannabis companies. Pressure on consumer spending and lofty valuations for this sector are what’s holding it down.

S&P TSX Sector Snapshot	06/30/2022
Sector	% Change
10 Energy	-1.94
55 Utilities	-3.49
30 Consumer Staples	-6.15
50 Communication Services	-8.77
25 Consumer Discretionary	-10.19
20 Industrials	-12.72
40 Financials	-13.11
60 Real Estate	-17.80
15 Materials	-23.62
45 Information Technology	-30.74
35 Health Care	-49.64
Source: FactSet	

S&P 500 Sector Snapshot	06/30/2022
Sector	% Change
30 Consumer Staples	-4.62
55 Utilities	-5.09
10 Energy	-5.17
35 Health Care	-5.91
60 Real Estate	-14.72
20 Industrials	-14.78
15 Materials	-15.90
40 Financials	-17.50
45 Information Technology	-20.24
50 Communication Services	-20.71
25 Consumer Discretionary	-26.16
Source: FactSet	

In the U.S., defensive sectors such as consumer staples and utilities had the best relative performance. Once again, this is a rotation to safety in anticipation of a weakening macroeconomic backdrop. Of course, things rarely turn out to be so predicable, so we should be looking for bargains in the bottom three sectors. For the U.S., an investigation of technology, communications, and consumer discretionary companies should be conducted.

Your Portfolio

Generally speaking, portfolio activity was light for the quarter as we digested the current volatility and maintained our investment composure. There was a couple of model adjustments noted below.

Portfolio	Sells	Buys
Canadian Dividend Growth	• Trimmed Brookfield Asset Management Inc. (BAM.A) by 3%. • Trimmed Nutrien (NTR) by 1.2%. • Trimmed WSP Global Inc. (WSP) by 1%.	• Added to Wheaton Precious Metals (WPM) by 1.4%. • Added to Canadian Apartment Properties REIT (CAR.UN) by 1.2%.
U.S. Core Growth	• Sell Equinix, Inc. (EQIX). • Sell Synchrony Financial (SYF). • Trimmed Broadcom Inc. (AVGO) by 2%. • Trimmed Microsoft (MSFT) by 2%. • Trimmed NXP Semiconductors NV (NXPI) by 3%.	• Buy STERIS Plc (STE) with a 3% weighting.

Trade Rationale

- In our Canadian dividend model, we reallocated gains made in BAM.A, NTR, and WSP into the more defensive sectors of precious metals and real estate. While we feel constructive on the longer-term prospects of more pro-cyclical sectors, we believe some targeted repositioning makes sense in the current investment climate.

- In our U.S. growth model, we sold out of a consumer credit name (SYF) and reduced our exposure to technology-related names such as EQIX, AVGO, MSFT, and NXPI. We added to a new position, STERIS (STE), which provides infection prevention and sterilization equipment. While the shift to a health care name may be seen as defensive in the short run, STE has strong, historical EPS and margin growth. So, in essence, it is a defensive growth name.

Market Movers

Canada		US	
Leaders	**Laggards**	**Leaders**	**Laggards**
Cenovus Energy Inc. (CVE) +16.00%	Bausch Health Companies Inc. (BHC) -62.66%	Lamb Weston Holdings Inc. (LW) +17.22%	Royal Caribbean Group (RCL) -58.27%
Suncor Energy Inc. (SU) +11.11%	Shopify Inc. (SHOP) -53.54%	Monster Beverage Corp. (MNST) +12.84%	Carnival Corp (CCL) -56.85%
CCL Industries Ltd. (CCL.B) +8.02%	First Quantum Minerals Ltd. (FM) -45.02%	Eli Lilly and Co. (LLY) +11.16%	Netflix Inc. (NFLX) -53.18%

Source: YCharts

Final Thoughts

The first half of 2022 has tested the resolve of investors. There have been very little safe havens over the past six months to park capital with the expectation of decent returns. But that is precisely the point: investing is all about the long term. To paraphrase a recent piece by our investment strategy team, there are six things to ensure future success while investing:

- Stay Invested.
- Ignore the market noise.
- Stay rational.
- Don't let your emotions control you.
- Volatility is normal and expected.
- Diversification + Asset Allocation = Risk Management.

We understand that opening up a negative statement is never an enjoyable task, but we are confident that this market decline, however painful, will be temporary and lead to future gains. Markets, like people, run out of energy and need to rebuild their momentum in a constructive fashion. We see this occurrence as another example of this inevitable process playing out in real time.

Many Happy Returns,

Patrick