Portfolio Management Commentary

Quarter Ending December 31st, 2020

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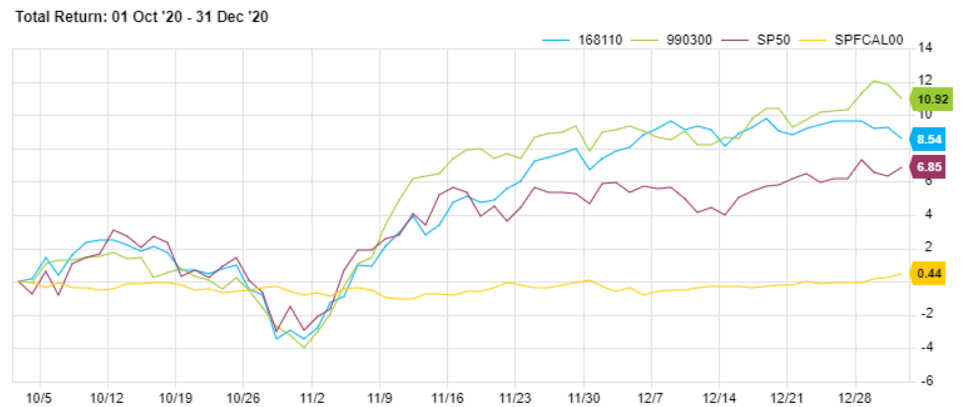
Inside This Issue

If you cannot do great things, do small things in a great way.
– Napoleon Hill

Well, to say that the year ending with a "bang", is yet another understatement for a year bursting with all the plot twists and pyrotechnica of a Harry Potter novel. Since our last discussion, we have witnessed a new president elected in the United States, the introduction of multiple COVID vaccines, and a renewed vigour to discuss inflation. As I am fond of saying, "strength begets strength". This was certainly the case in Q4 as strong equity returns continued for all of the major markets into year-end. The impetus was undoubtedly the positive prospects of change in the US, renewed optimism in the flight against COVID, and investor alignment with seasonal tendencies. Not a bad trifecta!

Situated below is the Q4 tally of major markets in Canadian dollars. International markets were the clear winner this quarter with an impressive double digit return. Canadian stocks were the next highest, followed by the US, and finally Canadian bonds. Based on our analysis, the lower return for bonds is consistent with a risk-on attitude which bids up the prices of riskier assets more than the ones perceived safe. Furthermore, the academic debate of increasing inflation may be supressing the demand for fixed income assets, like bonds, in anticipation of higher, future yields. Once again, this quarter rewarded those with capital in equities.

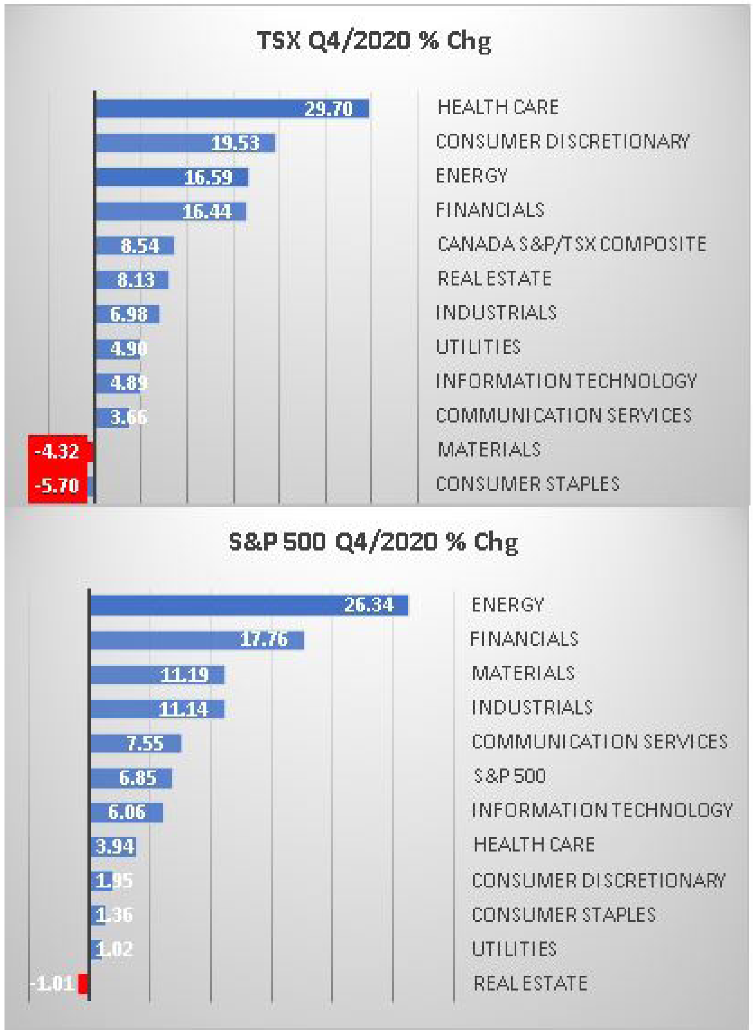


Comparable Returns

	Price Change (%)		Total Return (%)	
	Cum	Ann (CGR)	Cum	Ann (CGR)
S&P 500	6.42	28.36	6.85	30.44
Canada S&P/TSX Composite	7.72	34.73	8.54	38.94
MSCI EAFE	10.62	49.93	10.92	51.54
S&P Canada All Bond Index (CAD)	-0.20	-0.80	0.44	1.76

Further investigation, at the sector level, shows us where the strength in the Canadian and US markets is concentrated. In Canada, the top two sectors were health care and energy, while materials and consumer staples rounded out the bottom. In US, energy and financials were the strongest sectors, while utilities and real estate were the laggards.

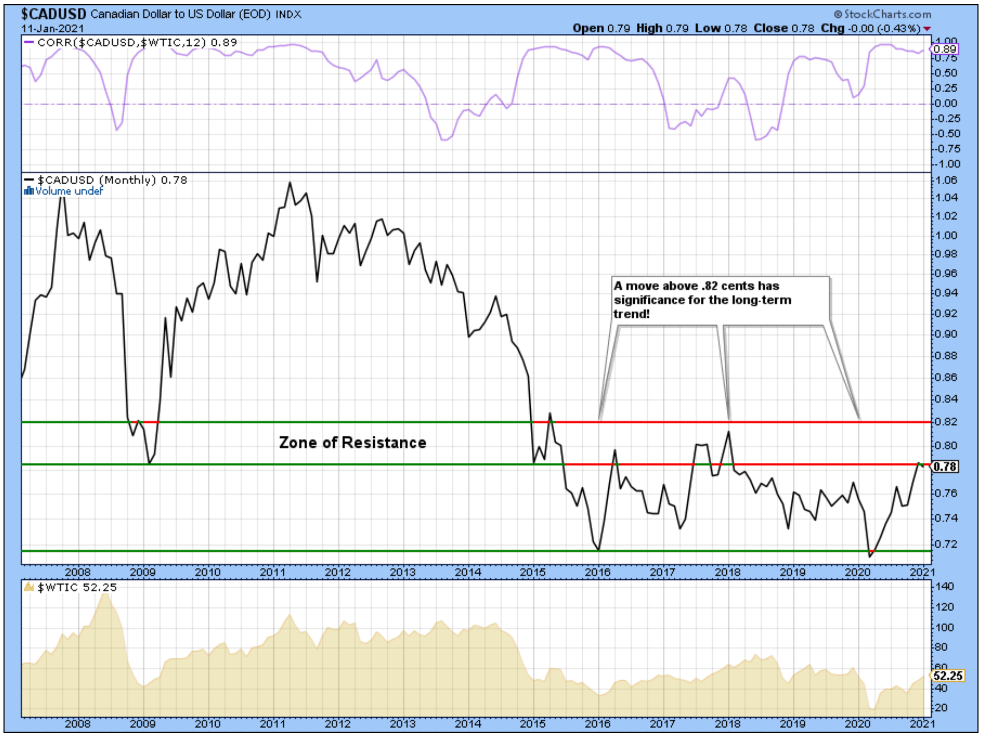
Q4 Total Return for Major Markets (in CAD)



Custom Performance in Canadian Dollar Grouped by GICS Sector & GICS Industry
Source: FactSet

Sector performance for Q4 rotated into industries where inflation-sensitivity was most profound. For example, higher costs support energy names and higher rates are profitable for financials. On the flipside, utilities and real estate suffer in a higher rate environment as they tend to act in sympathy to longer duration securities such as 20 year+ Government debt. Health care's performance in Canada was driven by the marijuana industry and the thesis that a Biden presidency may pave the way for cannabis legalization in the US. Materials and consumer staples declined in Canada as the "risk-trade" resurfaced in early November and capital was reallocated.

In our mind, one of the big stories for 2020 for Canadian investors was the strength of the CAD since the lows in late March. The CAD strengthened over 14% into year end from March 23rd. For those of you keeping score, the last time this occurred was in 2018. In our opinion, the following chart says it all:



- There is a large zone of resistance for the CAD between (0.78-0.82). If it moves above this zone then there is a strong argument for a new secular trend.
- The CAD is highly correlated to moves in crude oil. The purple line shows this relationship quite graphically.
- Crude oil, as depicted in the gold mountain chart, has moved above resistance at $50 USD and is pushing higher. The next hurdle occurs at $65 USD.
- Higher crude oil, and a higher CAD, is supportive of an uptick in inflation as commodities and commodity-sensitive currencies move in sympathy with higher physical costs.

So, the ultimate takeaway here is to be mindful of the impact of currency exchange on investment returns. Further strength in the CAD would justify additional hedging of foreign assets. We will be monitoring this development closely.

Your Portfolio

Our annual rebalancing occurred on November 2nd this year. This is important for a few reasons. We wanted to reduce cash in anticipation of a vaccine announcement and in advance of the US presidential election results. We saw these two events as a positive catalyst for continued stock market performance. Additionally, we recognized the favourable seasonal period for equity performance starting in the late fall. Fortunately, we were rewarded on both accounts.

Due to the volume of trading to align all models to their appropriate weights and positions, we will highlight a few of the security changes only.

Portfolio	Sells	Buys
Canadian Focused Equity	• Sold out of Loblaws (L).	• Bought North west Co Inc. (NWC) with a 5% weighting
US Core Growth	• Sold out of Energy Select Sector SPDR ETF (XLE).	• Bought Vanguard Energy ETF (VDE) with a 5% weighting. • Bought Keysight Technologies Inc (KEYS) with a 4% weighting.
Balanced Income and Growth, Balanced Income and Growth ETF	• Sold out of BMO Aggregate Bond ETF (ZAG).	• Bought Mackenzie Core Plus Cnd Fxd Income ETF (MKB) with a 20% weighting.
Enhanced Income	• Sold out of BMO Aggregate Bond ETF (ZAG).	• Bought Mackenzie Core Plus Cnd Fxd Income ETF (MKB) with a 20% weighting.
Disciplined Growth	• Sell iShares Gold Bullion ETF (CGL).	• Bought iShares S&P/TSX Global Gold ETF (XGD) with a 5% weighting. • Bought Village Farms International Inc. (VFF) with a 3% weighting.
Disciplined Growth ETF	• Sell iShares Gold Bullion ETF (CGL).	• Bought iShares S&P/TSX Global Gold ETF (XGD) with a 5% weighting. • Bought Horizons Marijuana Life Sciences ETF (HMMJ) with a 3% weighting.

Trade Rationale

- Loblaws (L) was sold and North West Co Inc. (NWC) was purchased to enhance the dividend yield and to reposition capital to a more growth-focused name in the consumer staples sector in Canada.
- The move from XLE to VDE was a purposeful tax-loss sale in the US Core Growth portfolio. It allowed us to harvest a capital loss in a year of excellent returns.
- Keysight Technologies Inc. (KEYS) was added to gain exposure to the compelling investment theme of 5G. This was done to align with the Raymond James US model portfolio current holdings.
- The switch of BMO aggregate bond ETF (ZAG) to Mackenzie Core Plus Cnd Fxd Income (MKB) was done for two reasons. First, a more active approach to fixed income investing is warranted given declining yields. Second, the yield profile of MKB is higher than ZAG given its larger exposure to high-quality Canadian corporate debt.
- We also switched out of gold bullion (CGL) and into gold equities (XGD) to gain leveraged exposure to an increase in gold prices. If inflation rises, then this change will provide better return upside in the future.
- The final change was the addition of cannabis related securities (VFF, and HMMJ) to the Disciplined Growth models. The financial prospects for this industry are improving on a daily basis as discussions of global legalization gain momentum and derivative products are endorsed by the scientific community.

Market Movers

Leaders	Laggards
Village Farms International (VFF) +115.19%	Salesforce.com, Inc. -15.90%
Canadian Natural Resources LTD. (CNQ) +50.43%	Franco-Nevada Corporation (FNV) -14.75%
Horizons Marijuana Life Sciences ETF (HMMJ) +39.02	iShares S&P/TSX Global Gold ETF (XGD) -13.86%

Final Thoughts

As we leave the year 2020 behind, I think we may all be uttering a sigh of relief. This was definitely a year of firsts, and one which will undoubtedly go down in the history books as a definition of the word "volatility". We saw asset prices plunge into bear territory only to quickly reverse afterwards to record highs. If this isn't volatility then I'm not sure what is. As we work through 2021, we wish to leave you with the idea that we need to "temper" our expectations for return this year. Given the meteoric rise in risk-asset prices, lofty business valuations in the US, and the anticipation of a pre-COVID recovery, we believe a period of consolidation is warranted. This does not mean we are not hunting for both value and growth opportunities in which to best place our capital. Much like buses, investment ideas always come along!

Regards,
Patrick