Portfolio Management Commentary

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Inside This Issue

It's times like these you learn to live again
It's times like these you give and give again
It's times like these you learn to love again
It's times like these time and time again

--Foo Fighters

Well, that quarter was painful. The S&P 500 logged its worst quarter in 30 years, and the TSX wasn't far behind, matching declines not seen since the 2008-2009 credit crisis. Clearly, a lot has changed since the spread of the coronavirus, officially known as COVID-19. Add to this, a precipitous plunge in oil, and we are in a global bear market. As you know, we have been ramping up our efforts in keeping you informed on the financial impacts of the virus, the government resources available to you as businesses and individuals, and any areas of thought-leadership that look to clarify misunderstandings. The feedback we have received has been excellent. We thank you for your candor, understanding, and iron resolve in sticking to your long-term financial plans. We know implicitly that the current issues plaguing humanity will be overcome. You cannot study history and develop a plausible alternative. Let's face it, humans know how to survive and flourish in the most inhospitable situations. The lyric above is a great expression of that very idea. Instead of dizzying you with a series of charts this issue, we thought we would provide some realistic bullet points to keep the discussion fresh and digestible:

- **We are in a correction.** What this means is that prices have fallen from their most recent highs. Does that mean we need to "panic"? No, of course not. We have commented on multiple occasions that equity markets correct, on average, 25% of the time and that this drop is roughly 25%. This is one of those times. The term many are using is a bear market. All this means is that the correction has been greater than 20%. Please do yourself a favour and do not listen to the pundits of Wall and Bay Street. There are too many opinions out there with far too little intelligence attached to them.

- **The truth lies between the extremes.** There is no shortage of commentary and analysis on the coronavirus. Clearly, these facts and figures are being updated on a daily basis as new information is available. Be careful not to get caught up in the raw data. What everyone is looking for is an improvement in the numbers and not just absolute figures. The collective will of the globe is focused on monetary, fiscal, and medical support to reduce the impact of the virus. And while this may be painful in the short-term, it has had an impact. As Dr. Fauci expressed there are "some glimmers of hope". [1]

[1] *https://www.realclearpolitics.com/video/2020/04/09/dr_fauci_virus_death_toll_may_be_more_like_60000_than_100000_to_200000.html*

- **Focus on the positive.** Besides limiting our social interaction to restrict the unwanted spread of the virus, I think it is important to focus on positive outcomes. Social isolation gives us an opportunity to reflect on our lives. For example, many are reconnecting with the outdoors, their fitness goals, and the importance of health. I believe this is also a time for us to determine our level of financial resilience. It saddens us to read of so many financial hardships that could have been prevented by a little financial planning such as an emergency account.

- **This too shall pass.** In our 25 years of investment management and financial planning we have seen a lot. This crisis is only unique in terms of its expression. It will come and go and people will say that life will never be the same. Strangely, we have heard these words before. Shortly after 9/11, there were strong predictions that commercial flights would be grounded indefinitely and that there would no longer be explosions in movies. Clearly, this did not happen. We wish we knew when this would end. That's really the 64 trillion-dollar question here. What we do know is that human ingenuity and resolve will overcome this crisis and we will become stronger because of it.

Your Portfolio

Trading activity was reasonably light for the quarter given the extreme intraday volatility. As portfolio managers, we are mindful of transacting securities only when fair-value is available. There were days when bid/ask spreads were unacceptable and so we chose to wait until a more profitable time. With that being stated, below is a summary of our activity:

Portfolio	Sells	Buys
Balanced Income & Growth	• Sold out of entire Horizons active ultra-short ETF (HFR) position of 5%. • Trimmed BMO low volatility US equity (ZLU) back to initial weight of 5%.	• Added partial position in CI First Asset Tech CC ETF (TXF) to bring up portfolio weighting to 5%. • Added partial position in Valero (VLO) to bring up portfolio weighting to 2%.
Enhanced Income	• Sold out of entire Horizons active ultra-short ETF (HFR) position of 5%.	
Disciplined Growth	• Trimmed BMO low volatility US equity (ZLU) back to initial weight of 7.5%.	• Added partial position in CI First Asset Tech CC ETF (TXF) to bring up portfolio weighting to 5%.

Trade Rationale

- We sold our full position of Horizons active ultra-short ETF (HFR) because it was largely corporate debt and we anticipated there might be some mispricing due to spread expansion. Cash made more sense to allow for an opportunity for future purchases.

- We were under-weight our technology allocations (TXF) in the first quarter, so strategic buys occurred during price declines. Clearly, this proved to be premature given further declines in all sectors. We look to add further given technology's relative outperformance vs other sectors and general markets.

- We brought our position in Valero (VLO) to portfolio weight on subsequent price declines. This is an active dividend payer in the US with strong underlying fundamentals. This represents a small position in the US Oil and Gas Refining and Marketing industry. We recognize that there are near-term challenges in this space, but the valuations are very compelling.

- We trimmed our BMO low volatility US equity position (ZLU) to portfolio weight on relative strength and daily rallies. We did this to rebalance back to the set allocation and to add cash for future purchases.

Market Movers

Leaders	Laggards
Fortis (FTS) +1.55%	Canadian Natural Resources (CNQ) -52.43%
Qwest Productivity Media Income Trust (QWE811) +1.08%*	Valero Energy Corp (VLO) -51.00%
Emera (EMA) +0.50%	Parkland Fuel Corp (PKI) -47.55%

**until February 29, 2020.*

Final Thoughts

The numbers above illustrate just how difficult the first quarter of 2020 was on energy stocks and sympathetic industries such as gas stations (PKI) and refineries (VLO). Fortunately, we have a small direct weighting in the portfolios of 4-6 % and they have improved measurably in the past two weeks. Defensive sectors such as utilities (FTS and EMA), managed to eek out positive returns for the quarter. This makes sense as risk-adverse investors seek yield and bond-like characteristics. Qwest Productivity Media Income Trust (QWE811) is a private debt fund which is backed by government grants and historical low NAV volatility.

We would be remiss if we didn't thank you for your understanding and cooperation during the past couple of months. To a person, you have been a pleasure to serve and communicate with. If this correction is different, it is only because of our collective experience with dealing with crisis, loss, and hardship. You deserve the credit for this. We know that times like these will improve again and we look forward to being by your side.

Regards,

Patrick