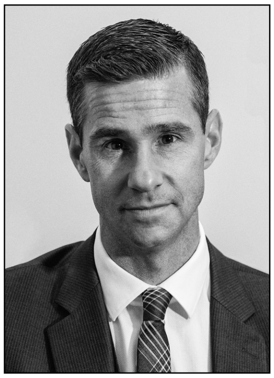
Portfolio Management Commentary

Quarter Ending June 30, 2018



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Inside This Issue

The second quarter of 2018 rewarded investors for their patience and perseverance. The headlines were dominated by trade rhetoric, interest rate increases, valuation concerns, and a general feeling of malaise. However, this negative sentiment abruptly changed as the reality of a strong US earnings season persuaded market participants to bid up stocks again. The technicals were also on our side. Both the Canadian and US markets rallied off their April lows to post strong gains for the quarter. An interesting development is the relative outperformance of Canada over the US since mid-March. As illustrated below, the advance in crude oil is a likely culprit. If this is the beginning of a change in market leadership, then it would end a six-year dominance by the S&P 500.

Of course, only time will tell, but I am of the opinion that the US still has room to run on the upside. It is with this in mind that I wish to highlight one of our most profitable US positions in the balanced and growth mandates.

TXF-First Asset Tech Giants Covered Call ETF (CAD Hedged)

Yes, it is a mouthful, but it's been a great performer and provides us valuable exposure to innovative technology names unavailable in Canada. As per the fund factsheet:

> *This ETF provides differentiated exposure to some of the largest, most innovative technology companies by minimizing volatility and generating attractive income through an actively managed covered call writing strategy. The largest 25 issuers, measured by market capitalization, listed on the NYSE or Nasdaq are chosen for inclusion in the ETF on an equally weighted basis and are rebalanced quarterly. Distributions are paid quarterly and no more than 25% of the portfolio's securities will have call options written upon them at any given time.*
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> Source: First Asset

This investment is an ETF (exchange traded fund) which is bought and sold in Canada and hedged back to Canadian dollars. Therefore, this position does not incur currency risk, unlike a stock purchased in USDs and held in a Canadian account. It also produces an income stream through the covered call option writing strategy of the manager. So, we get exposure to the technology sector while receiving income for our efforts. Not a bad idea. In fact, it helps to mitigate the volatility of underlying stocks. Here is a list of the top ten holdings. As you can see, most are familiar, or even household names.

TOP 10 HOLDINGS (%)

INTUIT INC	4.57
VMWARE INC	4.43
INTEL CORP	4.40
ADOBE SYSTEMS INC	4.41
MICRON TECHNOLOGY INC	4.26
MICROSOFT CORP	4.22
APPLE INC	4.14
TEXAS INSTRUMENTS INC	4.12
FACEBOOK INC	4.12
SALESFORCE.COM INC	4.11

Source: First Asset

The performance of TXF has been outstanding because US technology companies have been rallying for quite some time. Assuming that the US trade disputes with China come to an amicable end, then we should see continued strength in the sector.

Your Portfolio

Transactions for the quarter were at a minimum. We trimmed our position in FB (Facebook) late in April and I shared the trade rationale at that time. Of course, in sympathy to Murphy's Law, our holding in the social media stock continued to rally as the backdrop for technology stocks improved during earning's season. An area to note, however, was our level of dividend income. As many of you know, I am fond of saying, "cash is a fact while earnings can be a fiction". In other words, we should applaud any investment that provides us with a healthy income stream unless management can produce a better return through reinvestment in the company's operations. I stress the term "healthy" because we are not interested in companies who cannot sustain their dividend payouts through operating cashflows. This is an analysis I conduct behind-the-scenes on your behalf.

Final Thoughts

Given the "Goldilocks" environment for equity investing, I foresee an increase in activity in the portfolios for the 3rd quarter. Clearly, our decisions to either acquire or remove names will be based on the combination of fundamental, technical, and quantitative attributes. I am mindful that we are one month into the seasonally weak season for global equities, but this time period can be used to upgrade the quality of the portfolio versus standing aside. I will look for opportunities to do just that with an eye towards the risk taken. Once again, I thank you for your dedication and discipline. Investing is a rewarding journey for those of us who know that time is on our side.