FROM THE DESK OF

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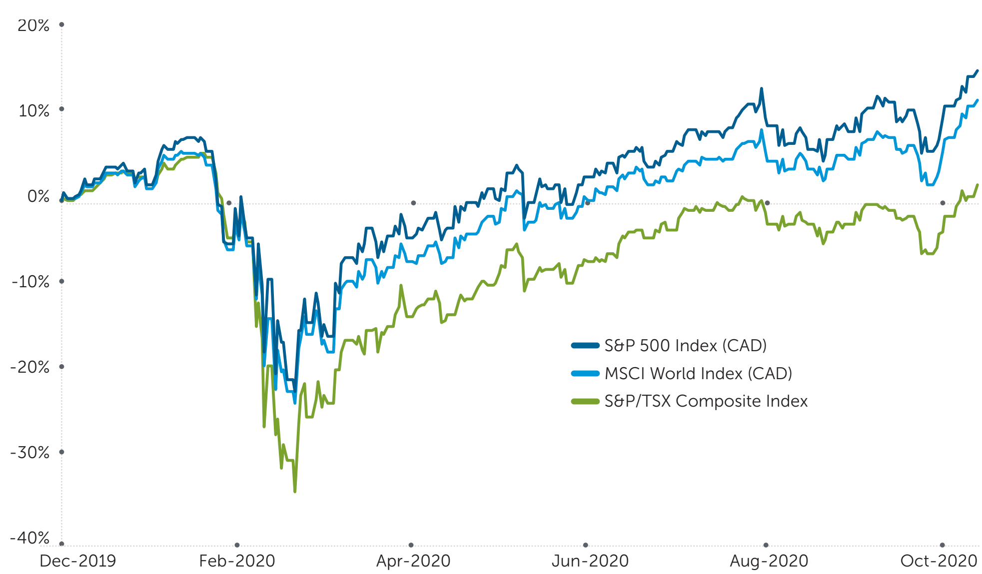
2020: A YEAR THAT WILL LIVE IN INFAMY

November 16, 2020

December 7, 1941 — "a date that will live in infamy" is how U.S. president Franklin D. Roosevelt described the day the Empire of Japan unleashed a surprise attack on the U.S. naval base at Pearl Harbor. While a very different scenario today, if any year can be described as "a year that will live in infamy", perhaps 2020 is it. What started off as a health concern on the other side of the globe quickly turned into a global pandemic that consumed and shaped the way we live on a daily basis. The phrases "social distancing", "masking", "working from home", "flattening the curve", and "second wave" are now part of our daily lexicon.

At the time of writing, global stock markets do not seem to reflect that we still remain in a pandemic. Daily COVID-19 case counts continue to climb into record territory in multiple countries including Canada and the United States. On a year to date (YTD) basis (as at November 16, 2020), the S&P 500 Index has gained 15%, the MSCI World Index 12% (both in Canadian dollar terms), and the S&P/TSX Composite Index 2%. The journey to this point, however, has not been smooth as shown in the following chart. Does anyone remember that back in March (March 23 to be exact) those same indices were DOWN on a YTD basis 22%, 23%, and 34%, respectively? Unprecedented government and central bank stimulus was required to pull markets out from those depths.

Year to date performance



Source: Morningstar Direct, December 31, 2019 - November 16, 2020

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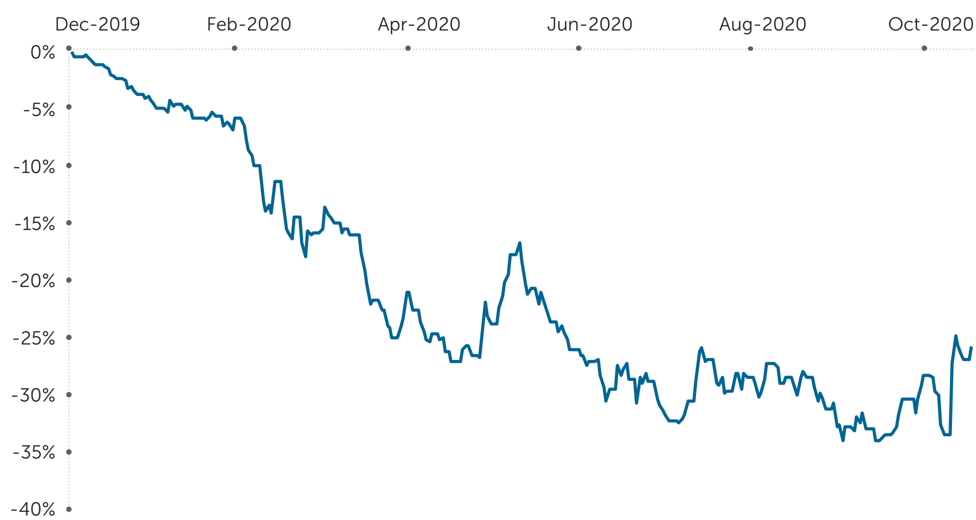
The recovery, however, largely came in the form of a bifurcated market. This means certain parts of the market performed quite well and others not so well. For the S&P/TSX Composite Index, a significant portion of the positive performance contributions came from a handful of stocks. By far the top contributor to the index's performance was Shopify, contributing about 3% of performance due to the stock's YTD performance of 133%. That means if Shopify's performance contribution was excluded, the index would have been down 1% instead of its 2% gain. Other top contributors were gold mining companies which made up 4 of the 10 top contributors to the index's performance. On the other hand there were many companies in the Financials, Industrials, and REITs sectors that were significant detractors to performance; some of them very high quality companies that we own in our portfolios.

From an investment style point of view, and as you may have determined from my previous comments, growth handily outperformed value stocks. The following chart shows the relative performance of value to growth in Canada — value outperforms as the line trends higher and underperforms as the line trends lower. At its lowest point, value underperformed by about 37%.

Value – Growth
(MSCI Canada Indices)



Source: Morningstar Direct, December 31 2019 - November 16, 2020

A similar story held true in the U.S. where a handful of large cap technology related companies contributed a large part to the overall S&P 500's YTD performance.

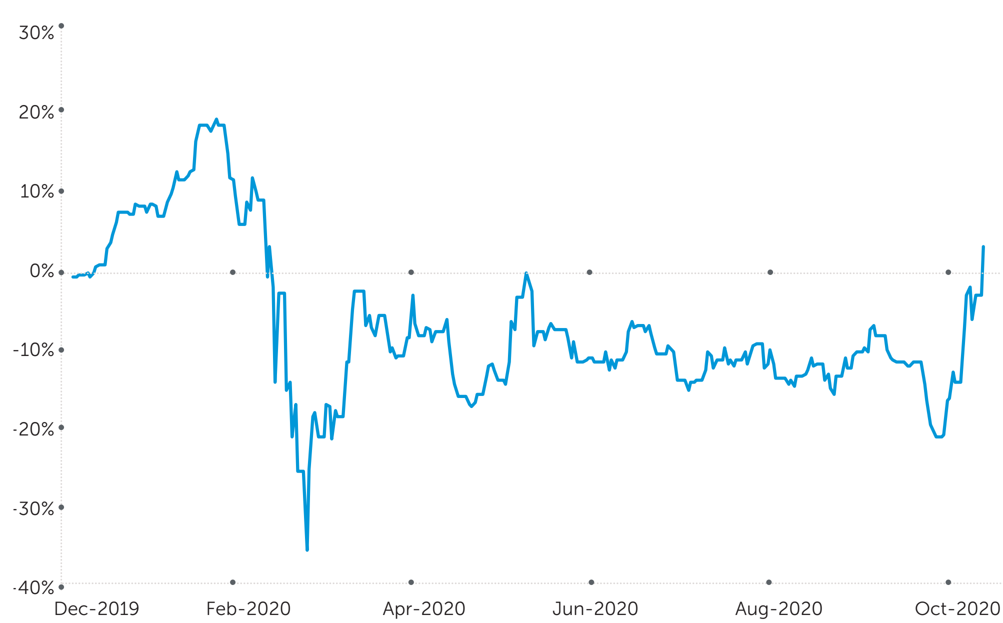
As value-oriented managers with a focus on quality, I felt it important to communicate our team's strategy in such an unprecedented environment. First, we have taken profits in some companies bought early in the year. Some of those companies were up between fifty and one hundred percent when sold. Second, our focus at the moment is to find well managed, high-quality companies with good long term supporting factors, trading at attractive valuations, and have essentially been left behind during the stock market recovery. We believe these companies present a source of good returns over the next two to three years. Lastly, we consider what might be the solution for economies to open up. In our minds it's a combination of an effective vaccine and rapid testing. We don't know when they will become widely available, but when they do, we have to determine where the sources of pent-up demand are, and which companies and parts of the economy will benefit from this.

We may have recently seen a preview of what may unfold. On November 9, Pfizer announced their COVID-19 vaccine has an efficacy rate over 90% (which is great) with no reported serious safety concerns during phase 3 clinical trials. And just this morning, Moderna released very similar results for their vaccine. Not only did the market react very positively following these announcements, but more importantly for us, value stocks significantly outperformed growth stocks (and can be seen at the tail end of of the previous chart).

Whether this trend continues in the near term is difficult to say, however, we do believe that the stocks making up our portfolios present very attractive value opportunities over the next two to three years. An example is Brookfield Asset Management (BAM), which is a meaningful position held across many of our Canadian oriented portfolios. In our view, BAM is a very high quality Canadian company with a world-class pedigree, an excellent management team, and a long history of infrastructure investing in tier-1 properties. We also believe that its stock was overly punished at the start of the pandemic and was largely ignored over most of the market recovery until very recently, and as shown in the following chart.

Year to date performance

Brookfield Asset Management (BAM)



Source: Morningstar Direct, December 31 2019 - November 16, 2020

Again, BAM is just one example of the many high quality companies in our portfolio that make the portfolio management team very optimistic for the future.

Thank you for your continued support.

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