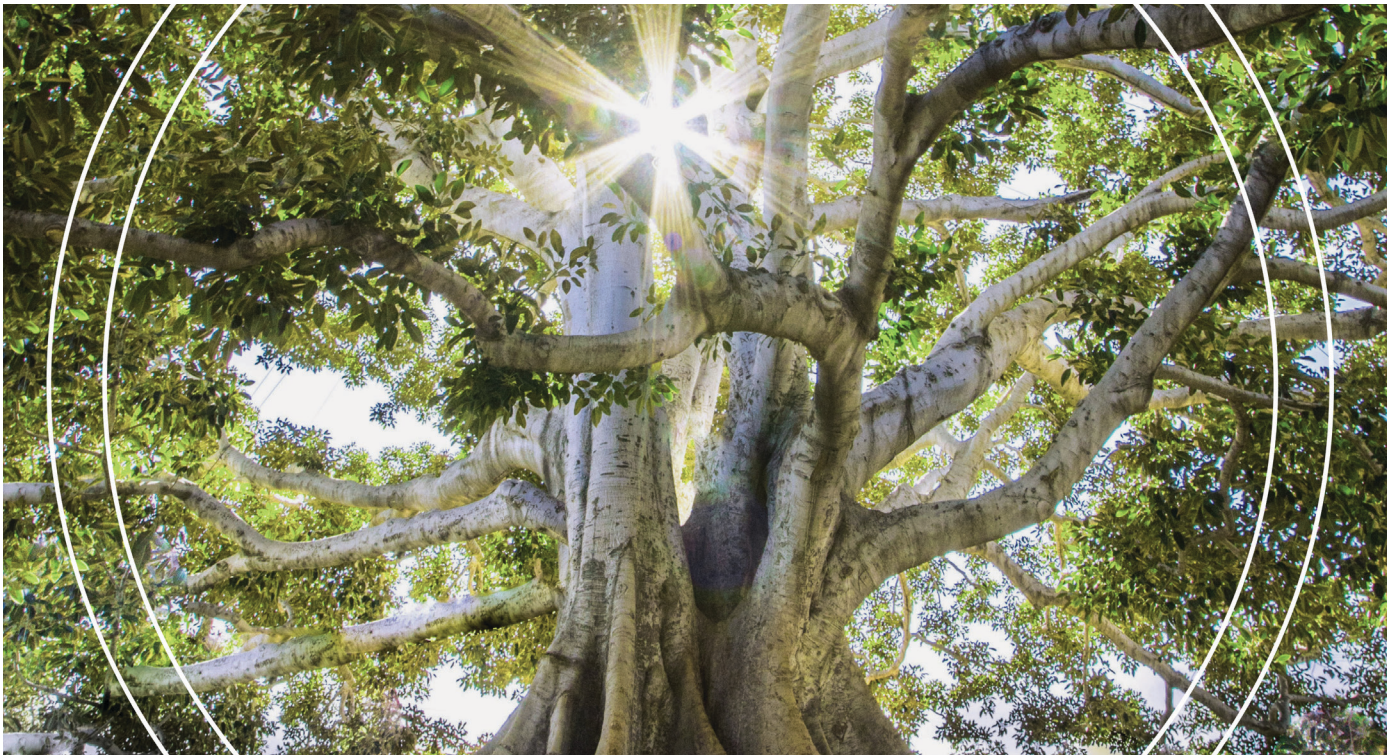


RBC Dominion Securities Inc.

Grace Wang Portfolio Management Practice of RBC Dominion Securities

Investment Journals



Wealth Management
Dominion Securities



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Preface

In a disorderly market environment that is often fraught with ambiguity, we took it upon ourselves to offer some perspective. By publishing our own investment journals, we aim to empower investors with the knowledge and facts needed to become educated and informed, so they too can gain a better grasp of the pertinent factors driving the investment markets. Our intention is to be fact-based and data-driven, combining both the art and science of investment decision-making.

A secondary objective of our repository of journals is to keep a track record of our decisions, inclusive of all the times we were agile and adaptable, as well as the times where we refined our investment process to better reflect the governing principles of decision-making. In this regard, as “wealth practitioners,” we are advancing in our craft and evolving our investment process. This attitude of “progress over perfection” is reflected in all we do, including our investment process development, our portfolio construction, our evaluation of securities for inclusion and human capital practices.

Finally, in managing through the past lifecycles of numerous market anomalies, we can use past analogs for future decision-making. Indeed, as Mark Twain once remarked, “History never repeats itself, but it often rhymes.” In tracking all the mindset shifts required from cycle to cycle, we can gain interpretational insights over navigating future cycles. Therefore, we believe that being a

skilled “wealth practitioner” involves cultivating a process-oriented, learning-based mindset, one that involves continuous development, perceptiveness, and discernment. This is the mastery that we strive to accomplish for investors each day.

The investment journals contained herein span from November 2018 to December 2024, and within each of the 46 chapters, you will find content including the building blocks of our investment process, stewardship practices, and how we steered paradigm changes, event risks, and portfolio strategy in times of uncertainty. We divide our journals by year, outlining some of the key annual themes and what our prevailing thinking was at the time. We are strong believers that the sum of our efforts is greater than its individual parts, and that our continued focus on being inquisitive investors, leaders and enablers will create long-lasting, multi-generational wealth for our investors. The introduction of our team and our process are on the following pages.

A focus on creating value through stewardship, collaboration, investment due diligence, best practices, and continuous refinement remain the hallmarks of our practice. We look forward to sharing our insights with readers. Finally, we are grateful for clients' trust in our stewardship practices and for entrusting our people, processes, and philosophy to create long-term sustainable wealth. Your trust is the most valuable currency.

Who we are



Grace Wang

Senior Portfolio Manager

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As senior portfolio manager with decades of wealth management experience, Grace leads the Grace Wang Portfolio Management Practice. By applying her vision for growth and secular trends, and her broad knowledge of the capital markets, she has developed a track record that brings her clients financial security and peace of mind. She achieves and exceeds client objectives through a holistic yet simplified mindset that involves continuous client education, educated and informed decision making, and thoughtful family financial planning. Over the years, she has established long and trusted relationships with clients, spanning entrepreneurial families to those with multigenerational wealth planning needs, private enterprises, non-profits, and foundations. Her highly attuned, discerning, and forward-thinking approach is evident in everything she does, and she finds great fulfillment in helping her clients live their comfortable lives. Grace is an avid reader and a practitioner of the “1% rule”: that a 1% improvement every day will lead to a 37x improvement over the course of a year—a large gain!



Samuel Jang, CFA

Investment Associate

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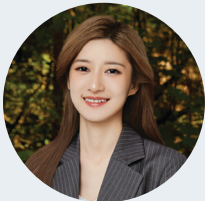
Sam joined the financial services industry in 2009, and in 2011, started as a fund manager for the BC Public Service where he successfully managed investment portfolios totalling \$6B in assets under management. These mandates spanned a diverse spectrum of investment portfolios, including US S&P 500 large cap, US small cap/ESG, and quantitative Canadian equity. What Sam enjoys most about his role is leveraging his knowledge and perspectives to make informed investment decisions in a collaborative, growth-oriented culture. Sam is responsible for the research and diligence into existing holdings, new idea generation, as well as the portfolio strategy that underlies clients’ portfolio construction.

**Leslie Mah**

Associate Advisor

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After completing her Bachelor of Science degree in Biology at UBC, Leslie started her financial services career at RBC in 2008 on the bank side, working her way up to head teller and gaining invaluable problem-solving and client service skills before joining Grace's team in 2017. Leslie now manages the day-to-day operations of our portfolio management practice, working alongside our team to execute trades and collaborate with our RBC partners to develop holistic wealth plans for clients. Clients appreciate Leslie for her diligence, thoughtful follow-up, and thorough knowledge of wealth management processes.

**Jialing (Katherine) Yang**

Associate

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Katherine started her career at RBC in 2021 and joined our team in 2024. She completed her Bachelor of Business Administration degree in accounting and finance at Simon Fraser University, and broadened her horizons through an exchange program in which she studied international finance at the University of Manchester. She excels in providing exceptional client service and has the ability to forge strong relationships with those she serves. Katherine is fluent in English, Mandarin, and Cantonese and adeptly connects with clients from diverse backgrounds.

**Steven Bos**

Administrative Assistant

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Steven joined RBC Dominion Securities in 2025 with a strong commitment to supporting clients, helping them achieve their goals, and contributing to our team's success. Originally from the Netherlands, raised in France, and now living his dream of being in Canada, Steven earned his Bachelor of Commerce in management from Concordia University's John Molson School of Business. Fluent in six languages—English, French, Spanish, Dutch, German, and Italian—he has a natural ability to connect with people and build meaningful relationships across cultures.

What we do

At Grace Wang Portfolio Management Practice, our investment process revolves around the building blocks of wealth creation and is centred on seeking unique investment opportunities for those whose wealth we manage. To do so, our team leverages decades of industry experience to implement our own proprietary research and selection strategies, thoughtfully evaluating the fundamental characteristics of select businesses to determine their growth potential.



Investment philosophy



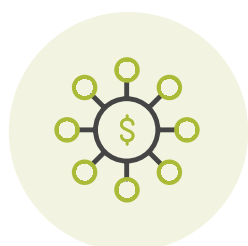
Business longevity

We seek out industry-leading companies with unique and superior advantages that result in long-lived, recurring profitability. We favour owner-operator enterprises, as they're an excellent store of value and, given enough time, will compound growth significantly.



Enduring business models and management

We take a detail-oriented approach to studying companies' business models and their management teams, carefully selecting those time-tested businesses that exhibit prolonged and exceptional growth characteristics backed by stable yet adaptable business models.



Strong capital allocation

The best businesses in the world reinvest their hard-earned capital in future growth opportunities that have a large addressable market. We look for those that also prudently seek opportunities to return wealth to shareholders when the investment climate is appropriate.



Margin of safety

Our unique investment perspectives are formed when our team has differing opinions than mainstream investors about the future direction, growth, and longevity of a business. We aim to capitalize on these contrarian perspectives by purchasing securities when the market price is below their true value.



Multifaceted approach

We strive to create balanced and holistic portfolios that account for the variety of ways businesses generate returns. Some companies act as return stabilizers, some produce sizeable dividends and income, some are simply undervalued, and a select few are innovators in their industry.



November 2018 to December 2019

The period of November 2018 to December 2019 marked a turbulent time in the market, mired by tariff wars that caused the US Federal Reserve to pivot from restrictive to accommodative policy.

We began the inaugural installments of our investment journal with a view of educating and informing clients on the key building blocks of our investment process – mainly, that we seek companies with longevity, sustainability and profitability characteristics that can last at least a full market cycle. We wrote our first 11 chapters with a view of exploring each of these topics and providing examples as to how we apply each one in our investment decision-making.

By the end of 2019, the S&P500 had returned nearly 20%, reinforcing our views that markets were climbing a wall of worry and that long-lived secular growth characteristics are long-term outperformers. Indeed, as John Templeton once remarked about the lifecycle of the market, “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” There was hardly any euphoria in the air!



Chapter 1:

Capital allocation

November 30, 2018

Each month, we will cover an investment topic that is relevant to the way we look at companies. Our hope is that these fundamental drivers of company analysis will provide the reader an informed insider's perspective of how we analyze stocks and educate investors in the various building blocks of what we do. These are important concepts to grasp whether one is an informed investor, or whether one works with our practice where we make the discretionary investment decisions, or a combination of the two.

Capital allocation is important because it shows how companies divide their money to

achieve profitable investments. If a company makes good investment decisions, then we can expect its share price to rise. Conversely, if a company makes poor investment decisions, we can expect its share price to stagnate or falter. This is an important concept to grasp because if the rate of return on capital allocation is high, then it means that the management team is making good decisions with respect to its investment program. If the rate is low, it means the company may be in trouble or not making the right investments. An example of a good capital allocator is Royal Dutch Shell. When their share price is depressed, they will repurchase shares

at low prices in the expectation of a rebound in the oil price from depressed levels. Conversely, if the rate of return on some of their investments is low, they will sell the underperforming assets and redeploy the money into longer-life more profitable investments. These include LNG in the US and Marcellus expansion in the shale oil and gas industry. In addition, they are making investments within the company to raise their return on the overall company – improving their cost structure, streamlining their operations, and creating new, more efficient managerial structures. Finally, with the excess cash they generate from these investments, they pay shareholders a dividend. This is just one example of an investment we own whose capital

allocation practices are aligned with investors' best interests which is why looking for companies that divide money up in a judicious manner is critical to making a good investment decision. Oftentimes, when we speak to management teams who run the companies we invest in, we will ask them in-depth questions about their capital allocation policies because these affect how the share price performs on a forward-looking basis.

In our next edition, we will look at earnings power, which dictates how much money a company generates in the course of a year, and how fast these earnings are growing and why.



Chapter 2:

Secular growth – Online advertising

January 18, 2019

This marks the second edition of our investment analytical topics, in which we strive to present the reader in layman's terms the work we do daily and how discretionary portfolios benefit from a robust, disciplined attitude toward company analysis and stock selection. These topics will follow a sequence, in which we get deeper into a company's fundamentals, with this topic dedicated to secular earnings growers. Secular growth, in easily understandable terms, means growth that is prolonged, with many tailwinds supporting an expansionary period in which an industry prospers. This prosperity benefits a select

handful of organizations that had the foresight and planning to position themselves to create a durable economic moat to capitalize on these profits. It is in this regard that we wish to present readers with an educational series on these secular growers so that they can be prepared to identify them in their personal lives as well as the portfolios held with us.

An example of an industry characterized by secular growth is online advertising, as many advertisers are now starting the migration to online forms of social media and mobile phone advertisement. These forms of advertisement have the advantage of specifically targeting

an expansive set of users whose tastes and preferences have been documented and are well understood by advertisers. Artificial intelligence is one reason advertisers are migrating online, as the targeting capabilities of machine-based learning are far superior to traditional forms of advertising. In addition, measurement of an advertisement's effectiveness is more well known and transparent with artificial intelligence based techniques. Furthermore, only 40% of the total advertiser dollars has migrated online, with an \$88 billion market size, and only two players commanding a large influence on ad control and pricing. This presents opportunity for the right companies to take advantage of these lucrative market dynamics.

One company that is capitalizing on this trend is Facebook, the owner of Instagram, Messenger, Oculus and WhatsApp. With a visionary at the helm, as well as an owner-operator model, meaning Mark Zuckerberg both owns and operates Facebook, the company is innovating ahead of its peers to capture advertising dollars from this new economy exchange of value. Largely due to revenue growth from mobile advertising, the company has generated astronomical financial results: On a three-year period, growth of revenue is between 42-54% and earnings per share growth is over 85%. With a durable economic moat, advertising dollars continue to pour into the social media giant. Advertisers continue to migrate into new forms of advertising

that Facebook offers, and globally-based advertising dollars are at an emerging stage of their growth, showing tremendous potential to become as profitable as their developed market counterparts. With strong user growth, the company is incentivizing users to stay with the platform, focusing on communities that can be formed online and with a physical component. Unfabricated content is another advantage as the authenticity of the platform drives stickiness among users (low turnover). In turn, this attracts high-priced advertisers into Facebook's fold, and ad pricing has been growing consistently as a result. Finally, with capital allocation practices that are forward-looking and have a highly visible growth path, the potential for ongoing profitability is very strong. We have added to our position in Facebook on bouts of market weakness, where the stock has traded at a discount to its intrinsic worth.

While many may believe that Facebook is primarily a social media outlet, the truth is they own multiple assets on various platforms, including Messenger, Instagram, WhatsApp, and Oculus, all waiting to be monetized. This monetization has not been factored into the shares and will likely result in a windfall of free cash flows once they develop their standards in monetization without compromising users' experiences. This is one additional reason we see Facebook as a long-run cash cow.



Chapter 3:

Secular growth – Animal health

February 15, 2019

Now onto the topic of the month: Secular earnings growth within the animal health industry. Many readers who own pets might realize that as pet adoption has picked up, so has the quality of our pets' living standards, mainly due to higher medicalization (catching diseases in their earlier stage) and diagnostics (diagnosing animal-specific symptoms that may be symptomatic of more complex issues). Pet ownership in the US has ballooned, and as shown in the attached infographic, pet adoption and growth have been the main drivers.

Furthermore, medicalization trends show that pet-related indications are still not fully

understood, and as a result, the medicalization trend is still in the single digits. Assuming that pets continue to live longer, medicalization of pets will likely continue its uptrend. The result is a set of companies within animal health, exposed to emerging trends of higher pet adoption, pet specific indications, that will continue to benefit from this secular growth driver.

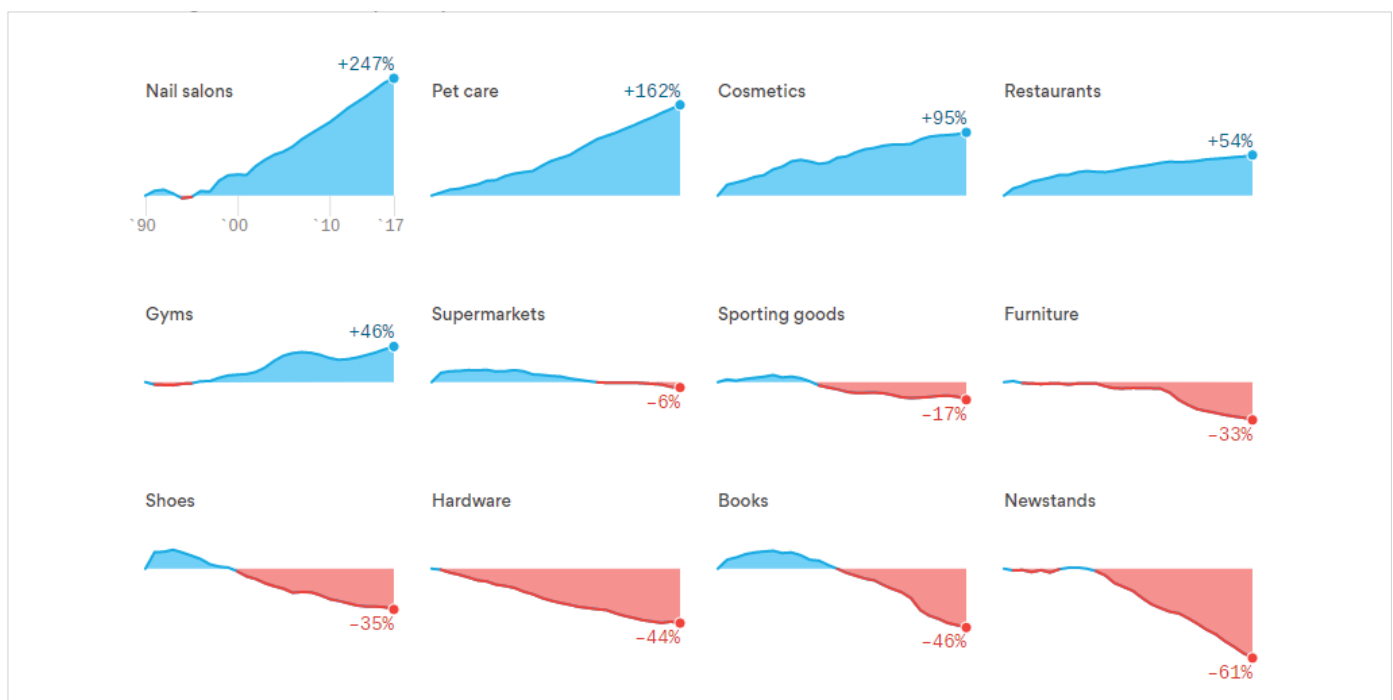
Our preferred stock is a company known as Zoetis (Stock Ticker: ZTS). Zoetis is known as a growth stock with a cadre of pet-specific indications geared toward dogs and cats, livestock diagnostics, and a newly developed diagnostics segment that aims to penetrate the

global market in pet adoption. As a growth stock, there are many secular drivers propelling the growth—the fact that animal drugs have higher pricing power even after coming off exclusivity, pet-specific indications are still in their early stage of growth, and dogs and cats have a lower level of legal settlement claims compared to pharmaceuticals for ourselves. The company also has a creative approach to getting drugs approved, with many drugs that were used in canines transferrable to felines. This lowers development costs and creates new revenue opportunity for the business as a whole.

So, in summary, we have now described two secular growth examples, with the main goal to demonstrate that secular growth tends to be more prolonged, more durable, and leads to

earnings growth that can stay higher for longer than the market may expect. As we have seen last week, the example of Facebook was a case in point where secular earnings characteristics propelled the stock on very low expectations. This is the main reason the vast majority of our portfolio is invested in secular growers, diversified in different industries, with the aim of capitalizing on long-lived themes that may last a full market cycle.

Exhibit 1: Change in storefronts per capita, 1990 to 2017



Data: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis; Chart: Harry Stevens/Axios



Chapter 4:

Portfolio construction

March 29, 2019

The topic of this month is portfolio construction. The main theme of this message is how we value companies and the attendant risks and rewards that we analyze to make informed investment decisions. How portfolios are constructed is not just a matter of the stocks selected, but also their relative weights and the risk factors balanced against these weights. At the heart of this process is how a stock gets valued and what central risks we must be mindful of when sizing a position. Valuation is more art than science. Although the techniques may seem highly quantitative and scientific, there is a great deal of discretion

that goes into the decision making regarding a stock's valuation. Below we outline a few of the principles that we adhere to in our investment process and how different companies may warrant different valuation methodologies.

First of all, sizing a position is largely influenced by its return to intrinsic value, or in other words, a stock's worth. This intrinsic value is at the heart of our practice's investment process, where firm figures and return estimates are attached to the majority of stocks we own. There are multiple ways of valuing a stock, sometimes leading to different answers depending on the method chosen and its suitability for a business. For

instance, one of the characteristics we place a premium on is secular growth drivers. In the last two installments, we explored two of these secular growth areas within mobile communications and advertising, and in our last edition, pet adoption as a driver of animal pharmaceuticals. We place a premium on the valuations of these stocks because their earnings profiles tend to be more durable and prolonged than counterparts without these tailwinds. Therefore, our return to intrinsic value is higher than what other investors may attribute, leading to higher position sizing and returns if our thesis is borne out. In other examples, companies can have different drivers of their growth. This leads to different methods of valuing stocks. For instance, a sum of parts analysis is done when a business has multiple interests in different business lines that require a separate valuation for each. Certain asset managers and dot com retailers fall into this category. A sum of parts analysis breaks down business by business the value of each, and then applies a premium or discount to the whole entity, resulting in an intrinsic value estimate. A more in-depth way of analyzing a company would be to perform a discounted cash flow analysis, where yearly projections are made of the company's cash generating ability, discounted back to its present worth. This is highly relevant for companies that provide guidance estimates that we can then plug into our models to derive a fair value if these targets are met. Finally, with early and emerging upstarts, we tend to value the market opportunity by applying a multiple

on their future projected cash flows, which may be based on comparable companies that have matured in the same industry. This gives us a roadmap for valuing early stage winners as they mature.

Scenario analysis is another important tool, in which different business cases are assessed to produce conservative as well as upside case estimates, giving us downside support if our investment thesis does not bear out. This is an important tool because most of the risk we want to take resides in the company's projections being borne out, and we must have reasonable confidence in these estimates before a stock can enter our portfolio. The downside risk analysis that we do limits our exposure and hence limits our position size in case of unforeseen events. On the flipside, we can also create upside cases which we have reasonable confidence can be achieved and therefore act as a tracking tool for us as the company reports its results.

The third aspect of valuation that is important to us is market expectations. We closely track consensus estimates on the stocks we own, how these estimates compare to our own, so that we can make informed decisions about the relative risk-reward of a stock. For instance, a stock that has reasonably high expectations has a higher bar to climb in terms of earnings results than a stock that is neutral or undervalued. This is an important consideration because as much as we like a company, we also like expectations that can be met and sustained.



Chapter 5:

Market returns and outlook going forward

April 26, 2019

As readers will know, during December's reactionary low, we encouraged readers to remain fully invested and add equity to their portfolios. This was because unfounded fears of a recession caused a panic in the market which we viewed as short-lived. Based on earnings predictions, sentiment factors, and large underinvestment in the markets by both retail and institutional funds alike, we believed that markets would resume their normal course after the Q1 2019 reporting season. We were ultimately correct in our convictions, as Q4 2018 earnings grew over 14% year on year, over 70% of companies beat the market's

profitability estimates, and the S&P 500 large cap index recovered over 14% year to date. More importantly, the companies we select, which are leading indicators of secular growth themes, reported excellent earnings validating our investment reasoning in the bullishness of the companies we hold. We have long remained of the view that earnings expectations drive markets, and when paired with a secular growth theme, earnings can be more prolonged than even the most seasoned stock forecasters expect. This was clearly the case in the most recent reporting season where secular growth stocks demonstrated outperformance once

again. Moreover, with muted expectations for 2020 earnings growth, as companies deliver on their internal projections, these earnings estimates will likely be revised upwards once again. If that happens, the market will appear as good value for money, and we will likely see a resurgence of buying activity given the large amounts of uninvested cash.

Readers often ask us whether there is still opportunity for them to participate in this bull market. Our answer is yes. A few of the factors supporting our view include the following: record low interest rates; a slow growth, low inflation environment that is optimal for equities to flourish; large levels of uninvested cash; and earnings delivery that continues to surpass expectations predicated on secular growth themes. As a result, we believe we are still in the middle of a fast-paced earnings cycle that will continue delivering. Moreover, a number of large investment themes support further equity upside: 1) A nascent homebuilding recovery that has been more prolonged than most investors expect, portending well for homebuilding suppliers including lumber companies; 2) An industrial renaissance taking place with greater investment into automated factories

and warehousing as well as 5G networks; 3) Coal to natural gas switching which will lead to modernization opportunities for the electrical grid; and 4) A resurgence in small business spending and capital allocation plans that are supportive of growth. Based on all these factors, and our own internal diligence into themes and stocks, we continue to see further equity upside.

To prospective readers, we would encourage them to view our service to you as portfolio managers of high conviction equities, where we combine themes and stocks to make investment decisions that are durable, prolong for the entire market cycle, and add value in multiple ways. A few of our notable winners include investments in big data and mobile advertising; an industrial behemoth spread across multiple business lines including aerospace, residential and smart technologies; an animal pharmaceutical company that benefits from pet adoption trends; and transportation companies which protect the value of the portfolio in the event inflation picks up. In combining our own in-house due diligence with large secular growth drivers, we create portfolios diversified across industry, business characteristics, strategy, and themes.



Chapter 6:

Idea generation

June 6, 2019

As readers of our investment journals will know, our investment philosophy is predicated on secular growth characteristics. We are proponents of secular growth because the trends tend to prolong for longer than most investors may expect, leading to tailwinds that benefit the companies we hold. One secular trend that our portfolio has a sizeable investment in is the proliferation of big data, meaning that as more of our devices are connected online, data becomes more abundant in both the online and offline worlds. Companies looking to enhance the effectiveness of their marketing campaigns will want to use this data to create a more

unified view of who their customers are, so that they can reach the right people who will have a higher chance of buying from them. This bodes well for mobile advertisers such as Facebook and Alphabet who have abundant sources of data about users who may also be clients of the companies looking to reach them. On top of this, the usage of artificial intelligence has made ad targeting techniques more fine-tuned and measurable, helping companies save costs and improve effectiveness. The development of this fine-tuned approach to reaching customers has created a whole new industry with its own eco-system and nuances, with multiple

players looking to help companies improve ad effectiveness.

When we were at a conference in Miami, Florida, this March we had a chance to meet with 12 companies spread across multiple industries of the American economy—from a pest control conglomerate to a company looking to help clients improve sustainability practices and an industrial organization modernizing the US electrical system. We learned about trends these companies are exposed to, and some of their plans for executing on these opportunities. Not all secular growth characteristics are created the same, but the more we learn, the more sizeable our investment universe of opportunities we can select from. The conference we attended was focused on managers of large funds and this was an excellent opportunity to network with likeminded peers who have the same growth outlook and investment philosophy in identifying secular growth investments. It was in one such interaction that we learned of LiveRamp Holdings (ticker: RAMP), a company leading the charge in connecting disparate sources of information about the same customer so that marketers can have better information about their clients’

profiles. It is a unique industry, termed “data onboarding,” because LiveRamp acts as a neutral agent in allowing data to be transmitted through its system, but without it being stored, so the end client owns the data. This enhances trust and effectiveness of the platform because the end client can be assured their data is secure and customer information is protected without being proliferated among third parties. Examples such as LiveRamp, in which a company has identified a niche that it is successfully executing in, give us confidence in our investment approach because of the abundance of drivers that it can create its future with.

Companies with secular growth characteristics tend to be successful because they lead the creation of new industries, opening new channels for durable shareholder wealth creation. In addition to the themes we mentioned, we also perform in-depth due diligence into the companies themselves to ensure they are on a solid footing to execute on their growth opportunities. Finally, we develop a deep understanding of the intrinsic worth of a company so we can measure whether our investment thesis is tracking to meet this target.



Chapter 7:

Contrarian indicators

July 2, 2019

In our investment journal topic of the month, we would like to introduce readers to an investment concept called contrarian indicators. Contrarian indicators signal the opposite effect of the market's behavior. For instance, if a contrarian indicator goes up, signaling us to buy, but the markets are still correcting, we would usually place greater emphasis on what the indicator is telling us. One such indicator is the AAII (American Association of Individual Investors) percent of bullish vs bearish investors, a survey that indicates low-risk, high-reward juncture points when the majority of the market is bearish, and the opposite when the majority is

bullish. As the graph on the following page shows, when the majority of the market is pessimistic (under 30% bullish), it tends to be an indicator of a low-risk, high reward juncture point that adds value to portfolios because fund managers such as ourselves have the opportunity to purchase quality businesses at a reasonable bargain. As the graph below indicates, we went through two such episodes – once in December 2018 and a second in the spring of this year – which we used as opportunities to add to quality names which we select ourselves. Contrarian indicators are not the only indicator that can help us discern a market's pattern and likely moves going forward,

but they do help us in tracking the sentiment of the investment public at large.

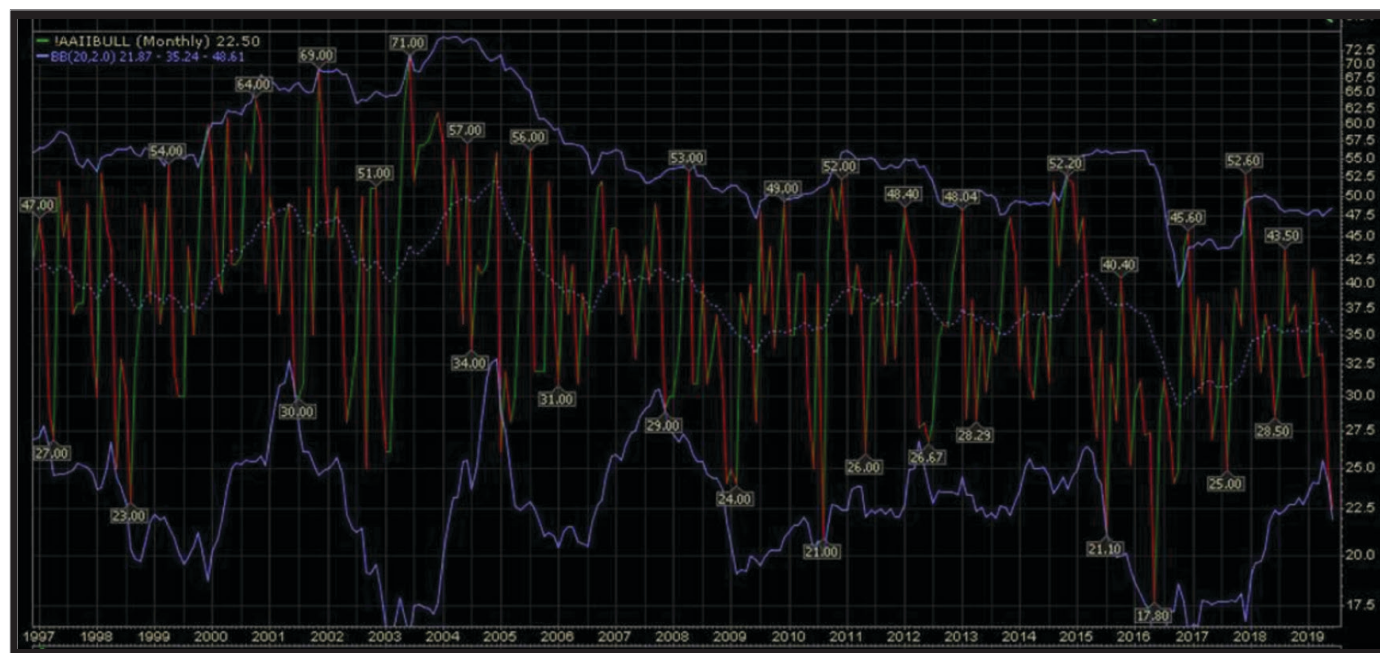
A number of well-known investors have expounded on this topic, and below, we present two examples:

- Warren Buffet – “Be fearful when others are greedy and greedy when others are fearful”
- John Templeton – “Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria”

As these two gentlemen have described, markets tend to have the greatest upside when

the vast majority of the investment public believes in the opposite. We believe, within our practice, that we remain in a slow growth, low inflation environment, one that is highly conducive to equity investing, whereas the vast majority of market participants may be swayed by changing headlines that reflect a more sentiment-driven approach. We believe that holding quality, secular growth companies that prolong their value is the most durable means of wealth creation over a long timeframe.

Exhibit 1: AAll percent of bullish versus bearish investors



Source: Stockcharts.com



Chapter 8:

Reading quarterly earnings transcripts

August 2, 2019

One topic that we wish to explore with readers is the reading of quarterly earnings transcripts. Every quarter, companies that are publicly traded release their financial results – readers can think of these results as a company’s report card – and executives of these companies speak on conference calls to deliver their projections. These calls are important because they are a rich source of information for investors and the general public about the state of the company, its forward looking projection, the industry’s overall complexion, and the state of the economy. By tuning into these companies’ reports every quarter, and listening carefully to

what their executives say, we can develop views of the market and industry that are forward-looking in nature and ahead of other investors, including institutions. This in turn enables us to add value to portfolios earlier on, and for those gains (if re-invested) to compound more powerfully.

Here is a synopsis of the key elements we look for when analyzing companies and determining their merits.

1. Tone of the conference call.

Were the executives upbeat and excited about their future? Or were they downbeat because they missed forecasts? Oftentimes, executives

will provide detailed explanations as to why their results hit or miss targets, and whether they view these trends as temporary or long-lasting. It is important for investors to discern whether there might be a trend change in the results, and adjust their investment reasoning accordingly. While a three month period is a brief snapshot in time, companies often look further than this and may provide one and three year guidance. It is important to pay attention to changes in this guidance, and whether the changes are for fundamental business reasons (e.g. the winning of new contracts) or temporary factors that will eventually dissipate (e.g. bad weather disrupting service). One reason we favour secular growth is that the companies therein tend to be more durable and long-lasting. Executive attitudes to their business are largely shaped by their views of how their business can prosper in different economic climates.

2. Internal results versus external expectations.

Often, companies are monitored by a cadre of investment analysts who make projections about the company's financial future. Sometimes, these projections exceed what the company is able to deliver, and other times, they may be below. To us, finding undervalued companies means discovering the investments where projections are not overly high and set a realistic

benchmark for management teams to deliver. Therefore, paying attention to whether analysts revise their expectations upward, or downward, after an earnings release can be a telling sign about whether original projections were too high or low. Our rule of thumb is to take a company's guidance and compare it to what market analysts expect. If there is a large gap in expectations, we will often pass on the opportunity and find other opportunities where the gap is not as large.

3. Reading between the lines and Familiarity.

Familiarity with a company means being able to read between the lines and infer executives' attitudes toward their business and whether there may be any changes. For instance, on conference calls and at investor meetings, executives will often be asked multiple questions about the same subject. Their ability to provide support, the level of detail they take the discussion into, as well as the consistency of their answers will influence the credibility of the organization and its trust with investors. One other helpful tactic is to read past earnings transcripts to determine the consistency of responses and whether there have been any significant changes. This takes time to be thorough, but will significantly enhance an investor's comfort level with the underlying health of the company.



Chapter 9:

The US economic climate and the health of the equity markets

August 30, 2019

News in the media has been highly focused on the prospects of a global growth slowdown, as signaled by an inverted yield curve, and we would like to take time to explain this phenomenon and offer our thoughts on the outlook.

One of the factors driving the yield curve is institutional investor demand. Interest rates have been historically low for a long period of time, meaning that large institutions such as pension funds are investing in long-term bonds that have a minimal return profile. In addition, with central banks around the world stimulating

their economies, much of the excess cash flow is being parked in fixed income instruments holding the long end of the yield curve down. It is for these reasons that the yield curve has remained flat to inverted, and as shown in the most recent market episode, the misinterpretation of an inverted yield curve (i.e. a signal of an oncoming recession) causes panic that tends to be unwarranted. As shown in the past two market episodes (December 2018 and May 2019), market downturns can recover very quickly due to surplus funds seeking safe haven assets and the

fact that the underlying companies are growing earnings healthily. Furthermore, the classic indicator of an economy's health, the 30 year to 3 month yield curve is far from inverted and in fact signals that economic growth prospects are still quite bright.

Readers may be comforted by the fact that our investment program seeks durable assets that produce cash flows and can be valued as an annuity stream to their businesses. This valuation mindset helps us identify opportunities that may be undervalued or temporarily mispriced by market forces that are focused on headline driven news events. As a result, the portfolio is composed of a durable set of companies that can prosper in good times and bad, given the strength of their earnings profile and well capitalized balance sheets.

On the macro-level environment, we are in a slow growth, low inflation world, with central banks easing globally, producing surplus fund flows that will need to get reinvested. At the moment, many of these fund flows are in fixed income instruments, some even yielding negative interest rates. As time progresses, and the opportunities for growth are made visible in select secular growth industries, we believe there will be a migration of fund flows into large cap equities, particularly US, where we invest in primarily. In addition, it has been shown that when growth is not so slow as to trigger recessionary fears but not so fast as to trigger inflation, stock

markets tend to be the outperforming asset class in what is known as a "Goldilocks economy." This was the experience through most of the 1990's. Given accommodative central bank policies, this effect is further amplified this cycle.

In this environment, with low to negative yields, central banks have parked the bulk of their assets in long duration fixed income instruments. Investors seeking growth have found other ways to increase their return profiles, some investing in fixed income proxies through the equity markets and others seeking safe haven assets such as precious metals. We believe these assets have their place within a portfolio. Our investment strategy tends to be focused on the annuity producing value of a company, so that we can value its stream of cash flows and evaluate the outlook of the business over a three-year timeframe. In addition, readers of past installments will know that we value secular growth characteristics—large investment themes that can prolong through a market cycle. It is with this mindset that we invest because we believe it tends to be the most durable, preserves wealth, and promotes growth that is sustainable and long lasting.

As a result of this market episode, we have added to companies in the US financials sector. We believe the US banks remain very well capitalized, and the bank that we have invested in is transitioning to an earnings growth phase, while still being valued as a reasonable bargain.



Chapter 10:

Secular growth in volatile times

October 10, 2019

Secular growth has been one of the mainstays of our investment practice, in which we analyze a company's durability based on its ability to execute on large investment themes that last a full market cycle and have multi-generational influences. Animal health, as we discussed in a past edition, is one such example of a durable trend where pet pharmaceuticals is a fast-growing, less price sensitive area that is gaining widespread attention among major pharmaceutical companies. Investing in this area requires us to be ahead of our investment peers in doing our company research, speaking to management, staying abreast of trends, and

understanding the company's strategy to grow.

One other advantage of secular growth is that in a volatile market (such as the one we are experiencing now), secular growth companies tend to be viewed as safe haven assets that attract fund flows when investors are seeking spaces in the market that are less volatile and will grow sustainably. Microsoft is an example of such a stock, and given the proliferation of artificial intelligence computing into a greater number of large enterprise clients, the company has developed a recurring revenue profile that has greater longevity and durability than many investors expected. This is one of the reasons

that we continue to hold the position as a core holding, adding to it on dips and trimming it at junctures where it is temporarily overestimated.

One investment theme that has been gaining attention is the shift in fund flows into more cyclical, low valuation companies that are economically sensitive. We tend to be mindful of shifts in market sentiment as this often gives us a sense for the psyche of investors and what trends may prevail over the long run. While we avoid making portfolio management decisions based solely on market psychology, the cyclical companies we favour have secular tailwinds and are priced as if those trends are being discounted at an attractive rate. These companies are mostly in the semiconductor industry, where the cyclical aspects dominate the valuation, whereas we

see the opportunity for the shares to re-rate as more of the demand comes from sources that are secular in nature.

Finally, management teams within secular growth companies tend to have greater ability to steer their companies in the direction of profitability and recurring revenues. This is because the companies tend to have a well-defined landscape of their possibilities for growth and have detailed execution plans for achieving their profit estimates. It is not unusual to see secular growth companies continue to be re-valued upward through an entire market cycle until growth plateaus and the stock is fairly valued (at which point we would exit a position).



Chapter 11:

Slow and steady wins the race

December 13, 2019

For the previous installments, we have stated that in a slow growth, low inflation environment, equities tend to be the best performing asset class. Some readers may be wondering why. This is because in a "Goldilocks Economy" where growth is not so slow as to stoke recessionary fears, but not so fast as to instigate higher inflation, equities tend to have the best blend of growth and safehaven characteristics. This has been one of the drivers of our equity portfolio outperformance.

As for the 2 and 10 year yield curve inversion, one of the reasons we cited for this occurrence was an abundance of quantitative easing, in

which central banks try to stimulate worldwide economies by being more accommodative. This view has prevailed, and we continue to believe that the 10 and 30 year yield curve (which has not inverted) is a better measure of the economy's long-term health. Quantitative easing also supports further equity returns as low interest rates move funds from the bond market into the stock market.

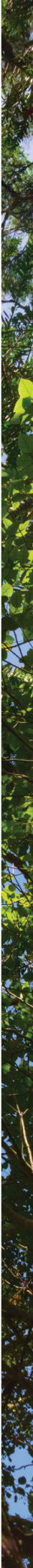
Readers know that we are proponents of secular growth characteristics in the companies we select, providing we can obtain these characteristics at a reasonable bargain. An example would be a strong consumer in the luxury

goods space. Many of the trends associated with luxury good buying are secular in nature (an emerging middle class in Asia, millennial habits, sticky consumer demand for quality luxury items). The two high-end retailers we have in our portfolio have a strong history of value creation, well managed franchises, and a thoughtful but acquisitive mindset to running their businesses. For instance, LVMH recently announced the purchase of Tiffany, strengthening its position in jewelry, particularly its presence in the United States. With a large market opportunity and synergies to be realized in combining these two luxury brands, we have even greater confidence in LVMH's shareholder wealth creation initiatives.

In conclusion, by assessing a secular growth theme against a company's ability to execute on it, we increase our probabilities of those objectives being met and shareholder value being created. Many investors, in the search for

investment returns, will focus on a singular aspect of this process. In contrast, we believe that in performing our deep due diligence, coupled with understanding the macro-level dynamics of the portfolio companies we own, we can enhance our probabilities of adding meaningful and durable value. Much of this process involves performing scenario testing to manage risks and understand the intrinsic value of companies under different economic conditions. Keeping our portfolio construction well diversified also mitigates the risk from any one specific company.

Finally, as we are results-oriented, we continually perform iterative reviews of our investment process to ensure that we are reflecting best practices. As continuous improvement and learning is one of these quality practices, the innovations we are engineering add depth and rigor to the process, enhancing the durability of our investment selections.



February 2020 to December 2020

The life-transformative coronavirus pandemic had the unintended consequence of accelerating digital share shifts in favour of technological service providers in 2020. Because we had done our investment due diligence in advance, we were agile and data-dependent in making investment decisions to expand the large-cap technology overweight of our portfolio construction. This was the right decision, as the overall Nasdaq index returned 48% in 2020, despite the downturn induced by the pandemic.

2020 was also the year we introduced small caps into our portfolio, a decision which we later (and humbly!) reversed. At the time, our prevailing thinking was that the early-stage nature of small caps, buttressed by their long, secular runways of growth, made them attractive business propositions. The reversal of our decision, as detailed in 2022, was instigated by a shift in the market environment and the portfolio construction's risk characteristics, as we will explore in subsequent chapters.



Chapter 12:

Risk

February 14, 2020

The topic of this month's investment journal is dedicated to risk. Have you ever heard the saying "high risk, high return"? It's a popular saying in finance that encapsulates the common wisdom that the higher the price volatility of a stock, the higher its risk. While there may be some merit to this for public investors, we would like to dig more deeply into what risk truly means for an educated investor.

To many investors, the risk of an investment is the perceived price it trades at; in other words, if the price fluctuates a lot, that investment is considered more volatile, and therefore more risky. While this is a premise that many investors

have been brought up with, the real risk of an investment lies in the ability of the company fundamentals to deliver results. After all, a share valuation, at its core, represents equity ownership in the profits/losses of a company, and if that company is worth more than its prevailing market price, market participants will realize this, and eventually buying pressure will cause the price and the value of the investment to converge, which is called fair market value.

The risk to an investment, therefore, lies in the ability of the business to deliver on its promises of shareholder wealth creation, which can be condensed down to the earnings power of a

company. If the earnings power of a company is very high and lasts for a very long time, then the probability of it being a durable investment is very good, regardless of how much the price may fluctuate.

That's why, in our practice, we are very careful in assessing fundamentals of company valuations. If a company is expanding, what is the net intrinsic worth to the share price? If there is a turnaround situation with new management, how effective is this management at turning around the fortunes of the company and being once again recognized by shareholders? These are the questions that underlie our risk management process (among many) and, rarely, does this have anything to do with the price fluctuations that investors may observe over a shorter time horizon.

Our investment portfolio performed well in 2019. Some of you may question, "Is it time in 2020 to be more defensive?" We would go back to the earnings power of the companies we own and ask ourselves, "Has peak earnings already arrived?" That's the real risk underlying share price valuations.

Fortunately, we are nowhere near that juncture point, with earnings delivery continuing to be healthy and surpassing most analyst expectations. Furthermore, the platform nature of many of our companies, coupled with their network effects, create lasting, durable shareholder wealth that the market has not yet completely recognized. So, while there may be short-term price fluctuations, we do not consider this volatility to be a core aspect of risk management and, in fact, we look to add

positions during temporary market dislocations that prove to rectify themselves quite quickly. This is what we did in December 2018 and again in April 2019 when trade tensions caused temporary pullbacks in equity valuations.

We would emphasize to readers to think about risk in terms of business objectives, rather than share price fluctuations, as the former is how lasting value gets created and recognized over a long time horizon. This is what we have referred to in the past as a compounding effect on wealth—where secular growth effects compound themselves over time, creating an investment vehicle that is worth more than the market awards.

Downside protection is also another risk management technique we are diligent about. For instance, if a share declines by 50%, it would require a 100% return to achieve its former level. Therefore, price declines in stocks that have poor fundamentals give us pause, even if they may appear attractive from a dollar value perspective, because many of these stocks will never return to their former levels if the business is in decline. Downside risk is more than the prevailing market price of the instrument, but rather the inability of a company to achieve its business results. The way we assess this is by slowing down our growth assumptions in our financial models to arrive at an intrinsic share price that captures the worst-case outcome. If the share price hovers around that level when we purchase it, we can be assured that most of the downside risk has been captured. We call this our margin of safety.

In summary, a stock with high volatility does not necessarily mean that it is high risk. And a stock that is truly high risk may not yield the high returns as most of the investment public has become accustomed to believing. At the end of the day, companies with secular growth profiles in expansionary markets, trading at discounted valuations, are the best way of managing both risks and rewards.



Chapter 13:

Climbing the wall of worry

March 6, 2020

As we deliver presentations to various audience groups, we have been encouraging investors to view risk and reward through a longer term lens that is less focused on temporary market movements. Famed investor John A. Templeton, founder of Franklin Templeton Investments, is credited for saying, “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” As an investment role model that we often refer investors to in the art of contrarian investing, Mr. Templeton caught on to a philosophy of investing that, even in as early as the 1930s, allowed forward-looking investors to gain an

advantage in the market. Mr. Templeton’s words in the 21st century are just as true as they were in the 1930s. Markets tend to be inefficient because they are reactionary. They react to surface-level newsflow, creating price volatility in the shares, which some people interpret as risk. As readers will know, however, a deeper meaning of risk resides not in the price swings of the securities (observed daily), but rather in the ability of the underlying companies to achieve their business objectives. Quite simply, a business that is in close proximity to achieving its targets is less risky; a company that is further in distance has a more uncertain path and therefore is more

risky. If we look at risk in terms of the quality of the business, instead of how the shares react to temporary newsflow, our portfolio construction will reflect a set of businesses that have durable characteristics and advantages that can withstand any short-term fluctuations over a full market cycle.

The issue with modern day interpretations of contrarian investing (buying low, selling high) is that many investors are solely focused on low priced stocks. While the price paid for a security is an important aspect of any investment strategy, to be a successful contrarian investment, a stock must have an investable catalyst to propel its valuation. Sometimes, this investable catalyst (as we have written in past installments) can take the form of a company recognizing a growing

trend in a niche segment (such as diagnostics in Animal Pharmaceuticals). Other times, the catalyst may be a longer run theme that benefits from the proliferation of consumer data, such as the numerous semiconductor companies we hold that have diverse business lines. When these stocks are temporarily dislocated because valuations pull back in the broader market, we view them as compelling buying opportunities because their quality characteristics will often supersede short-term market fluctuations. A company that we recently added into the portfolio, Nvidia, carries these investable catalysts of a long growth runway, and a management team that is executing on plan, which gives the company excellent prospects in a proliferating semiconductors industry.

Exhibit 1: Climbing the wall of worry

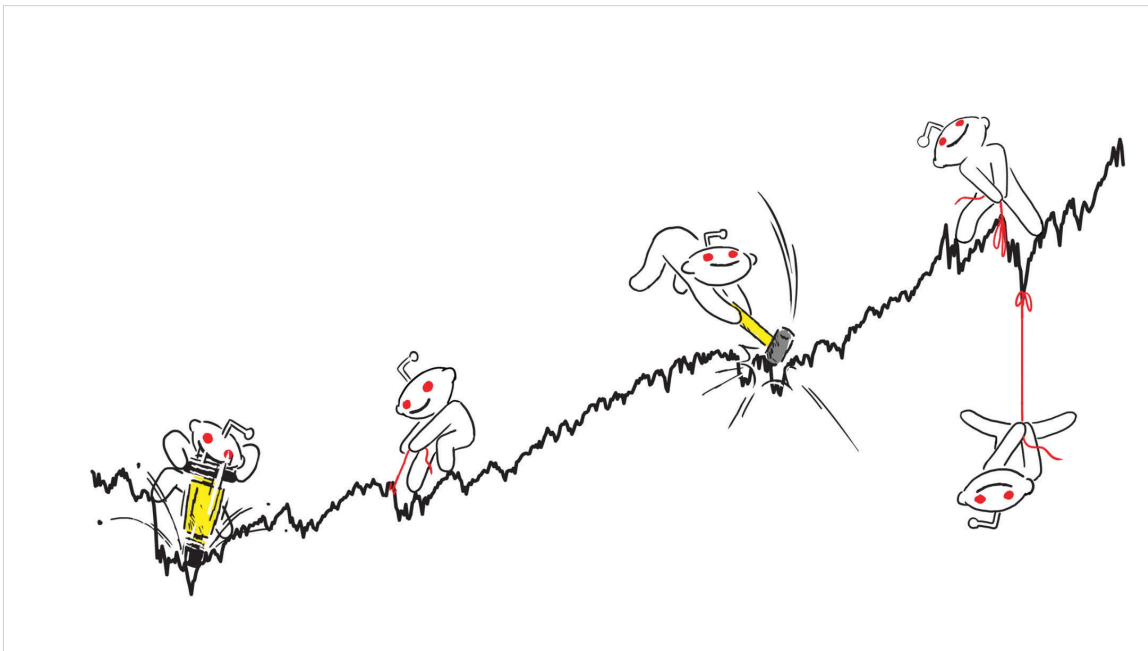


Illustration: Matija Medved for Bloomberg (Source: Businessweek)

Regarding the Coronavirus, we encourage investors to place perspective on the revenue exposure to China of the major S&P companies (~6%) compared to the market sell-off in select companies that fluctuate more than that margin. But aside from surface level share fluctuations, buying quality businesses when whole markets are dislocated and concerned about global growth (what we call a “growth scare”) often tends to be rewarded over a long time horizon. If we look at the risk of an organization through a longer-term lens, rather than short-term price fluctuations, the real value-added to buying low, selling high is capturing a series of compounding earnings growers at a favourable discount. This is what we do in our practice, and done consistently and repeatedly, adds significant value because our definitions of risk are aligned with how the companies themselves create value. As for portfolio construction changes, we have been purchasing companies with secular growth

drivers in industries temporarily dislocated by the virus, but whose durable advantages and customer profiles favour a sharp recovery in market values. These include semiconductor stocks, select areas in healthcare, and the travel/leisure sector.

A phrase that is often used in the finance industry is “Climbing the wall of worry.” (See Exhibit 1) It refers to a market where investor skepticism runs high and investors are rewarded for staying the course, buying quality companies, and remaining disciplined in their investment processes. The infographic shows the rewards of staying invested, despite the many short-term pullbacks that, in hindsight, present favourable buying opportunities. We believe the Coronavirus is one of these opportunities, in which investors with less conviction are being replaced with longer-term, higher conviction players, creating a more favourable, fundamentally stronger market over the long term.



Chapter 14:

Investment leadership – Learning from the best role models.

March 16, 2020

Many in the markets who strive to be great at investing will often tell you that having suitable role models is paramount to fine-tuning their investment savviness. Even well-known investors who are quite successful themselves have cited their own investment role models. For example, when Warren Buffett was asked about essential reading, he pointed to Philip Fisher's book *Common Stocks and Uncommon Profits*, a primer on growth investing. In immersing ourselves in successful investing behaviours, and not being influenced by the crowd, we are better able to

withstand corrections—no matter how deep they may be—and foster a sense of emotional detachment from the panic of the crowd.

Past readers will know that we have a long time horizon, which, in a day of short-term market movements, is a form of contrarianism. This philosophy has enabled us in the past to recognize opportunities before other people do, whether that has to do with a unique business model, the lifecycle effects of a particular theme playing out, or a change in market direction that favours one group of investments over another.

In past installments, we cited John A. Templeton, founder of Franklin Templeton, famous for saying “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” Given the trading activity of the Nasdaq, Dow Jones and the S&P 500, Mr. Templeton may agree with us that we are certainly in a state of extreme pessimism with a global pandemic having been declared. More importantly, we would advise investors to heed the advice of Peter Lynch, who is credited for saying “Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.” This is an important point, because many retail investors make the mistake of selling at the low, only to re-enter the market when a recovery has taken hold.

We were in a conversation with an Uber driver recently who told us that he had sold all his stocks, and planned to re-enter when prospects brightened again. The mistake with this logic is that markets tend to be forward-looking discounting mechanisms. They will overshoot to the extremes, such that even if economic activity worsens (such as during the October 2008 to March 2009 period), markets can still rally. This is because markets have already anticipated far worse outcomes than when the data comes in better than expected, investors will start entering positions again. Furthermore, statistical studies have shown that missing out on the best 20 trading days is far more detrimental to investor outcomes than suffering through the worse corrections. Perhaps this was the wisdom behind Mr. Lynch’s statement.

Furthermore, sentiment in the real economy can oftentimes be a contrarian indicator. Going back to the example of the Uber driver, we would characterize sentiment as extremely pessimistic, likely signalling that we are toward the end (not the beginning) of the corrective process. In the words of Warren Buffett, “Be fearful when others are greedy and greedy when others are fearful.”

About the current market volatility: Many commentators are expecting developed markets to head into a recession this year. This may be true; however, as stated above, markets tend to be forward-looking in their outlook and anticipate negative outcomes before they become manifest in the economy. Unlike the Great Recession of 2007/2008, this time, balance sheets are strong, banks are well capitalized, and central banks around the world are prepared to act. Therefore, even if markets exhibit more downside and we enter into a recession, it will likely be earnings-driven, which is a much easier form of downturn to recover from.

Our view is that the market, being in a growth slowdown that is earnings induced, will recover more rapidly than a balance-sheet induced recession (circa 2007/08) as banks this time around are significantly better capitalized. As the situation evolves, it is conceivable that equity markets could actually rally in anticipation of stimulus measures translating into future growth. Also, on valuation, as of this writing (March 16, 2020), the S&P 500 is trading at a forward 1-year consensus multiple of 15x. This translates into an expected earnings yield of 6.7%. If we are conservative, and assume that earnings revisions will be negative 10%, that earnings yield

becomes 6%. Contrast that to safe haven assets, such as 30-year US government treasuries yielding 1.56%; gold, which has no annuity value; and cash, which yields marginal interest rates in light of the Federal Reserve cutting its overnight lending range to 0-0.25%. We believe the case for equities, despite this mid-cycle correction, still remains clear.

Finally, a note on time horizons. Clients are encouraged to maintain long timeframes. Consider this example: A stock trading at \$100 compounds capital at 12% per year. Holding the stock for two years would net a share price of \$125.44, for an average gain of \$12.72/year. However, extending that timeframe to five years would net a value of \$176.23, an average gain of \$15.25/year. So, as one can see from this example,

the compounding nature of growth amplifies the longer the time horizon, not just in terms of simple interest, but in terms of compounded returns. Furthermore, if the stock enters a market correction and, say, trades at \$80, that is an additional 20% gain that compounds at 12% per year. As this example shows, sacrificing short-term gyrations for larger long-term gains is a prudent investment strategy.

In this environment, we would remind investors to remain rational, to regulate themselves from monitoring day-to-day gyrations in the market, and to keep the long view in mind that companies with secular growth characteristics in winner-take-all industries eventually prevail. We hope this has provided some reassurance, and please feel free to reach out to us for questions.



Chapter 15:

The S&P 500 as a forward-looking discounting mechanism

April 24, 2020

With all the dire warnings from health authorities, social distancing measures, and most of the workforce quarantined at home, we felt it was prudent at this juncture to acknowledge that while the newsflow seems dire, the underlying fundamentals of companies that weather this storm will be made even stronger once news of the virus plateaus. This is because the market (and this time is no different than the past) is a forward-looking discounting mechanism that tends to overcompensate to the downside, and even as news gets worse (as we

have seen in the past weeks), the markets can still rally because they are already discounting an overly pessimistic outcome that will most likely not come to fruition.

It is for this reason that this month we wish to explore with you the concept of the S&P 500 (the US large cap market) as a forward-looking discounting mechanism for future events. As readers know, our primary investment philosophy centers around secular growth—long-lived investment themes that do well in up-markets and protect capital in down markets. These

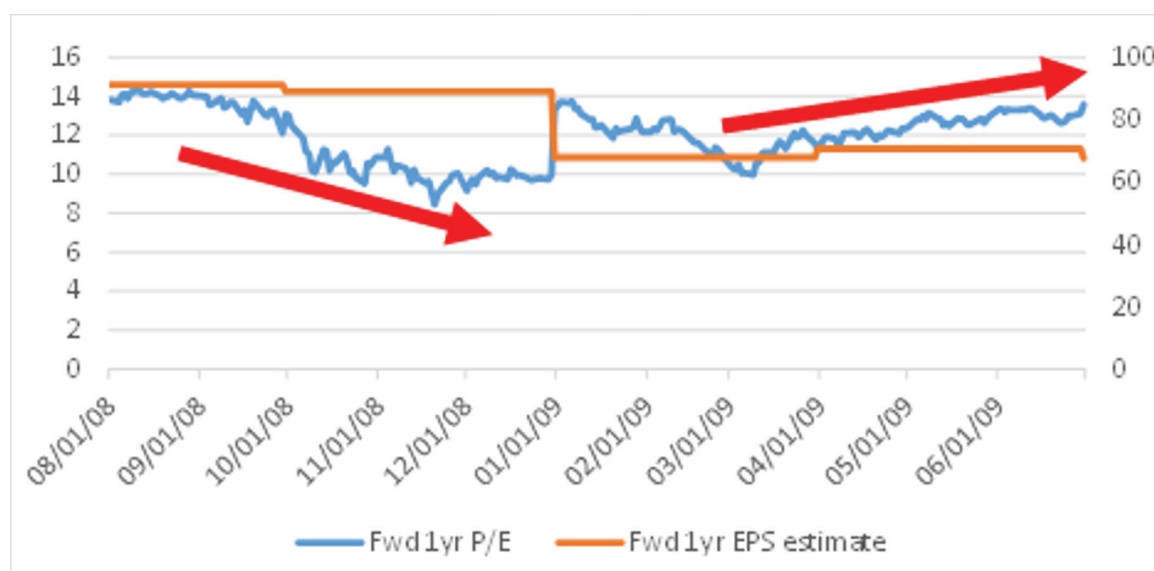
investment themes tend to be in niche industries, some of which we have explored in past investment journals such as animal healthcare, digital marketing, and cloud computing. As these tend to be recurring revenue businesses with less exposure to client interfacing, market values of these companies have been protected more than the average stock.

As clients will know, in the long run, stock prices are valued on the earnings produced by the underlying companies. In a downturn, however, it is possible for stock prices to correct in excess of what the underlying companies' earnings contract by, leading to profitable buying opportunities. For example, between September 2008 and March 2009, earnings outlooks were actually revised negatively, but the stock market still rallied. This is because the initial market decline, which was based out of panic and fear, captured much of the negative sentiment

around earnings revisions already. Therefore, by the time earnings troughed in March 2009, the S&P 500 went on to stage one of the largest bull market rallies in history. We believe a similar analogy may apply to the Coronavirus, in which the market overcompensated to the downside, now only to rally on an intermediate-term basis even as the news seems dire. We believe that Q2 earnings will be an important marker of how capable the companies are in delivering above consensus earnings expectations.

In terms of portfolio positioning, we are happy to report that most of our portfolio is positioned in safe haven assets, which are long-lived annuities with recurring revenues that are less impacted by the Coronavirus. Indeed, large cap growth stocks, as measured by the Nasdaq 100, have outperformed from the beginning of the downturn because of their resilient business models and low consumer exposure.

Exhibit 1: The lagged effect of earnings revisions versus multiple compression



Source: Bloomberg Terminal Data

We have added to these areas, particularly cloud computing and enterprise-driven/data center semiconductor stocks. For example, with a greater percentage of business professionals working remotely, Microsoft Teams has expanded in usage—a stock which we have added to on weakness. On the other hand, we believe two of the hardest hit areas will be the energy and consumer discretionary sectors, and we have zero weighted and underweighted these areas respectively.

In Exhibit 1, we highlight that markets have always had a history of recovering from panics. Even in 2008, as earnings revisions were bottoming, the stock market still rallied because most of the bad news was already priced in. We see the same pattern repeating this time, with large cap growth stocks both protecting capital

on the downside and being recognized for their quality growth characteristics again on an upturn.

In the wise words of John Templeton, “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” We believe long-term investors will be rewarded in this secular bull market, as bullish sentiment appears to be picking up. A successful investment process is one that is holistic, allying individual stock selection with the bigger picture—secular growth, macro-level dynamics, and sentiment indicators that can improve our understanding of the market environment we find ourselves in. In doing so, we can improve our chances of navigating the macro environment successfully, protecting capital in downturns and participating in upturns.



Chapter 16:

Secular growth as a defensive investment

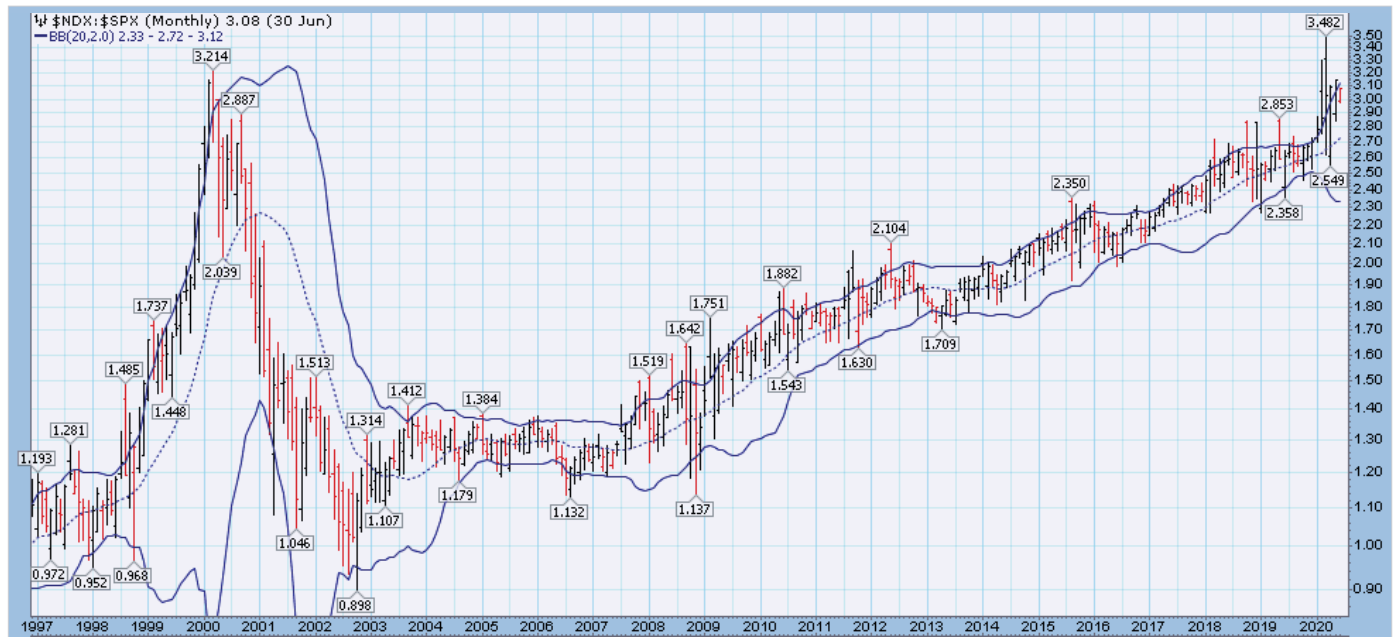
June 5, 2020

On May 15, 1997, Amazon became a public company at a price of \$18/share. Had \$10,000 of seed capital been invested in 1997, it would have grown to \$12 million as of May 2020. This example highlights the power of secular growth. Rather than trying to time the markets, or be tactical in the investment strategy, a long-term, consistent, returns-focused strategy would have yielded the best results. This is what we strive to do in our investment practice—identifying long-term secular winners that have a long runway for growth and a long time horizon to execute. This is what powers the ‘Amazons’ of the world. Indeed, Amazon owner-operator

Jeff Bezos even followed a similar playbook, re-investing back into its cloud enterprise even when the shares appeared to trade at an all-time high, which explains the company’s continued ascent. Mr. Bezos had the vision to identify winner-take-all effects in what would become a highly lucrative, duopolistic market, transforming a retail-led strategy into a digital behemoth. LVMH is another example, with its recent purchase of Tiffany, diversifying the company in the lucrative, mostly American jewelry market.

The key message is that a long time horizon yields the best results, because these secular growth characteristics have the time to compound into

Exhibit 1: Nasdaq 100 versus the S&P 500



Source: Stockcharts.com

financial results that lead to sustained and even accelerated earnings growth. As we know from previous installments, markets are driven off earnings power. The higher the earnings power, the higher the company's shares.

A second topic we would like to highlight is that secular growth itself is oftentimes the best defense against volatile markets. Markets, as we have learned, contain a wide spectrum of investments from fixed income and GIC instruments to growth equities, which we mainly specialize in. Within growth equities, there are areas of the market that remain defensively oriented, with strong enough business models to weather storms and outperform. In the most recent Coronavirus event, top secular growers, most of which are part of the Nasdaq 100, continued their record of outperformance

versus the S&P 500, even amidst the worst days of the downturn (Exhibit 1). This is because the companies in Exhibit 1 demonstrate strong recurring revenue profiles and fortress balance sheets that enable them to survive and prosper in a post COVID-19 world.

Let's explore three of our secular growth investments that weathered the most recent storm well.

First, with the shift to remote teleworking for most business professionals, there has been an organizational surge in demand for cloud computing and the associated infrastructure needed to support a more agile organization. As a result, companies that have invested in the past in building a unique and trusted value proposition for cloud users are at a significant advantage. This leads to one of the core tenets

of our investment program, which is to have a long time horizon so that these secular growth themes can be realized in companies' financials and therefore recognized in the stock price.

Microsoft is one such example of a stock that is benefiting in a post COVID-19 world. Even prior to the downturn, the company was leading a theme of digital migration and transformation within client organizations. The company's main platform for doing this, Azure, grew by almost 60%, even in the heart of the downturn. Readers may think of cloud computing like paying rent. In the technology sector, this is called "software as a service" (SAAS). Because SAAS payments are recurring, they tend to be more resilient and insulated from market forces. In this case, they even benefited from new demand as organizations migrated to a "remote-from-

home" working environment. On the flipside, when markets recover, clients demand more innovation to meet their digitization objectives, leading to further growth in the recurring annuity stream. Microsoft, as can be seen in Exhibit 2, has not only outperformed the S&P 500, but has outperformed its peer group of secular Nasdaq 100 growers.

A second example of an industry with a defensible moat is digital advertising. The difference between digital advertising and mass media (i.e. television) is that digital advertising is measurable, providing advertisers with a direct line of sight into the return on investment of specific campaigns, so that the customer response can be gauged and then modified, if necessary. Because of the measurable nature of digital advertising, it is easily turned off and

Exhibit 2: Microsoft versus the Nasdaq 100



Source: Stockcharts.com

turned back on when economic conditions improve. Both Facebook and Alphabet—two of the digital advertisers we own—cited this phenomenon and noted that in the first few weeks of April, ad trends actually stabilized. This gives investors comfort that when consumer activity resumes again, advertising, one of the most GDP-sensitive areas, will be the first to rebound. In addition, Facebook noted a 10% surge in monthly active users, a testament to how valuable their platform is during uncertain times.

The final example is Nvidia. As readers will know from past instalments, the chip industry is an emerging secular growth area, because of the increasing complexity of devices, the need for faster data transmissions and associated

storage, and greater processing speeds to meet the demands of new content. The usage of semiconductors is also expanding across gaming, the medical field, cloud computing, personal devices, and so forth. Nvidia is a semiconductor company that benefits as the medical field requires intensive processing power to sequence DNA, which is a key input into the development of diagnosis tools and an eventual cure or vaccine for the Coronavirus. The company's semiconductors (GPUs) have a wide range of functionality, ranging from gaming to cloud storage, and now medical applications. We added to Nvidia throughout the downturn, and it has now become one of our larger positions that have added value to client investment accounts.



Chapter 17:

Small cap innovators

July 16, 2020

In our conversations with clients, many have asked whether the pandemic would lead to an earnings recession. Stepping back for a moment, we would like to differentiate between 2008/09's financial crisis, which emanated from the banking and housing sectors, as compared to the current situation where the economy was led into a state of suspension due to an outside force.

Because of the unprecedented stimulus, earnings growth that was strong prior to the pandemic, and near zero interest rates, we had the expectation that the stock market's recovery curve would be faster out of this downturn than

previous ones. Indeed, this is what has occurred so far, and if we may extend the investment premise, the pandemic has actually accelerated key themes that were already evident prior to the pandemic, and in some cases our large cap secular growers have even prospered more in a post-pandemic environment. Furthermore, because these companies have fortress balance sheets, they were able to retain all staff and continue investing in forward-looking innovations (see prior investment journal for examples). Secular growth is also a more durable long-term investment strategy. This is because the companies that demonstrate long-term

earnings growth tend to sport higher valuation multiples that can be sustained over time.

The next phase we would like to introduce into the investment practice is investing in small- to mid-cap growth companies, mostly US-focused in the \$2.5 billion to \$10 billion market cap range. This will complement our existing blue chip focused strategy. It is our belief that select companies in this category can benefit from secular share shifts, at the same time being under-recognized and under-valued to the extent that shareholder value creation activities can be accelerated. While these securities may be more volatile than their large-cap counterparts, our confidence in their long-run wealth creation attributes, a powerful secular growth theme, and prudent valuation are the factors we believe will ultimately prevail and lead to outsized shareholder returns over time.

Industries that we have so far found attractive involve a consumer mindset shift from a

discretionary spend item to a staple spend item (i.e. a necessity). For example, take cybersecurity. A decade ago, it was considered a luxury for companies to be able to have a presence on the cloud. These days, it is a necessity, especially in a post-pandemic world where identity verification has become the new normal. PING Identity is an investment we recently invested in for clients which matches these criteria. As more and more cybersecurity becomes a foundational spend item for organizations, the recurring revenue profiles will shift in favour of PING's business model.

Another area of focus for us moving forward will be healthcare analytics. This is an industry in which consumers are being given ever more choice in making informed healthcare decisions to bend the overall US healthcare cost curve. We look forward to updating clients on this initiative as we investigate new companies and appreciate their unique business models.



Chapter 18:

The anatomy of a secular-growth investment and our idea-generation strategies

September 20, 2020

In this chapter, we would like to provide our readers an insider's look at how we select investments—the anatomy of what we believe to be a durable theme, how we source ideas, and how these ideas may respond in a post COVID-19 world.

As readers of past editions will know, we select secular-growth themes for their long-standing attributes of sustainability, growth, longevity, and valuation. From the start of 2018, we have been invested in semiconductors, with the investment thesis being that an ever-increasing

set of tools and technologies would be required to fuel the devices of the future in a myriad of applications: Personal devices (such as iPhones), cloud computing, artificial intelligence and industrial automation. The uses are becoming more numerous and more complex, while supply in the industry is becoming more constrained as new technologies are unveiled.

When we first identified this theme, the stocks were in a market dislocation given the US-China trade wars affecting global demand and growth and, more importantly, questions around

intellectual property rights in technology. We used this as an opportunity to enter our positions, and, following the ratification of the Phase 1 trade deal, valuation gaps closed and the companies resumed their secular-growth characteristics. Today, our perspective is that growth remains significant, as the complexity and advanced intellectual roadmaps of semiconductor partnerships are still in their early days. We added to our semiconductor positions during the March 2020 pandemic recession, and continue to see excellent recovery prospects and growth visibility ahead.

Idea generation is always a core aspect of our investment process, and we seek new ideas from a myriad of sources. One of these sources is the regular attendance of industry conferences, such as SemiCon West—a semiconductor industry conference which we had the pleasure of attending this summer (virtually, normally held in San Francisco). The benefit of attending these conferences is to continue to refine our investment practices, evolve our understanding of the sector, and to discover industry themes that may be overlooked or undervalued. This

year, socially conscious ESG (environmental, social, governance) investing was a focus as the keynote company, Applied Materials, unveiled a plan to run on 100% renewable energy in the US by 2022 and reduce its carbon footprint by 50% over the next decade. This buttresses our investment thesis in the shares, as the complexity of the industry, management's thoughtfulness in addressing energy consumption, and the ESG followership that will result will likely now attract additional shareholder interest.

The third aspect we would like to note is that in a world affected by COVID-19, numerous trends have been accelerated: Work from home, cloud computing, semiconductors, and industrial automation. These trends have been translated into a handful of secular growers doing very well in a world affected by a pandemic. Semiconductors contain the dual characteristics of both being economy-sensitive, as well as beneficiaries of secular-growth themes as they pick up. Trading at undemanding valuations, they demonstrate earnings growth characteristics that are likely sustainable for many years.



Chapter 19:

Technological investment themes—A look back and a look forward

October 29, 2020

Long-time readers will know that our investment strategy is predicated on secular growth—identifying those long-lived trends that can prevail in both bull and bear markets, and allying these themes with the individual companies that produce long-term results.

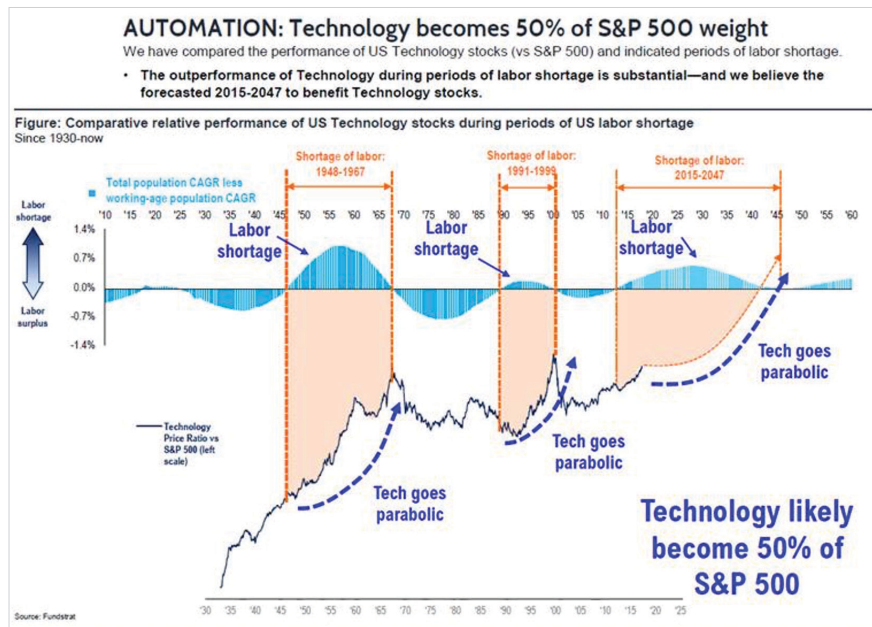
Central to our investment strategy is our definition of risk. Risk is not the same thing as volatility. Risk is the permanent impairment of investment capital, whereas volatility refers to the fluctuation in market prices.

We are mindful of taking calculated risks when making our investment decisions. However, we are opportunistic in taking advantage of volatility that may prove to be temporary. Volatility

presented itself during the trade wars of 2018 and 2019, as well as during the most recent pandemic in March of 2020.

One of the core themes our portfolio has been invested in is the automation associated with technology platforms. As Exhibit 1 shows, periods of high technological automation tend to be associated with shortages in skilled labour. This is when companies invest in their productivity initiatives to compensate for these shortages. As per Exhibit 1, past history shows significant appreciation in technology securities during these time periods (between 1948-1967 and 1991-1999). It is also projected that another skilled labour shortage started in 2015,

Exhibit 1: Automation – Technology becomes 50% of S&P 500 weight



Source: Fundstrat

which—as Exhibit 1 demonstrates—predicted a technologically-driven market starting from that time. Based on past history, this labour shortage may not be resolved until 2047, providing a significant tailwind for the technology sector. Another tailwind bolstering interest in technological securities is socially-responsible ESG (environmental, social, governance) investing. Given that many technological business models are inherently ESG friendly—for example, companies transitioning from paper-based to e-signature platforms; more e-commerce activity reducing our carbon footprint—there may be greater interest in these companies’ business models as the technological sector gains more prominence. This may be an additional thematic development shaping companies’ longer-term valuation prospects.

The portfolio we manage for clients is mainly invested in companies that benefit even more so from a slow-growth and low-inflation environment, which we have been in for the last decade. Many of these companies, which are technologically-driven, have demonstrated durable earnings growth because they were early movers in their respective sectors. Some of these areas include collaborative robots, the use of healthcare analytics to improve patient decision making, and artificial intelligence within the data center business. Many of these trends are still emerging and nascent, providing early investors who are forward-looking with a chance to capitalize on them.



Chapter 20:

Valuation

December 18, 2020

The topic of this month's investment journal is valuation. Valuation is principally important for several reasons. First, valuation tells us what expectations have been incorporated into the market. Given our focus on identifying high-quality companies, we want to assess which of these high-quality companies also offer an attractive return on investment. Second, in times of market distress, such as during a pandemic or a trade war, valuation allows us to accurately determine the risk-reward of companies in our portfolios, so that we can add to our positions at low-risk and high-reward juncture points.

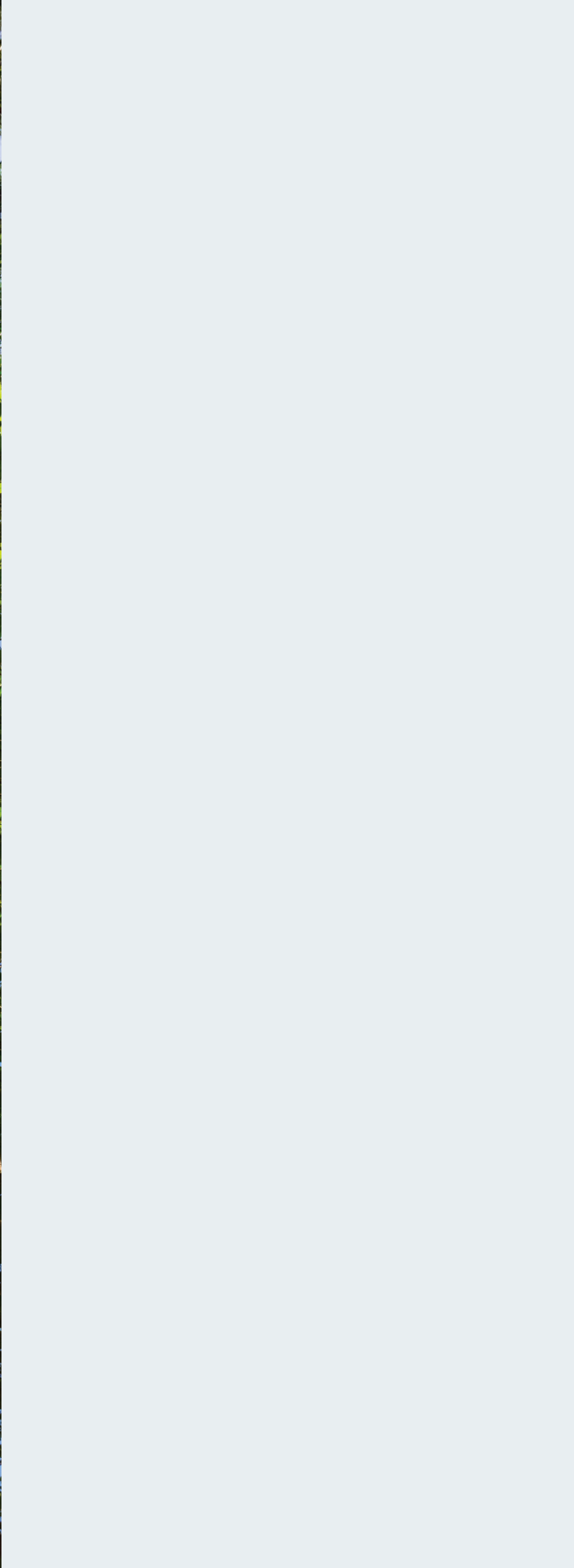
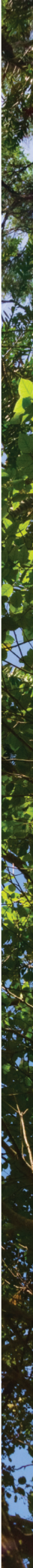
When we invested in large-capitalization companies with secular-growth characteristics, we defined valuation as having an expectations difference between prevailing market expectations and our own internal expectations. For example, if a company claimed it could grow 5% per year, but the prevailing market expectation was only 3%, we would say that there was a valuation gap that investors could capitalize on. In this example, this 2% difference in expectations can be termed an "earnings surprise," and if the company continues to sustain it over time, eventually investors raise their expectations resulting in what's termed a

positive earnings revision. It has been found that positive earnings revisions are highly correlated to rising share prices, and this is a metric we monitor every quarter when companies release their results. Many large-cap secular growers fit into this category because, oftentimes, market participants underestimate the longevity of a theme. For example, when Microsoft and Amazon started investing in cloud computing a decade ago, investors hardly awarded the companies any credit. But over time, as the theme delivered results, and the financial picture started shifting to reflect this, earnings revisions started to rise, leading to higher share valuation multiples. Today, earnings revisions are still on an upward trajectory, likely reflecting the longevity of the market opportunity.

In the same way we recognize expectations differences for large-capitalization companies, we are also doing the same for our small- and medium-capitalization portfolio. However, expectations for smaller companies tend to be more wide-ranging,

and to have more confidence in our forecasts, we are developing models that value a company on their own intrinsic projections of revenue and earnings. This form of valuation—where we take company projections and value their entire annuity stream—is called absolute valuation. For example, many early-stage companies invest the majority of their profits back into research and development activities, making revenue or sales growth a more predictive measure of shareholder value. Therefore, projecting the sales growth of the organization, and applying a future value on that growth, provides us with a possible projected share price three years out. We believe this form of valuation will add to our opportunity in identifying early-stage winners before mainstream investors develop interest.

In conclusion, valuation is much more an art than a science, but its overarching aim—whether absolute or relative—is to identify where opportunities exist, where expectations may be under-recognized by most participants, and how much margin of safety remains.



March 2021 to December 2021

In an environment of zero interest rates, prompted by the pandemic, 2021 was another “risk-on” year for the most part. Yet there were undercurrents that, in hindsight, were policy errors. First, the declaration that inflation would be transitory turned out to be incorrect, with the US Federal Reserve (and most central banks around the world) dialing up policy restriction to tame elevated inflation. As a result, 2021 witnessed a cyclical market top in valuations, and we found ourselves delving into the heart of the Federal Reserve’s dual mandate, orderly price stability and maximum employment.

We also took this opportunity to re-introduce one of our risk management principles, which is that volatility is not the same thing as underlying company risk. While volatility may describe price fluctuations owing to shifts in macroeconomic conditions, true risk at the business level describes the ability of a business to remain solvent and achieve its earnings objectives. For example, in November 2021, we liquidated META at the market top, recognizing a flaw in its capital allocation processes; this turned out to be the correct decision heading into 2022. However, in being adaptable, in 2024, when META started pulling ahead in the AI race to monetize its platform and open-source software, we quickly recognized it as an early-stage turnaround, and re-deployed capital back into it. Adaptability—in all different market environments—is a vital skill in our investment management practice.



Chapter 21:

Millennials, valuation, and the development of our investment process

March 4, 2021

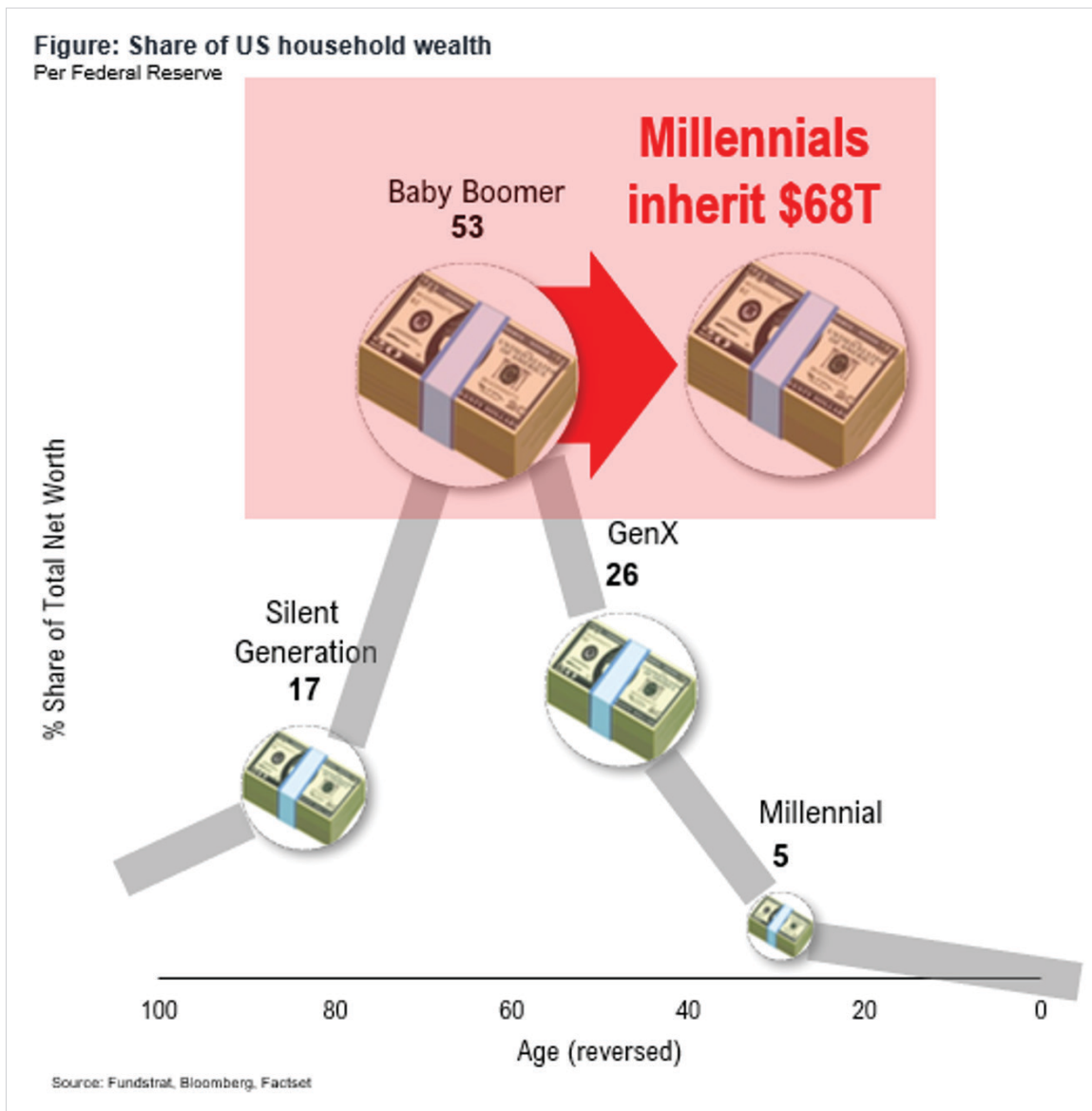
In this installment of our investment journal, we would like to discuss demographic shifts within the investment industry. Over the next 20 years, it is estimated that there will be a \$68 trillion inheritance transfer from baby boomers to millennials, of which \$6 trillion will be invested into the equity markets over the next decade (Exhibit 1).

While baby boomers have most of their wealth invested in balanced portfolios, millennials, due to the investment culture they were raised in, have a much more growth-oriented mindset

that is thematically influenced. This difference in investment styles has resulted in pronounced influences on the equity markets. Millennials tend to have two attributes: First, a greater willingness to allow earnings to grow into their valuations, and second, a more forward-looking perspective on early stage start-ups that have a less concrete history.

In our investment practice, we believe that a more discerning way to invest is to align our views on the outlook and valuation of a business with durable growth themes that the

Exhibit 1: Share of U.S. household wealth



Source: Fundstrat, Bloomberg, Factset

market will eventually recognize. In deriving the valuation of a business from our own internally crafted models, we can be better equipped to understand how the business is performing relative to our expectations, and also develop greater confidence in the long-term

durability of the business as it grows. In terms of investment discipline, the shift in assets from baby boomers to millennials will have several positive influences on growth investing. The first influence: A greater receptivity to growth companies, especially those in their early

stages. Second, a lower discount rate on the equity markets, which translates into a lower hurdle rate for investing, as a result of greater confidence in the developing track records of companies. And finally, likely a more forward-looking outlook of what growth companies are capable of delivering over the long term. These influences will contribute to a more positive set of investing behaviours, allowing value to be surfaced among growth companies with long-lived and durable economics.

We would also like to expand on our philosophy of valuation. Valuing a company is important in assessing how the business will perform under varying scenarios. In conducting various scenarios of the business, we gain a deeper understanding of its cash generating potential under these different scenarios and, hence, its true intrinsic value. While many of our past successful idea-generation practices have been qualitative in nature, going forward, we intend to merge our qualitative insights with a deeper and more thoughtful assessment of a business's value creation opportunities.

A deeper comprehension of an industry's long-term economics, how a company is performing, the longevity of its growth and, ultimately, its real business value will be areas of focus going forward. This investment process will be especially applicable to "new economy" industries, upon which the value of a business largely rests on being able to monetize large market opportunities. We expect this to add further refinement to our investment process, and help us merge insights from different areas of our research process.

In future installments, we will discuss how we identify growth investments, the specific factors we look for in industries, how we develop our discounted cash flow (DCF) models, and how our process continues to evolve.



Chapter 22:

Investment decision making

April 18, 2021

In past installments, we distinguished between our definition of risk compared with volatility. **Risk** is the degree of uncertainty embedded in a company's business model. If this uncertainty enlarges due to the timing or the realization of profits or cash flows, then a company's intrinsic valuation can be affected. Identifying companies with expansion characteristics over a long time horizon is one way of improving the portfolio's risk characteristics, as over time, the consistency of their cash flows will be recognized, business risk is reduced, and valuations can grow more sustainably. **Volatility**, on the other hand, represents market fluctuations that are often unrelated to a company's fundamentals. Sometimes, these market events may present low-

risk, high-reward juncture points in which quality assets can be acquired at attractive valuations.

Recently, our idea-generation practices have led to the identification of earlier stage growth companies, which we believe operate in industries with attractive economics and long-lived growth characteristics.

The longevity of growth is one of the key influences on a company's intrinsic valuation, and in identifying companies that are still in their earlier stages of growth, we believe that we are developing a time horizon advantage within client portfolios. The second factor that is often associated with growth companies is that their perpetual growth characteristics are usually higher than comparable steady-state peers, and

this is oftentimes because of the nature of the industry – it may be early in its growth cycle, complexity may be rising over time, use cases may be expanding, or consumer preferences may be shifting in a meaningful way. For example, companion animals might be an industry that most of us can relate to. Pets are living longer, more fulfilling lives, but moreover, there are many pet-specific therapies that are still in their early stages of development. In addition, as we look upon our pets as family members, the value we place on a pet is rising, giving rise to an enlarging animal pharmaceutical industry. Zoetis, as a long-term portfolio holding in the animal pharmaceuticals space, has been the means by which we have expressed this idea.

The second aspect of portfolio management is informed decision making, and this is usually a combination of assessing the quality characteristics of a company alongside its valuation. In the early stages of a company's evolution, its value is mostly sensitive to changes in its forward-looking growth outlook. Then, as this growth becomes more consistent, investors start to focus their attention on the consistency of revenues and their durability. This is why longevity is important. The greater the longevity, the more opportunity for market expansion, which ultimately leads to sustainable earnings growth over a longer time period and, as a result, higher valuations. The industries in which we have been finding these opportunities usually have a utilitarian nature, giving rise to recurring revenues, which grow as the industry

expands in complexity. These industries include: infrastructure engineering, mission critical data analytics, and healthcare software as service opportunities. The commonalities between these industries are evident: They are all growing in complexity, they have utilitarian characteristics giving rise to recurring revenues, their cash flows are becoming more consistent, and there is a high degree of longevity within their operating platforms.

The third aspect of our research process is continued dialogue with investment representatives of the companies we hold. We are mostly interested in the key insights the companies have about their industry growth drivers, whether certain secular share shifts can produce meaningful expansions, and the company's overall positioning and strategy for long-term success. For example, we recently held a discussion with the owner operator and CEO of one of our small cap healthcare data analytics companies, and learned about the increasing involvement of healthcare data analytics in informing patient decision making. During the month, we also discussed with one of our consumer media companies their vision for a more consumer-centric model of consuming digital entertainment. By following our companies, becoming more attuned to their changing business practices, and merging both our qualitative and quantitative insights, we believe we can develop expanded perspectives about how companies create value, resulting in more informed, thoughtful decision making.



Chapter 23:

Perspectives on investing: “Skate to where the puck is going, not where it has been.”

June 10, 2021

As the investment climate evolves, and we are now midway through the year, clients have expressed interest in our outlook and portfolio positioning. Our current views remain similar to our views in past installments, with most investors now realizing that the outlook has meaningfully improved. To summarize some of the constructive factors influencing these developments:

1. We remain in a slow growth and low inflation environment that portends well for equities;
2. The economic re-openings we see around the world are supported by higher GDP revisions;
3. The consumer is in a healthier place as a result of outsized savings rates during the COVID-19 pandemic (which have now been used to pay down short-term debt).

From a corporate earnings perspective, we are witnessing a recovery and normalization in corporate profits, resulting in higher earnings revisions and less leverage among S&P 500 companies. In fact, regarding 2022 S&P 500

estimated earnings per share, a measure of overall profitability, forecasted expectations are for corporate profitability to exceed 2019 pre-pandemic levels. These factors all suggest sustained S&P 500 returns and a healthy market backdrop.

More importantly, in developing our longer term outlook, we would like to direct clients' attention to the following quote by hockey legend Wayne Gretzky: "I skate to where the puck is going, not where it has been." Similarly, as investors, we ask ourselves, "How can the past be different from the future?" This may, at times, lead to an investment conclusion that is different from conventional expectations. For example, semiconductor companies have historically been highly cyclical due to fluctuating capital investments and variability in purchase behaviours. However, now with the advent of big data, greater complexity required in computing, and manufacturing best practices that emphasize quality and performance, we see the industry shifting into a more sustained secular, growth-oriented backdrop with revenues that have become more recurring. This is an example of an investment thesis in which a company's forward-looking earnings projection

is different from the past, and one that we believe is still gaining investor recognition.

Finally, we would like to remind clients that risk is not the same as volatility. We have been using volatility, which is often fleeting, to add to positions that have not been amply rewarded for strong earnings delivery. These include companies that have exceeded expectations in their earnings delivery, yet have had a muted stock price response. We have used these opportunities to increase our positions in companies that benefit from an early cycle GDP recovery in the economy, particularly in select areas of the consumer sector and real estate. These areas are often inflation resilient, as they can pass on the influences of higher inflation to a relatively robust consumer.

In conclusion, a constructive investment backdrop is supported by numerous factors—the earnings picture is swiftly recovering, corporate profits are being revised higher, the economic climate of slow growth and low inflation supports robust equity prices, and an early cycle normalization of economic activity will likely have greater longevity supporting an equity investor-friendly environment.



Chapter 24:

The investment outlook: What's changed (or not), and perspectives on investing

July 15, 2021

One of the topical subjects in the investment industry is the inflationary outlook. Inflation is an important factor because it determines the discount rate on investment asset classes, with higher inflationary expectations leading to higher return expectations that then result in lower asset values. On the surface, the headlines of the most recent U.S. Federal Reserve survey of policymakers, known as the “Dot Plot,” would suggest two interest rate increases by 2023, one year earlier than the prior outlook of 2024.

While this headline may appear “inflationary,” it is important to dissect the underlying commentary and nuance surrounding this, in order to assess whether there has been an authentic shift in Federal Reserve policy. Indeed, Federal Reserve Chair Jerome Powell stated that this Dot Plot be taken “with a big grain of salt,” and even suggested in his longer term outlook that there is the “possibility inflation could be quite low going forward” and that “we do expect inflation to move down.” Further,

these comments comport with our views of a lower-for-longer interest rate environment and the beginning stages of a slow growth and low inflation investment cycle that tends to portend well for growth investing.

Chair Powell even welcomed the modestly higher growth outlook, stating that he believes stronger wage growth is “natural in a strong economy” and that most of these higher wages have been “for market entrants in low skilled jobs.” He also added that it is “not wise to be wed to a particular measure on inflation,” that he doesn’t “expect higher prices to feed into expectations” and that the “labour supply-demand crunch will clear.” On the transitory nature of inflation, Chair Powell noted that the “high inflation readings we are seeing are starting to abate” and cited the example of the “lumber retreat” showing that inflation is transitory. Therefore, the commentary remains largely consistent with prior reports, with the fixed income markets affirming this through continued bullish flattening of the treasury yield curve, indicating that market participants had overestimated their prior inflationary expectations.

In the longer term, we would like to distinguish for clients the difference between buying a stock and buying a company.

As long-term investors, we buy companies. This is because we believe that the companies we select have unique business qualities that will lead to durable earnings growth, which will ultimately be reflected in valuations and recognized by investors. Oftentimes, these businesses are buoyed by secular growth characteristics, in which

they are targeting large and growing addressable markets undergoing meaningful shifts in industry behaviour. Many investors, however, pride themselves on buying stocks.

Investors who buy stocks tend to have a shorter time horizon and may be influenced by a more crowd-driven approach, with a key example being the Reddit “meme-stock” investors. This phenomenon exists when there is a heavily shorted company that then attracts a widespread following on Reddit, amplified by colourful commentary, resulting in a large volume of retail purchases that often have little to do with the underlying intrinsic qualities of the business.

As investors, we believe the price of a stock does not necessarily reflect its value, which is why we perform detailed research and due diligence on every company within our portfolio. We believe this method of investing allows durable value to truly be surfaced, has greater longevity, and is less influenced by market sentiment that often creates amplified volatility.

From a portfolio construction perspective, the S&P 500 has oscillated between growth and value styles of investing. Our portfolio also reflects a mix of these characteristics, with consumer, real estate and banking companies on one side of the economic ledger and secular growth industries with long-lived characteristics on the other side. We believe this balanced approach to portfolio management enables us to participate in the early cycle re-opening of some of these companies while at the same time retaining a long-term growth focus.



Chapter 25:

Investment outlook

September 23, 2021

Monetary policy is one of the underlying factors that influences the path of equity price returns. This is because monetary policy is responsible for the prevailing level of interest rates, which in turn shape investors' required return expectations, as well as the appetite of companies to borrow and invest in their own businesses.

Recall that the U.S. Federal Reserve (Fed), the central bank of the U.S., has a dual mandate:

1. Orderly price stability in the form of measured inflation targeted at 2%; and
2. Maximum, inclusive, full employment.

An analysis of Fed Chair Jerome Powell's remarks at Jackson Hole would indicate the progress made in each area. In terms of price stability, Mr. Powell reiterated that the current elevated inflation readings are likely to "prove temporary," and that the increases seen have mostly been focused on a narrow set of categories associated with the economic re-opening (fuel prices, hotel rooms, airfares, durable goods). On employment, he stated that the U.S. is still short of six million jobs from February 2020, when the COVID-19 pandemic first started, and that "we have much ground to cover to reach maximum employment" with "little evidence

of wage increases that might threaten excessive inflation.” Furthermore, Mr. Powell continued to reiterate the factors that have led developed markets, even in good times, to experience disinflationary growth, and these factors are technology, globalization, and demographic shifts. He also cites that long-term inflation readings have moved less dramatically than current readings, showing that households and businesses expect its current effects to be transitory. In sum, what this means for investors is the Federal Reserve is likely to remain highly accommodative in the easing of financial conditions, supporting overall equity market valuations.

The second factor influencing markets is **earnings growth**. Past readers will know that this is the factor we primarily focus on, as over a long time frame, the compounding growth characteristics of a company’s earnings profile is the main determinant of its share value. This year, earnings growth has been the main contributor to equity market returns and, in contrast, the corresponding valuation multiples have actually compressed since the economic re-opening in November 2020. This tells us that markets are starting to reward fundamental results reported by companies, even as concerns about growth

and variants linger. We view this as constructive because markets that are earnings-driven tend to be more sustainable. In addition, as the markets move from early cycle to mid cycle, we would expect more companies to be rewarded for their fundamental earnings performance, which bodes well for individual security selection.

Finally, many investors may have inadvertently subscribed to the notion of efficient markets in the sense that they may be thinking, “If it’s in the news, it must be in the price.” A Bank of America quantitative survey, however, shows this year that within value stocks, “positive, significant news” has outperformed “negative, significant news” by 13% and, within growth stocks, that figure is 8%. The persistence of these returns shows that it takes most investors time to incorporate news into their return expectations, resulting in less efficient market pricing than previously thought. It also goes to one of our in-house principles that stocks ultimately trade on surprises. In particular, the bigger the earnings surprise, the bigger the likely reaction of the share price. Clients can be assured that we are continually monitoring the earnings surprises produced by our companies and identifying anomalies that make for compelling investable ideas.



Chapter 26:

ESG investing and investing plan of action

November 4, 2021

The investment markets, being fluid as they are, oftentimes present unique opportunities in the form of new ideas. In particular, the environmental, social and governance (ESG) investment market is growing and broadening as a greater proportion of investors recognize the uniqueness of some of these business models. We would like to present two ideas, which are portfolio shifts we have recently made.

We have expanded our ESG investing initiatives into companies whose mission is to reduce carbon and greenhouse gas emissions. One of these companies—a Canadian-based, \$1.3

billion enterprise value company with relatively low debt—has developed a technology used in converting waste feedstock from landfills into renewable energy sources, such as fertilizer and renewable natural gas. This company generates revenue from three sources: First, the “tipping fees” associated with taking landfill waste away; second, carbon tax credits associated with their processing; and third, selling the final product on the spot and contracted markets. Given the uniqueness of the company’s “**build-own-operate**” model, municipalities are paying a recurring revenue stream to this company, which will eventually result in a utilitarian-like profit

structure. This has a long runway, and we believe it will eventually factor into the publicly traded valuation of the company. The company also fits one of our other desired characteristics, which is that it is **owner-operated by a founder** who has a track record of scaling technological assets to size and then selling them to larger enterprises.

One other portfolio shift we have made is to expand our holdings in digital payments. Digital payments are connected by a large infrastructure of companies that serve different ecosystems of buyers and sellers, and also enable certain payments functions to occur when a transaction is made. The company we have invested in is a European-based payments provider, which has helped European e-commerce companies scale their transactions in a large, growing addressable market wherein digitization is increasing. There is significant room to grow share, and create a durable, expanding profit structure due to the capital-light reinvestments required.

As for the macro-level outlook, the most recent episode of volatility has taught us that in the short run, markets are “voting machines” and that a very

small percentage of investors are actually trading on shortened timeframes creating this magnified volatility.

In the long run, however, we know that markets are “weighing machines.” What do they weigh? The earnings quality produced by companies, and their fundamental growth profiles. Volatility is not the same thing as risk. Risk is defined as the ability of a company to meet its fundamental shareholder objectives, while volatility simply describes price fluctuations and oftentimes, presents opportunities to buy high quality companies.

For most of our companies, which are owner-operator run in niche industries, there is a longevity in their growth profiles associated with being early stage, scalable, and targeting a large market opportunity. That is why we believe in being fully invested throughout a full market cycle. As we expand our conceptualization of these business models, and recognize their innate earnings quality and productivity, we will be reflecting this most forward-looking line of thinking into the portfolio decisions we make. Have a wonderful autumn.



Chapter 27:

The anatomy of an investment: Inovalon

December 15, 2021

Idea generation is a process that we are continually reflecting upon and refining. A mindset of continual observation, creativity, passion for business, and attention to both the quantitative and qualitative elements of investing surround this process, which tends to be iterative in nature. We would like to end off 2021 by dissecting an investment idea from start to finish: how we identified the idea, the investment process itself, the research and diligence into the idea, including a discussion with management, and how, in the end, we crystallized value as it approached our fair value target. Because investing tends to be fluid in nature, we also

discuss opportunistic juncture points at which we responded to market perceptions and how the data/information at hand shaped our decisions.

In the healthcare sector, there has been a technological evolution in the way care is delivered to patients, how outcomes are measured, and how patient economics can be improved while increasing the quality of care. This has given rise to the notion of connected data, in which patient data can be used individually and in aggregate to improve provider decision making and identify solutions at the patient population level. In June of 2020, we initiated a position in a company—named Inovalon—that connects this

data together, unifying the knowledge sharing between patients, providers, and managed care companies. Inovalon owns the data infrastructure used in gathering, anonymizing, and synthesizing patient data into healthcare insights that can then be applied across the population. We first identified this idea via researching the characteristics of various healthcare niches—different segments of the healthcare industry that have utilitarian characteristics which we felt would eventually evolve into a recurring revenue profile. At the time we identified Inovalon, the company was relatively young, starting to gain traction in the large managed care market, and run by a visionary owner operator, Dr. Keith Dunleavy. We had the opportunity to speak with Dr. Dunleavy, who answered our questions on the dynamics of the healthcare data analytics market. He also explained the longevity of the growth ahead of the company in an increasingly complex industry, and described details of a partnership with Walmart the company had recently entered into to improve patient outcomes in specialty pharmaceuticals.

Results soon started to crystallize. The company's annual contract value (ACV) started to expand, the pipeline of new business opportunities continued to broaden, and investor interest in the growing segments of laboratory sciences and specialty pharmaceuticals started to grow. The shares soon appreciated from \$17 to \$25. At this juncture point, investor attention started to focus on the immediacy of near term results. In Q3 of 2020, earnings and revenues actually surpassed expectations but the recurring revenue profile was slower to materialize due to

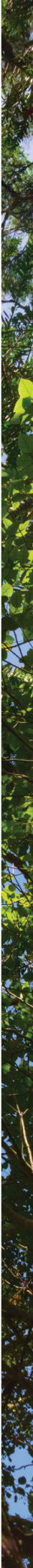
large enterprises giving more thought to their decision-making processes. The shares reverted from \$25 to \$19, at which time we recognized the temporary nature of the dislocation and decided to retain our position size. The subsequent quarter, revenues re-accelerated, large enterprises returned to the pipeline, and the shares appreciated back to their former \$25 level. Still, recognizing greater longevity in the business, we decided to remain disciplined in our valuation outlook of \$35, and continued holding the shares in client portfolios.

In 2021, investor attention continued to focus on the scalability of the business model and its recurring revenue-generation capability. The shares entered a phase of steady, less volatile capital appreciation. Soon after, private equity interest started to materialize, and the same attractive features we had originally identified in Inovalon—recurring revenue, owner-operator led, targeting a large and growing industry—were also found to be attractive by this private equity firm. Cash terms of \$41/share were offered for Inovalon in August 2021, at which point we exited our position for a +141% return. The core investment principles we applied included:

1. Being disciplined in our valuation outlook;
2. Mindful of risk management, especially at earnings junctures where surprises created opportunities at the same time as elevated volatility; and
3. Identifying the underlying characteristics of a recurring revenue, owner-operator led business, and remaining patient throughout the emerging growth phase of a business.

As discussed earlier, investing is an iterative process in which our idea generation is being continually refined. This helps us construct a portfolio of businesses—each with their own niche characteristics—that have the highest probability of translating into eventual, compounding earnings growth. Reflecting on our experience with Inovalon, companies that are targeting large and growing

industries, capable of scaling to create repeat business, and run by founder-led visionaries attract increasing investor interest. The aim of our small cap portfolio is to identify such ideas early enough in their growth lifecycles that their eventual maturity profiles will warrant valuations that reflect stable and compounding growth.



January 2022 to December 2022

Enter the bear market! One saving grace we noted to clients was that 100% of this bear market was caused by valuation multiple contraction, and not a single percent by earnings growth. This led us to believe that our companies were fundamentally intact, and that when the valuation multiple contraction stabilized, we would experience a swift rebound. At the same time, we pivoted our portfolio strategy, extricating ourselves from small cap investments. In a high cost of capital environment, small caps, we noted, traded well above their intrinsic value with a challenging road ahead for earnings recovery.

This was the year we used the proceeds from our small cap sales to make Nvidia and associated semiconductor equipment companies one of our most sizeable positions. This proved to be the right decision, as their earnings were recalibrated the least, and they participated in the swift market rebound starting in October 2022, which marked the low of the bear market. We wrote that valuation multiple led contractions tend to be short-lived, and we were proven correct in this premise as the economy showed signs of entering into a soft landing wherein interest rates were high enough to tame inflation, but not restrictive enough to trigger a recession.



Chapter 28:

Monetary outlook for 2022

January 18, 2022

Happy New Year to you and your loved ones. We concluded 2021 in a strong position, on both an absolute net-return and relative-performance basis. The fogginess that greeted growth names as 2022 started had to do with an uncertain interest-rate outlook, as the Federal Reserve has now prioritized its orderly price-stability mandate to lessen the effects of inflation related to supply chain, causing uncertainty among some market participants. We want to provide a rational hypothesis for the path of monetary policy over the coming year, and how that may impact company valuations, especially among our growth names, where intrinsic values

tend to be more sensitive to the cost of borrowing money to expand and grow.

First, to remind clients, the Federal Reserve (“Fed”) has a dual mandate: 1) Maximum inclusive employment; and 2) Orderly price stability in which inflation is targeted at 2% per year. Because the economy is making “rapid progress” (Fed Chair Powell’s words) toward full, inclusive employment, with wage gains shared across demographics, the Federal Reserve’s priorities have now shifted toward containing inflation. While acknowledging this time that the nature of inflation is different—i.e. it is caused by supply distortions rather than an overheated economy—Chair Powell also

highlighted a number of economic indicators that have been “really healthy” and “very strong,” including consumption, savings, strength of the labour market, openings/vacancies, and the unprecedented levels of monetary and fiscal stimulus available. The dot plot, which is a survey of Federal Reserve Open Committee members, now averages a median of three projected interest rate increases (0.25% each) in 2022 for an overall median federal funds rate of 0.875% in 2022, 1.625% in 2023 and 2.125% in 2024. This backdrop is still highly accommodative for growth names to flourish, and, if supply-chain disruptions ease in the second half of the year, as the Federal Reserve expects, further interest rate increases may be more restrained.

Longer term, we would like to remind clients why we believe we remain in a disinflationary environment:

1. Supply chain distortions are likely temporal in nature. This form of inflation, known as cost-push inflation, is projected to ease as the Federal Reserve modestly raises interest rates and backlogs gradually thaw. The Fed anticipates this will start to be evident by the second half of 2022.
2. Technology has improved price transparency, reducing search costs, and acting as a disinflationary influence as more purchases are now coming from the inside as opposed to the outside.
3. Demographics—in an aging world in which there are an increasing number of Baby Boomer retirements, without a commensurate birth rate—have acted to dampen population growth, and therefore inflation.

4. Finally, relative to decades ago, we live in a more globalized society in which the cost of production has been dramatically lowered, and passed onto the consumer.

This disinflationary backdrop is highly favourable for growth stocks and those companies with emerging growth profiles shaping their own unique niche industries.

Our investment philosophy is to select approximately 30 wealth-creating companies, with strong forward-looking projections for growth and profit forecasts. We continue to assess the valuation backdrop of our companies in a modestly higher interest-rate environment and have determined that the majority of our holdings still have a healthy margin of safety and strong competitive moats to become the innovators in their respective industries.

We would also like to remind clients that risk is not the same thing as volatility. Risk refers to the underlying ability of companies to achieve their financial objectives, whereas volatility refers to stock-price fluctuations that often tend to be fleeting and present long-term opportunities. Within a given year, it would not be surprising for equity markets to withstand a correction of 10% or even 20%, as has been the historical norm. Clients may be assured that this downside is temporary, and oftentimes, these juncture points produce opportunities to purchase quality assets at reasonable discounts to intrinsic value. While share-price performance may fluctuate quarter to quarter, it is the strength, consistency, and longevity of business results that usually gets rewarded in the long term. Furthermore, a long time horizon enables the compounding growth

characteristics of companies to fully come to fruition.

Finally, we remain highly attuned to changes in valuations, corporate profit outlooks, and the investment climate so that if shifts in the portfolio are warranted, they typically reflect the result of disciplined and methodical thinking.



Chapter 29:

Evaluating portfolio characteristics

March 23, 2022

We are deeply saddened by the scale of human suffering that has resulted from the Russian-Ukraine geopolitical situation, which was the major cause of recent market volatility. It has reinforced to investors the importance of investing in companies with strong underlying fundamental characteristics—i.e. industries with high barriers to entry, switching costs, pricing power, and strong network effects. As a reminder, despite the headlines, the Russian economy is less than 1% of world GDP, and the US S&P 500 being forward-looking in nature, will likely be increasingly seen as a safe haven asset in turbulent times.

Portfolio construction is the art of constructing portfolios that represent a handful of measurable investment attributes that have been proven, over time, to be predictive of stock-price returns. For example, clients will know that we focus on the **quality characteristics of a company**, which we define as high-current or future-expected profitability, and low debt ratios. Quality, when accompanied by **attractive valuations**, has tended to outperform market expectations over extended timeframes, leading many investment portfolio managers to filter out their universe using past empirical data that attempts to replicate quality. These conventional empirical

strategies, however, are mostly backward-looking, while our fundamental strategies tend to employ **forward-looking** measures of expected success that can result in future business quality. We believe that this strategy is more predictive of future shareholder returns. As we pointed out in a former investment journal installment, it was Wayne Gretzky who is known for saying “I skate to where the puck is going to be, not where it has been.” Similarly, markets are forward-looking discounting mechanisms that will discount the future projected earnings of companies at varying rates of return and time horizons.

There are multiple steps in our investment process in identifying high-quality companies. First, we will examine the industry to see that it is a large, growing, addressable market in which multiple companies can thrive. Then, we assess the capital allocation practices of the companies to understand how organic growth is being created, and how consistent it is. Many times, these companies may be investing a high proportion of their existing profitability into building a durable business that has long-lived earnings potential. Finally, we assess management to understand the alignment of interests, with a particular eye on companies that are owner-operator led. Over time, the result of consistent, results-driven business decisions will then result in the highly desired attributes that investors pay attention to: Secular earnings, long-lived growth, high returns on invested capital (ROIC), and a track record of deploying capital effectively.

Besides quality, there are other factors, too, which—when integrated into a portfolio—can have their unique performance impacts. Companies that are attractively priced, or undervalued for prolonged periods of time, may start to outperform once earnings growth starts to surface again. We have seen examples, throughout the pandemic, in consumer discretionary stocks that have regained their footing as their end markets re-open again. As a second example, in a modestly rising interest-rate environment, still accompanied by slow growth, investors may value the steadiness of a rising dividend yield, and so dividend-growth strategies may be looked upon as a safe haven in times of uncertainty. The semiconductor industry, which sports one of the highest dividend growth rates, is one such example in which we have positioned client portfolios.

Finally, monitoring changes in how factors are being rewarded is also part of our portfolio construction process. Many large-cap technology companies with wide, defensive moats, have both an attractive growth profile as well as another element investors look for: predictability. There is a premium paid for this predictability, much the same way there is a premium paid for low-volatility shares with profitable track records and select fixed-income instruments.

Understanding our benchmark’s characteristics, the S&P 500, allows us to understand which characteristics are being rewarded, and why. For instance, in the information technology sector in the S&P 500, the average price to earnings

ratio is 30x, but profitability, as measured by return on equity, exceeds 36%. In addition, these are companies that are highly cash-rich, with negative debt ratios (indicating the company is in a surplus position). So, this demonstrates that investors are willing to pay a premium for high, sustained profitability and strong balance sheets. Qualitatively speaking, these are business models that have successfully productized their ideas, implemented strategies for growth, and now have high degrees of recurring revenue, long timeframes for growth, and favourable capital allocation practices.

Our final point is on volatility. Tracking error is defined as the volatility of the portfolio in relation to the S&P 500, its benchmark. This is an important metric to understand, because it measures the variation of a portfolio's historical returns against the returns of the S&P 500. The greater the variation, the more the volatility, and vice versa. Maintaining prudent portfolio management standards, such as position sizing, analyzing volatility trends by name and sector, and maintaining sector weights that reflect our economic outlook are all tools that we employ to manage tracking error and its associated dispersion of returns.



Chapter 30:

The market's view on Fed policy

April 28, 2022

We would like to address a subject that has been circulating through the investor psyche as of late: The concern that the Federal Reserve, in its hawkish stance, is unable to engineer a soft landing, and that the contemplated series of interest rate increases will result in a policy mistake that ultimately throws the economy into a recession.

Some market commentators have speculated that the market is starting to discount this scenario using the S&P 500's trough forward P/E multiple (excluding the pandemic) of 14x recorded in Q4 2018, during the global trade wars at the end of the prior rate-tightening

cycle. This results in a downside of 3500 on the S&P 500, approximately 15-20% from current levels. We wanted to prepare clients for this eventuality, as markets are forward-looking, and even if this scenario does not occur, sentiment and emotions can sway the decisions of even highly intelligent and informed investors. We expect downside to be short-lived, as we would like to remind investors of the Federal Reserve's statutory mandate: 1) Orderly price stability, as measured by inflation targeted at 2% in the long run, and 2) Maximum full employment, as measured by both the unemployment rate and labour force participation spread across

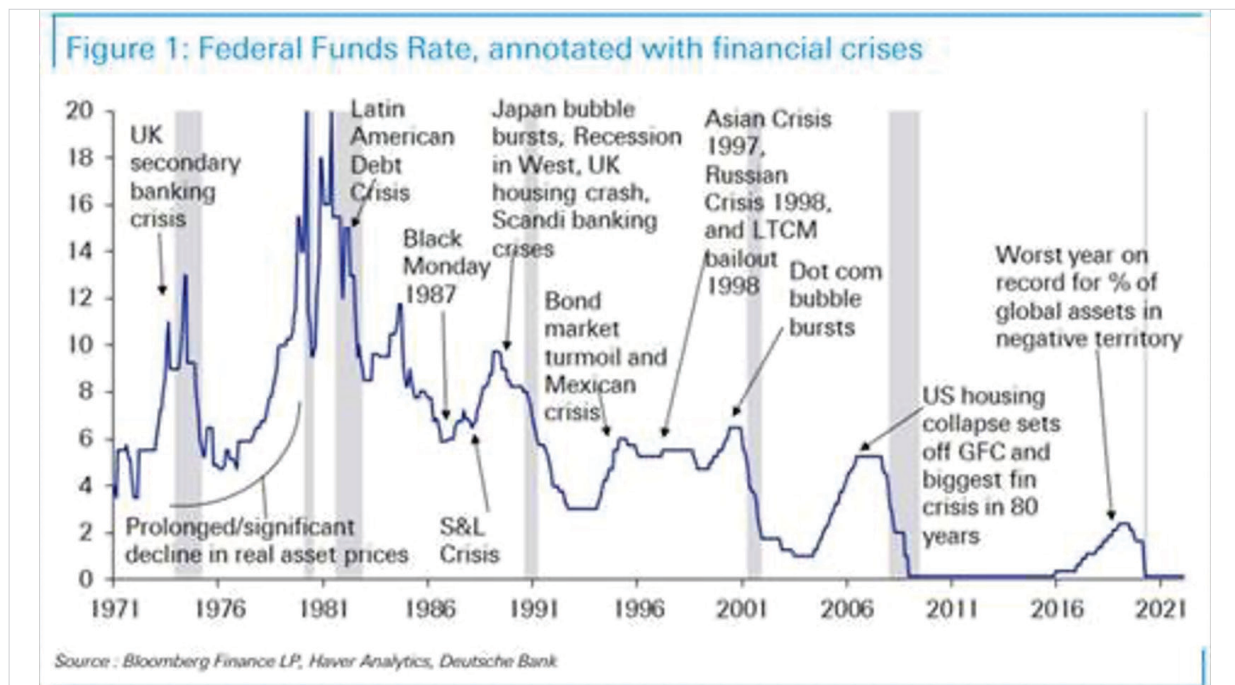
demographics. Indeed, the treasury curve—a measure of inflation expectations—is flattening at the long-end, indicating that we may reach peak inflation levels some time toward the end of this year.

Moreover, it is important to analyze the Federal Reserve’s most recent meeting minutes (March 15, 2022) to discern the thinking behind the economic landscape. As of March 15, the terminal interest rate—which represents the long-run sustainable interest rate the economy can exchange money at—was actually reduced from 2.5% (as of December 2021) to 2.375%. This signifies that over the long run, the Fed is expecting a return to secular disinflationary forces, which would also be a return to the slow growth and moderate inflation investment climate that we

have predicated portfolio decisions upon (during COVID and prior to COVID).

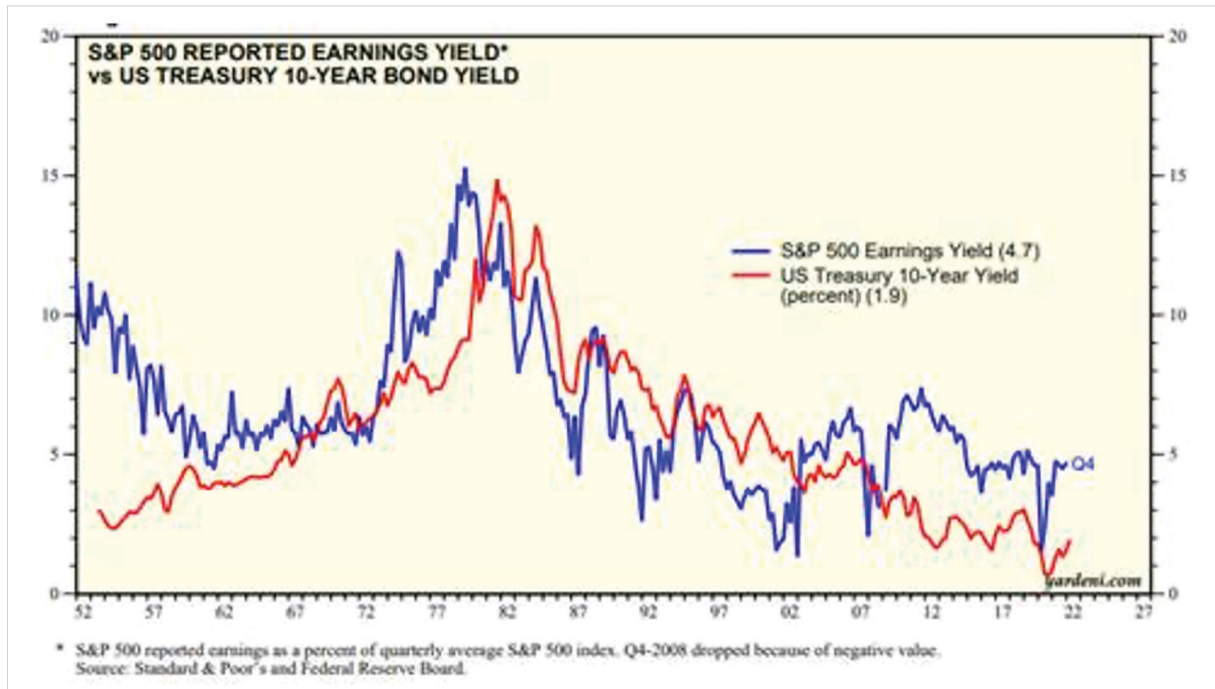
We would also like to address the commentary that the Federal Reserve is prepared to raise interest rates until the economy goes into a recession. We find very little evidence to support this. In past economic cycles (starting from 1971), there has not been a recession when the Federal Funds Rate was below 4% (with the exception of the pandemic – see Exhibit 1). Furthermore, even in the meeting minutes themselves, the Fed has signaled a willingness to overshoot inflation in exchange for orderly growth. Inflation projections for 2022 are 4.1%, then moderating to 2.6% by 2023 and 2.1% by 2024 (still above the 2% target level). We liken the current environment to 2015/2016, where markets initially sold off on

Exhibit 1: Federal Funds Rate, annotated with financial crises



Source: Bloomberg Finance LP, Haver Analytics, Deutsche Bank

Exhibit 2: S&P 500 reported earnings yield vs. US treasury 10-year bond yield



Source: Standard & Poor's and Federal Reserve Board, Yardeni Research

fears of an early rate-tightening cycle, only then to reverse course when it became understood that growth would accompany these interest rate increases, causing the yield curve to steepen eventually—a signal of a robust economy to begin with.

Finally, a note on valuation. To this, we turn to charts produced by market strategist Ed Yardeni, outlining the spread between bond yields and earnings yields. This still exhibits a very healthy gap, indicating that the fundamental and relative risk-reward of holding equities versus treasuries as an asset class is still favourable (Exhibit 2).

As a reminder to clients, high-quality, annuity-producing, secular-recurring companies at attractive valuations have tended to produce meaningful returns through a full market cycle.

This is because these companies are “productive assets” which can retain their value even if inflation is temporarily elevated. As an example, let’s analyze two companies. The first is a capital-intensive equipment rental company that must replace its depreciated assets every year. Even as this company reinvests in its property, plant and equipment, it is unable to raise prices and pass through the cost of higher inflation due to the commoditized nature of its industry. This results in declining profitability resulting from inflation.

On the other hand, let’s consider our second company—a difficult-to-replicate software platform. This productive asset is capital-light because little re-investment is required to retain customers, and higher pricing as a result of inflation can be passed through to

Exhibit 3: S&P 500 price returns versus gold



Source: Bloomberg Terminal Data

customers due to the unique nature of the asset. Cloud computing and semiconductors used in data centers would be two such examples. As demonstrated by the S&P 500 versus gold, productive assets (as measured by the S&P 500) have outperformed non-productive assets (e.g. gold) by 6.86% per year over the last full market cycle (2008-2020) in Exhibit 3.

The main reason for this outperformance is that the S&P 500 has successfully compounded

earnings per share by 7.4% per year over this time period, while gold has produced no earnings. This is why we encourage investors to remain fully invested in productive, annuity-producing assets that offer defensive characteristics during times of pronounced volatility. On the flipside, these assets also produce steady, compounded investment growth during more normal economic times, such as the slow-growth and low-inflation environment of the post 2008/09 era.



Chapter 31:

Follow up on the investment outlook

May 9, 2022

In our previous investment journal, we had discussed the possible baseline scenario of the S&P 500 re-testing 3500 (14x on forward earnings, 12% possible downside from today's S&P 500 closing value of 3991), predicated on the concern that the Federal Reserve would be unable to engineer a “soft-ish” landing (in the words of FOMC Chair Jerome Powell). In this type of environment, which is starting to price in the early signs of a mild recession, we want to remind clients that it is ultimately quality, paired with attractive valuations, that always prevails over a full economic cycle, as we have seen from the 2008-2020 market cycle that ended with

the pandemic. A few reminders to clients as we navigate this environment.

- Markets are forward-looking in relation to the economy, by approximately 6-9 months. By the time a recession is known, it is conceivable that most stocks will have already staged a recovery, in anticipation of more accommodative monetary policy and the attendant recovery.
- The US Federal Reserve, the main driver of monetary policy, has two mandates:
 1. Orderly price stability; and
 2. Maximum, full, inclusive employment.

- Given the inflationary backdrop, the Fed has indicated it will raise the Federal Funds Rate by 50 basis points in June and 50 basis points in July (in addition to the 75 basis points already done). This would total 175 basis points of rate increases, taking us closer to the neutral Fed Funds Rate of 2-3%. If inflationary pressures abate in the second half of this year, and the excesses from demand dissipate, then it is conceivable the Federal Reserve could alter its policy stance to accommodate for a softening demand outlook.
- Managing through a down-trending market requires a focus on relative valuation. Google, for example, trades at a valuation of 20x forward P/E and offers 5-year historical earnings growth of 31%, for a Price-Earnings to Growth (PEG) ratio of less than 1, compelling value. In contrast, consumer staple Proctor and Gamble trades at a forward valuation of 25x and offers 5-year historical earnings growth of 9%, for a PEG ratio of 2.8x. Comparatively speaking, assuming its growth is sustainable, Google offers better growth and value characteristics, despite the dislocation we find ourselves in. It is for this reason, Google (and not Proctor and Gamble) is one of our top portfolio allocations.
- It was famed investor John Templeton who once stated, “Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.” We believe equity markets continue to climb a wall of worry and that long-term investors will be rewarded for their patience and for the heightened volatility they are now experiencing.
- We would like to redefine the word safehaven. A safehaven investment is one that protects against inflation during uncertain economic times, preserves purchasing power, and has business characteristics that are recurring and defensible in nature. We view US large cap technology as a safehaven investment because it sports all these characteristics (as described above in our relative valuation point) at compelling valuations. While we are prepared for further re-tests of equity valuations, primarily attributable to market multiple compression, we would also like to remind investors that risk is not the same thing as volatility. Volatility refers to price fluctuations that are often fleeting and can lead to opportunities, while risk represents the ability of the underlying business to earn above its cost of capital.
- Finally, we liken this period to the 2015/2016 rate-tightening cycle in which markets were initially down-trending due to the fear of higher interest rates, only to then reverse course in 2016 when it became known that the economy was on solid footing and that higher rates could be accompanied by robust growth. Our investment philosophy continues to identify and evaluate the secular winners that have business models which can prevail in both uncertain and economically-prosperous investment climates.



Chapter 32:

Re-calibrated market outlook

June 15, 2022

At summer barbecues, there is a saying that “everything goes on the grill.” This saying may aptly describe today’s heated investment climate, in which the convergence of multiple macro-level dynamics has given rise to a highly sensitive and reactive investor psyche. One of these developments was this morning’s 75-basis point Federal Funds Rate increase, which signals a more forceful stance on the part of the Federal Reserve to quell inflation regardless of the economic implications (as of June 15, 2022). Indeed, growth revisions came down a full percentage point (GDP from 2.8% to 1.7%), there were upward revisions for 2024 unemployment

from 3.6% to 4.1%, and expected headline inflation for 2022 was revised upward once again from 4.3% to 5.2%.

Markets initially reacted favourably to the Federal Reserve’s resolve to tame inflation, indicating the markets are recalibrating expectations for financial conditions. Over a longer timeframe, the implication of a Federal Reserve policy that has shifted from neutral into restrictive is its influence on the market multiple, which represents investors’ perceptions of the fair value they are willing to ascribe to the average S&P 500 company. The last time we wrote, we had predicated our S&P 500 intrinsic value target

of 3500 on past corresponding periods in the market cycle where the 10-year treasury yield had exceeded 3%. With the Federal Funds Rate expected to move close to 4% by the end of the year and the 10-year treasury yield already at 3.4% as of this morning's decision, it is likely the S&P will experience further valuation multiple compression, reflecting less accommodative monetary conditions. Indeed, 100% of the price movement this year can be explained by multiple compression, and not earnings results.

As a result, the associated volatility in the financial markets that we are witnessing—stemming from these more restrictive conditions—is completely reflected in the trajectory of the valuation multiple (i.e. the price-earnings ratio), and has little to do with company-specific developments influencing the earnings outlook, which, for the most part, have been constructive but remain unacknowledged by the markets.

We wish to explain a number of these influences on the market psyche. First, the duration and severity of a recession scenario will depend on the persistency of inflation, and how quickly headline readings recede so that the Federal Reserve can modify its stance to a less restrictive one. A critical distinction between this recession (if we do have one) and prior economic cycles is that in prior cycles, there were fundamental issues embedded in the economy that became systemic and required more time to heal. This time around, however, the economy is on sounder footing, with strong private consumption, fixed business investment, and expanded household net worth as a result of the

extraordinary measures implemented during the pandemic. Second, the conflict in Ukraine, which has disrupted supply chains and led to elevated food and energy prices, has created pricing pressures. While this supply-driven inflation will take time to abate, one year forward inflation expectations are still lower than where they are today, signaling an expectation for some supply-side improvement. Third, the COVID lockdowns in China have caused supply distortions, which are just starting to recede as China re-opens again. Any further positive developments in this area will allow supply chains to thaw further. From a markets perspective, valuation multiples of select areas in the market during the pandemic became overextended, and as demand normalized, so did earnings, leading to valuation multiple compression. We did not own companies in any of these “boom-bust” areas during the pandemic, as we believe a focus on the long-term fundamentals within quality business models will always prevail through a full market cycle.

Cash-generative companies with strong economic moats will likely lead the next bull market cycle, in an environment in which growth is becoming more scarce. Given that markets typically price in economic events (i.e. recessions) six to nine months in advance, we anticipate a restart to the cycle in the second half of this year or the first half of next year, which is when we believe markets will trough on the expectation of an early to mid-2023 recession. In terms of portfolio activity, we have been employing relative value strategies to identify high-quality positions with discounted growth profiles to

Exhibit 1: S&P 500 declines around “growth scare”

S&P 500 declines around “growth scare”					
Event	Market peak date	# Days to bottom	% Decline	Forward 6-month return	Forward 12-month return
European debt crisis	4/23/10	70	-16.0%	23.0%	31.0%
U.S. debt downgrade	4/29/11	157	-19.4%	28.6%	28.7%
Industrial recession	5/21/15	266	-14.2%	19.5%	26.6%
QT & U.S./China trade dispute	9/20/18	95	-19.8%	18.2%	32.0%
	Average	147	-17.3%	22.3%	29.6%

Source: RBC Portfolio Advisory Group

migrate into during this downturn. With this framework in mind, we improved the quality attributes of the broader portfolio construction by pairing selling opportunities with purchases of high-quality, large-cap growth companies that are now attractively valued. For example, using the sales proceeds from a few small-cap companies, we augmented our positions in large-cap semiconductors, which we believe will lead in the next bull market cycle. This re-allocation has also created an offsetting taxable benefit to our clients’ capital gains positions in 2023. We also raised cash in clients’ portfolios, in anticipation of deploying funds into high-quality investment opportunities should our base case materialize.

We also want to illustrate how markets have typically reacted to “growth scares” over the last full market cycle (Exhibit 1). Typically, an average 17.3% drawdown is followed by a 6-month return of 22.3% and a 12-month return of 29.6%. While recessions have a steeper drawdown (31.8% on average), markets have demonstrated their resilience in rebounding, then climbing a wall of worry over a long timeframe, with 5-year, 10-year and 15-year compounded annual returns on the S&P 500 being 13.1%, 14%, and 9% respectively. We have conviction that this time will be no different, and that quality companies with attractive valuation profiles will continue to lead the new cycle. The market is close to reaching peak pessimism, and on the cusp of

a new market cycle later this year or early the following year. We are investors in high-quality, cash-generative companies, regardless of the short-term direction of the market. While the intermediate timeframe may present some volatility, as the market digests more restrictive financial conditions, the genesis of a new market cycle typically precedes the economy with a lead time of six to nine months.

In being patient for the next bull market cycle, investors can reap the benefits of investing in high-quality companies with a track record of outperformance over a full market cycle.

Chapter 33:

Quarter two of 2022 earnings recap and Federal Reserve update

September 1, 2022

As this year has demonstrated, there is a distinction between volatility in the markets versus risk. As a reminder to clients from past investment journals, the entire movement in the S&P 500 this year can be explained by valuation multiple contraction, while corporate earnings growth for 2022 remains resilient and is in the positive, high single digits. As our investment process emphasizes cash-generative companies with strong economic moats, these same companies possess the economic resiliency to weather through a rapidly-shifting investment climate as we have seen this year. Their

earnings power is buttressed by high barriers to entry, attractive industry fundamentals, and strong corporate governance. Despite temporary fluctuations, these companies tend to produce the vast majority of stock market wealth over a full market cycle.

We concur that the investment landscape has been challenging this year, with a wide spectrum of diverse viewpoints. The year began with a broadening of geopolitical risks that caused inflation to accelerate and the stock market to subsequently decline. The US Federal Reserve quickly reversed course on its initial views

that inflation was transitory, and began to expeditiously raise borrowing costs to temper demand. Over the past two months, we have seen some signs of progress: the US landed into a mild “technical recession” characterized by two quarters of negative GDP growth; inflation appears to have peaked with the most recent July readings; and second quarter earnings were more resilient, with beat rates of 75.7% (above the long-term average of 73.9%) and year-over-year earnings growth of 7.9% versus expectations of 4.1%.

End markets were also healthy in Q2. We witnessed robust outlooks in travel & entertainment, industrial flight hours, high-end consumer spending, and innovator industries such as digital advertising and cloud computing. This broad-based strength was reflected in Q2 earnings results: 76% of overall S&P 500 companies reported positive earnings surprises versus analyst expectations; 2022 earnings growth is projected to be positive 7.6% by the end of the year; most 2022 outlooks were maintained; and among the 488 companies that have already reported, earnings were revised higher for 303 of them (62%). Within our portfolio holdings, companies catering to an affluent clientele have demonstrated strong pricing power characteristics: Profit guidance for all four of our luxury goods holdings was maintained and, after traveling to Europe, we observed the lengthy tourist flows attracted to these stores’ offerings in their respective home countries. Even among companies who are projecting a mild recession in Canada in 2023, they believe that this downturn will be less protracted than prior downturns, owing

to more resilient labour markets and elevated consumer spending levels associated with the re-opening of economies from pandemic-era restrictions. Therefore, we believe that corporate fundamentals are supportive of the valuation multiple re-rating we have witnessed on the S&P 500 this quarter.

There are also signs that inflation may have peaked. Gasoline prices are down 14% from their highs and so are industrial commodities. Container and freight rates have moved lower—a sign that supply chains are thawing. In conjunction with better earnings of the cash-generative companies we hold, we believe that economic fundamentals will be recognized again soon. As Chair Powell of the US Federal Reserve re-emphasized in his Jackson Hole remarks, it is true that inflation will take time to recede, as it was caused by numerous sources spanning supply, demand, fiscal stimulus, and monetary policy. This said, Mr. Powell also repeated that it would be appropriate at some point to slow the pace of monetary tightening, should the “totality” of the data warrant it, with central bankers now emphasizing the importance of the upcoming August employment and inflation reports. Should these trends show a continued trend in inflation having peaked, it would be supportive of equity valuation levels.

Finally, we wish to remind clients that the stock markets tend to be a leading indicator of economic health by about six to nine months. If this projection holds, the markets may have already troughed in mid-June. While further re-tests cannot be ruled out, we believe they should be seen as opportunities to add high-

Exhibit 1: Chicken wing prices have declined 62%



Justin Fox on Twitter (now X) - August 17, 2022 post

quality businesses at discounted valuations to the portfolio. Furthermore, bullish sentiment—as measured by the American Association of Individual Investors—is only 28% (below the long-run average of 34%), which tends to be contrarian bullish signal. Throughout the summer, the frequency of insider transactions has also increased, signaling that corporate

management—the individuals who know the most about their companies—are seeing value in their own stock. This is constructive from a sentiment standpoint.

To end on a light note, the price of a delicious summer favourite—chicken wings—has declined 62% compared to before the pandemic, as pictured above (Exhibit 1).



Chapter 34:

Portfolio management strategy update— pivoting from fundamental growth to visibility of present value

November 10, 2022

In prior installments of our journal, we had prepared clients for an intrinsic value of 3500 on the S&P 500, predicated on what we believed at the time to be a fair multiple of 14x price to earnings. This target—which we landed close to this summer—contemplated a market completely driven by multiple compression, as we have seen this year, while 2022 earnings growth has actually remained positive. In this type of environment of elevated inflation and rising borrowing costs, present value characteristics driven by

fundamental visibility, dividends and buybacks tend to prevail over an intermediate timeframe. We have been positioning client portfolios in these areas, with a view that the down-trending markets may be more prolonged. We wish to reinforce the message that all the valuation change in companies this year has been driven by multiple compression.

From a markets perspective, part of the reason for this down-trending market is the policymaking of the US Federal Reserve. In the

November FOMC meeting, US Federal Reserve Chair Jerome Powell guided a pathway for a series of slower future interest rate hikes, but raised the terminal rate of interest expected in 2023, more-so than the markets expected. This has contributed to a repricing in growth instruments whose intrinsic values carry large weightings in future-dated cash flows and, since June, we have been reducing the portfolio's exposure to these future-oriented growth and small-cap areas. In addition, with a now higher terminal Federal Funds Rate, the US Federal Reserve will likely overtighten financial conditions, landing the economy into a more protracted recession. As a result of these events, we have recalibrated our earnings growth expectations for 2023, and now expect the market to trough between the 3000-3200 level, predicated on re-adjusted earnings revisions. This said, once earnings revisions are recalibrated, and underlying business/financial stability starts to be recognized again, an earnings recovery will likely ensue, resulting in a possible recovery for the S&P 500. This, however, will take time.

At the same time, **from a business perspective**, corporate fundamentals remain resilient. Their resiliency is buttressed by high switching costs, wide economic moats, and strong pricing power to offset the inflationary environment we are in. These business characteristics combined with prudent financial management result in companies that are highly profitable both on an absolute and relative basis. As the growth component of portfolios is repriced in a higher interest rate environment, we have been shifting the portfolio into dividend-generating companies

whose return characteristics are enhanced in a higher borrowing cost environment, including: banks, which borrow short and lend long, leading to enlarged profit margins; income-producing real estate investment trusts that sustain high dividend growth and yields, to be competitive with elevated interest rates at the short-end; and blue-chip asset managers with high switching costs and prudent capital allocation practices that return capital through disciplined buyback activity. These companies, which have high visibility into their current income streams, will likely be rewarded on a relative basis in an environment of higher interest rates.

From an integrated perspective, the down-trending nature of these markets has been challenging for many investors. But we wish to reassure clients that the fundamental characteristics of the companies have changed very little. For instance, industry pricing power within luxury goods is not just being contemplated for 2022, but 2023 as well. Wide-moat, cash-generative businesses such as Google and Microsoft are maintaining market share in this environment and returning their free cashflows to shareholders in the form of significant buybacks and dividends. Despite a slowdown in consumer activity, insider-owned Simon Property Group still raised their profit guidance for the year, along with the dividend and a sizeable buyback authorization—returning capital to shareholders.

Capital allocation practices which favour organic growth, share buybacks, and small, tuck-in acquisitions are being rewarded in the current investment climate. For example, a

recent addition to the portfolio, Bank of America, was once a company that grew by acquisition through its mergers of Countrywide, Merrill Lynch and MBNA in the pre-2008 period. Given the issues associated with subprime credit, Bank of America hired new leadership to re-focus the organization on organic growth and capital return, which then grew book value and led to earnings growth as the second largest money center in the USA. Banks, being highly regulated entities, are very well capitalized today as evidenced by their solvency characteristics, and trade at undemanding valuations relative to underlying earnings power, which enables them to pay sizeable dividends.

So, as clients can see, companies with strong balance sheets and current profitability are able to return capital in a disciplined fashion to shareholders, which is highly valued in the current environment.

Finally, with relatively favourable year-end reporting, it may be reasonable for investors to expect a temporary trend change heading into the 2022 year-end, and possibly early 2023, lifting risk assets in the more economically-sensitive areas of the market. We will be utilizing such opportunities to reposition portfolios in companies with favourable present-value characteristics, including visibility, stability of earnings and favourable return of capital characteristics.

Chapter 35:

A look back to 2022 performance drivers and a look forward into 2023 portfolio positioning

December 15, 2022

As 2022 concludes, we wish to provide a review of the performance factors influencing our portfolios' year-to-date (YTD) returns. Recall that there are two main drivers of performance: a company's valuation multiple, which determines how much an investor is willing to pay for each dollar of earnings in that company; and its earnings profile, which is mainly measured by profit growth. This year, the US S&P 500's performance can be explained solely by valuation multiple compression—a result of a number of macroeconomic shocks ranging from inflation and interest rate increases to a possible growth slowdown in profits.

Valuation compression has had an impact on a wide range of cyclical and even defensive industries across a spectrum of investment styles ranging from quality earnings growers to deeply discounted value stocks. Yet, in spite of this multiple compression, aggregate earnings in 2022 within the S&P 500 are still positive and expected to grow 6% by the December year-end. From a fundamental perspective, stable-earning, dividend-generating companies with reasonable payouts, in industries with capital preservation characteristics, have done well. Adaptability and earnings resilience have been key. For example, one of our sizeable holdings in technology, Apple,

grew annual earnings per share by 9.5%; there were persistent pricing power effects among all three of our luxury goods companies, resulting in positive expected profit growth for the 2022 fiscal year-end in February; and large bellwether industrials Honeywell and KLA Corporation (KLAC) are returning capital to shareholders at a rapid clip, bolstering returns against an expeditiously rising yield curve at the front end. Despite achieving these business results, Apple shares are down 18.9% YTD, underperforming the S&P 500; at one point during mid-June, Hermes' shares were down 36% YTD, which is when we established a position; and, despite its strong capital return policies, KLAC shares compressed by 4.3% YTD. Although they have differing business models, these companies have certain characteristics in common: They sport wide economic moats with durable franchises, fortified balance sheets, and earnings resiliency even in a downturn.

The performance profile of these quality growers contrasts to the cyclical tailwinds we have witnessed favouring the energy sector. We use Canadian Natural Resources (ticker: CNQ, not owned in our portfolios) as an example. With this year's inflation shock resulting from the war in Ukraine, WTI crude oil prices peaked at US \$123/barrel in March, before receding 37% from June to the present. In spite of this reversal in crude oil prices, CNQ shares have appreciated 49% YTD, which we view as overpriced relative to its underlying commodity. Mean reversion, in which profits fluctuate from periods of growth to compression, is very common in the energy sector. This is evident in CNQ's future revenue forecasts,

which is for a peak in March 2023, before a 20% drop by fiscal 2026. If this forecast materializes, investors in CNQ shares today would be paying a forward premium for shares whose profitability profile would be diminishing in the future. Finally, even with receding oil prices as referenced above, the shares have appreciated 13% since the end of June, underscoring how crowded the shares' ownership has become. We believe that opportunities outside of the energy sector are more favourable over the long term because they exhibit predictable growth characteristics with more valuation stability.

More broadly speaking, like we examine the durability of individual companies outlined above, we can examine the long-run durability of the US S&P 500 versus the Canadian S&P TSX. Despite the Canadian energy sector's outperformance this year, over the long run, it is the US S&P 500 that creates the vast majority of stock market wealth due to its composition of steadily growing and compounding companies with predictable growth characteristics. In contrast, the S&P TSX's gains since the pandemic have mainly been concentrated in two sectors—energy and materials—which, as described above, are more sensitive to reversals in the economic environment. Similarly, risk management is very important, as in this regard, we look for an economic moat as a signifier of quality. The Canadian S&P TSX index's quality characteristics are mixed, as there were significant capital drawdowns in non-viable cannabis producers this year, hampering the performance of an otherwise stable healthcare index; and a sharp decline in a highly concentrated Canadian technology

sector, underscoring less earnings resiliency than US peers who have expeditiously returned capital to shareholders. Having a comparative advantage, otherwise known as an economic moat, contributes to the earnings resiliency characteristics in the companies we seek.

In terms of portfolio positioning for 2023, we have structured client portfolios using a barbell approach. At the front end of the curve, we have shortened equity duration in many of our portfolio positions, prioritizing earnings resilience that translates into favourable return of capital characteristics such as dividend growth or share buybacks. At the long end of the curve, we have continued to hold deeply discounted earnings growers that are both cash-generative and sport wide economic moats, primarily in the US blue-

chip technology sector. We believe a combination of these two approaches will benefit from both a “higher for longer” interest-rate environment in 2023, and an eventual Federal Reserve policy shift (otherwise known as a “pivot”), which would result in longer-duration stocks outperforming at that juncture point. Yesterday’s FOMC meeting underscores a moderation in the pace of future interest-rate increases, signaling a likely pause sometime in 2023. At the same time, we are mindful of a market-wide earnings recalibration heading into 2023, which is why we have selected companies that we believe have the most durable profit structures with as little earnings revisions recalibration as possible, resulting in steadier earnings growth characteristics (Exhibit 1).

Exhibit 1: Steadier earnings growth = Steadier performance



Source: TEEPUBLIC



Special edition:

Geopolitical event studies

February 17, 2022

Before looking at one of the specific military risks in Ukraine surrounding this complex geopolitical situation and related sanctions risks, it's important to consider the market's past performance during previous wars and high-stakes confrontations.

Historically, military clashes have had limited impact on equity markets both in magnitude and duration—even when the US and Soviet Union were embroiled in the Cuban Missile Crisis.

The S&P 500 fell 6.2%, on average, in 18 major post-WWII military conflicts or hostilities that

we evaluated. That nearly matches the decline the market suffered when US President John Kennedy and Soviet Premier Nikita Khrushchev were at the brink of war.

While that level of decline is nothing to dismiss, it's well within the bounds of a typical, modest pullback in many scenarios that often confront markets, including those that have nothing to do with military risks (Exhibit 1).

The study of previous geopolitical conflicts indicates the market's reaction lasted an average of only 30 days before it was able to climb back to even. This occurred despite

Exhibit 1: Markets tend to bounce back even in the face of serious hostilities and wars

S&P 500 responses to select acts of war or hostilities since World War II				
Event	Start date	Trading days to trough	% change to trough	Trading days back to even
U.S.				
U.S. spy plane shot down in USSR	May 7, 1960	2	-0.6%	4
Bay of Pigs invasion	Apr 15, 1961	6	-3.0%	14
Cuban Missile Crisis	Oct 16, 1962	6	-6.3%	13
Gulf of Tonkin Incident (Vietnam)	Aug 2, 1964	4	-2.2%	29
Tet Offensive (Vietnam)	Jan 29, 1968	25	-6.0%	46
Cambodian Campaign (Vietnam)	May 1, 1970	18	-14.9%	86
U.S. invades Grenada	Oct 25, 1983	11	-2.8%	15
Lead-up to U.S. Panama invasion	Dec 15, 1989	2	-2.2%	8
Lead-up to Gulf War (Desert Storm)	Jan 1, 1991	6	-5.7%	13
U.S.-led NATO bombs Yugoslavia	Mar 24, 1999	3	-4.1%	11
U.S. spy plane captured in China	Apr 1, 2001	3	-4.9%	7
War in Afghanistan	Oct 7, 2001	1	-0.8%	3
Lead-up to Iraq War	Feb 5, 2003	24	-5.6%	28
External				
N. Korea invades S. Korea	Jun 25, 1950	15	-12.9%	56
Lead-up to Six-Day War (June 6)	May 14, 1967	15	-5.6%	20
Yom Kippur War, Arab oil embargo	Oct 6, 1973	42	-16.1%	6 years*
Soviet-Afghan War	Dec 24, 1979	7	-2.3%	10
Iraq invades Kuwait, oilfields seized	Aug 2, 1990	50	-15.9%	131
Average		13	-6.2%	30
* Other economic and monetary policy factors negatively influenced the number of days it took the market to get back to even; this is not counted in the average number of trading days back to even.				
Source - RBC Wealth Management, RBC Global Asset Management, Wikipedia, National Security Archive at George Washington University, U.S. Naval Institute; data attempts to capture any pre-event impact				

Source: RBC Wealth Management, RBC Global Asset Management, Wikipedia, National Security Archive at George Washington University, U.S. Naval Institute

the fact that many of the actual events lasted longer—sometimes much, much longer.

At times, equities weakened during the run-up to a geopolitical conflict as tensions mounted, and at other times the weakness began with direct military clashes. In most instances, markets recovered soon after hostilities began.

As Exhibit 1 shows, four prior events were

more difficult for the market to absorb, with the S&P 500 declining by low- to mid-double-digit percentages. In these instances, which are highlighted in orange, two of the four acts of war were in the Middle East: In 1990 when Iraq invaded Kuwait and seized its oilfields, and in 1973 during the Yom Kippur War and Arab oil embargo.

What's notable about these two events, as

it pertains to today's geopolitical risks, is that those conflicts impacted global energy markets. The geopolitical risks surrounding the US/NATO and Russia conflict do not directly put oil and natural gas supplies at risk at this stage (unless the West sanctions Russian oil and gas, or Russia restricts supplies in counter-sanctions). But European natural gas prices could be vulnerable to further increases if the West follows through with its threat to stop the Nord Stream 2 pipeline from becoming operational should Russia and Ukraine clash directly.

In general, when it comes to wars and serious geopolitical disputes, investors should assume that such events can push the equity market into a temporary 5-10% pullback or, in rarer cases, into a longer-lasting correction of greater magnitude—especially when energy markets are widely

affected such that they put medium- and long-term economic growth at risk.

From a longer-run, wealth-creation perspective, volatility often presents opportunities. Robust business models, quality recurring economics, large addressable markets, and attractive valuations will always form the basis for quality investments which will surface value over the long run. Buttressed by an improving economic backdrop, accommodative Federal Reserve policy, and quality, positive earnings revisions that indicate companies are on profitable footing, we are constructive on equity markets and look forward to elaborating further (in our next investment journal) on the quality characteristics we look for when constructing portfolios for clients. We invite clients to read the RBC special report entitled “Spheres of Influence.”



January 2023 to December 2023

One surprise awaiting us in 2023 was the introduction of generative AI. While we had predicated our investment thesis on an earnings-led rebound in the markets, generative AI—in which AI is used to generate content—pervaded the market psyche and the revenue generation cycle of our companies, particularly within the semiconductor and semicap space. Despite the marked rise in share price valuations in 2023, we concluded that generative AI would usher a super cycle of capital equipment and data center investments, all focused on surfacing the return on invested capital of this new technology. At the same time, the US Federal Funds rate reached its peak, and a rate pause was necessary for the markets/economy to digest these rate hikes. Still, the economy was resilient despite the aftershocks of the pandemic, reinforcing our continued views of a soft landing into a mildly recalibrated economy.



Chapter 36:

Earnings growth drives long-term valuations

March 22, 2023

In *Chapter 35: A look back to 2022 performance drivers and a look forward into 2023 portfolio positioning*, we characterized year 2022's performance as being impacted by a series of interlinked growth shocks, first stemming from more persistent inflation, followed by the invasion in Ukraine, and finally resulting in a series of expeditious interest rate increases to restrict monetary conditions and slow the pace of inflation. Since the last writing, core inflation likely has already peaked, the employment markets remain resilient, credit quality has withstood a more restrictive monetary environment, and the recalibration

in corporate fundamentals has occurred in an orderly fashion. We are at a likely turning point in monetary policy, as the U.S. Federal Reserve (the Fed) contemplates a downshift in the magnitude of its interest rate increases, and an eventual pause in 2023. As a result of the shift in the investment climate, a barbell approach to portfolio construction has been rewarded this year—companies with strong balance sheets and high return of capital characteristics, juxtaposed with deeply discounted earnings growers that are experiencing valuation uplift as the economic recovery unfolds. Overseas, re-openings in China in December have buttressed robust travel and

entertainment spend, benefiting select areas of the consumer discretionary industry.

In the present investment outlook, updated after Q4 2022's earnings season has concluded, the economic forecast has been upgraded, with the expectation of a softer landing into a more modest recession than expected before. This is evident in the year-end corporate results spanning from banking to luxury goods as well as areas of the economy that are secular growers, such as research and development (R&D) driven semiconductor companies, where investments into next generation technology continue to be made. As a result, 2023 S&P 500 earnings expectations as of March are for mild profit declines of approximately 1%, but this is expected to rebound by 10% in 2024, and a further 9% in 2025—and it is earnings growth that ultimately drives stock valuations in the long run. Therefore, we have been opportunistically deploying cash in select areas of the economic recovery that will participate in the rebound in earnings once the recalibration has concluded.

On the future investment outlook for the second half of 2023, we also wish to comment on the bond market's expectation of interest rate cuts later this year. We believe this is an unlikely scenario, as the U.S. Federal Reserve will likely want to see a sustained path back to 2% inflation before easing monetary conditions again. As a result, we expect a "higher for longer" environment to persist for a prolonged period of time, favouring a barbell approach of high earnings growers and stable return of capital companies with fortified balance sheets, such as what we see in select areas of the technology

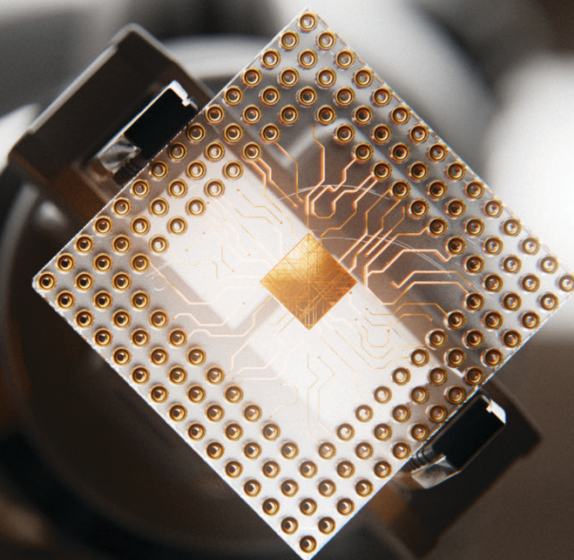
sector. From a fixed income perspective, this would mean that an inverted yield curve would favour long duration positioning in high quality, defensive credits.

Monetary policy operates with long and variable lags, and the effect of last year's more restrictive policy is being felt in the financial stability issues witnessed among the U.S. regional banks. There are a number of important differences compared with 2008's financial episode, including the absence of spillover effects into housing, an expeditious regulatory response to contain the impacts, and an idiosyncratic mismatching of assets and liabilities that impacted the deposit bases of select financial institutions. The 2008 events affected the broker-dealer markets, otherwise known as the shadow banking system, where the U.S. Federal Reserve required an expansion in its policy mandate before it could respond in a timely manner. This is the reason the U.S. Federal Reserve downshifted the increase in the overnight rate to 25-basis points on March 22, noting that the most recent developments in the U.S. banking sector will likely weigh on economic activity, hiring and inflation. As a result, the terminal Fed funds rate was left unchanged at 5.0% to 5.25%, implying one more 25-basis point interest rate increase before a pause.

In summary, earnings growth drives long-term valuations and, after the profit recalibration we have been expecting this year concludes, we expect this trend to continue. Economic winners will likely include a combination of companies that can return capital expeditiously to investors, in a higher for longer interest rate environment, as well as deeply discounted earnings growers

with secular growth characteristics. From a long-term valuation perspective, markets led by solely multiple compression (as we had last year) or multiple expansion, are rare, which underscores

the durability of an investment process that focuses on selecting high quality earners with strong competitive positions.



Chapter 37:

Semiconductors as secular growth: Nvidia

June 07, 2023

We are writing with an update of our portfolio positioning within a long-held segment of the portfolio: semiconductors. Long-time readers will know that we have been long-term investors in the secular growth characteristics of this sector—microchips are prevalent in all areas of our lives, from the consumer electronics we use to the data that we consume to automotive and connectivity applications to power and sensors. As these microchips become smaller and more advanced, they require greater research and development (R&D) investment to design and manufacture, leading to increased investment in the overall

sector. With the introduction of generative AI, which creates more storage and integration of data, the demand for these chips has been accelerated, leading to an additional catalyst for use cases as computing trends continue to scale. In summary, semiconductor trends are less cyclical and more secular. This has been our investment thesis since 2018.

On May 24, 2023, our highest-weighted position, Nvidia, produced quarterly revenue guidance that was more than 50% above the median analyst forecast. An earnings beat of this magnitude, especially among large-cap, blue chip companies, rarely occurs. This resulted in

Nvidia's share price appreciating +25% on the day of the report, propelling the company to be valued at \$1 trillion in market cap. Demand for Nvidia's Artificial Intelligence (AI) graphics processor units (GPUs) was described as "surging" due to the confluence of both accelerated computing trends (as described above) and generative AI. In the span of one short quarter, earnings per share will double, the high-margin data centre unit has expanded to 60% of revenue (surpassing Intel's data centre revenues, for the first time), and despite the +25% appreciation in Nvidia shares, the valuation multiple actually shrank as profits will now rise higher than the share price is implying. Moreover, this quarter marked an inflection point in which GPUs will likely overtake their predecessor—central processing units (CPUs)—which are not equipped to do this accelerated computing in an era of AI.

Investors are familiar with an example of this accelerated computing: recommender systems, which are the search engines we use, such as Google, Amazon, or Bing produced by Microsoft. When a user types in a search query, these recommender systems are quick to make recommendations that will enhance the probability of a user behaviour, such as clicking on a link or making a purchase or booking a hotel. With \$7 trillion of sales flowing through recommender systems, even a 1% improvement in search effectiveness can improve overall sales by \$700 billion. Nvidia's next-generation GPUs are behind this engine of e-commerce. Even beyond recommender systems, the optimization of workflows and processes within the data centre and its networks can produce meaningful

economic and productivity gains, as data usage multiplies, and its collection is used to optimize decision making. We are still in the early stages of this adoption process across numerous end market verticals, including automotive, healthcare, and cloud infrastructure.

At a broader level, investors can see the results of a long-term investment thesis materializing. While there was a minus 63% peak-to-trough downturn in the share price in 2022, we believed that little had changed about the company's secular growth path, as the building blocks for the industry remained intact, evidenced by healthy R&D growth—even in the year of a recession—a lengthening product roadmap, and earnings that were likely over-recalibrated. **As a result, in 2022, we expanded our position in Nvidia and neighbouring semiconductor equipment companies, positioning ourselves for the gains that we are witnessing today. NVDA's year-to-date return in 2023 is +164%. We are grateful to investors for their level-headedness during this period of market volatility, where the fundamentals of the company were temporarily out of sync with the share price.**

In summary, Nvidia is an example of a cash-generative company with a wide economic moat that continues to expand into a growing addressable market where adoption is accelerating. Owner-operator CEO Jensen Huang is a 4% owner in the company, which has no net debt, is capital light, and continues to experience "surging demand" as product adoption continues to pick up. Well-respected growth investor, William O'Neil, founder of Investors Business Daily, passed away at 90 years of age on May

28, 2023, and once stated, “I never met anyone, or heard of anyone, or read of anyone who was successful who was a pessimist You have to be positive, or you’ll never get anywhere.” In paying tribute to this growth mindset, we would like to remind investors that it is the positive,

compounding growth characteristics of high quality businesses, held for a long time frame, that create the most optimal returns, because time allows these compounding growth attributes to accumulate. Nvidia would be a case in point.

Chapter 38:

Quality prevails

September 7, 2023

With Q2 earnings season having concluded, the market has signaled that earnings and the economy are heading into a soft landing accompanied by a mild recalibration and rebound in earnings. From “rolling recession” in 2022, we have now started to price in a “rolling recovery.”

At a fundamental level, secularly growing, wide economic moat companies, with expanding addressable markets continue to lead our client portfolios higher, with their sizable net cash positions being deployed into innovation kickers such as productivity enhancers and generative Artificial Intelligence (AI), as well as large buybacks that reduce the share count, returning

capital to shareholders. Moreover, we wish to delve deeper into the quality of the earnings beats. Most earnings beats, if not all, are based on a recovering earnings profile driven by revenue growth that has been sustained even through a rate-hiking cycle that has mitigated overall economic growth. This is because research and development (R&D) spending remains resilient and is secular—and companies, witnessing the compressing timeframes of their product and technological cycles—are loathe to reduce spending that would otherwise eat into demand during an economic recovery. We witnessed this with the semiconductor equipment makers, where

elevated volatility in the share price in 2022 gave rise to attractive valuation opportunities, which we capitalized upon. Accumulating these shares at highly discounted earnings valuations, while their profit streams were still intact, was rewarded this year. **As we will remind investors, volatility—fluctuations in the share price—is NOT the same thing as risk.** Furthermore, 2022 was a year of cost optimizations for most companies. With most of these optimizations now complete, the benefits of profit margin expansion are now being fully borne out and rewarded in the market. So, our portfolio positioning reflects a barbell approach of stable, return-of-capital companies, juxtaposed by technology innovators that are leading the secular share shifts within their respective markets. This is how we have been positioned since 2018. We augmented these positions throughout the pandemic and 2022's downturn, and we are witnessing the strength of the results being recognized by broader markets this year.

On the topic of the earnings recalibration, which we mentioned in prior investment journals, we believe this is now largely in the rearview mirror, with earnings expectations having been over-recalibrated with most large cap growth guidance being maintained. While the S&P 500 trades at a current multiple of 21x, we believe it is important to look at normalized earnings – and on a forward multiple of 18.6x 2024 earnings, we would believe the market remains reasonably valued. Some investors may ask about the breadth of the earnings recovery. To that, we would respond that in most earnings-driven market recoveries, market breadth tends to broaden out as greater participation is attained. We witnessed that this

earnings season, with the banks first reporting constructive results, followed by large cap technology in conjunction with consumer discretionary, which had already priced in a recession in 2022. The message that most companies gave this quarter was resounding: We are in a recovery. The increase in market participation mirrors what we witnessed in 2011, with the homebuilders leading a housing recovery, which then led to banking recovery, and finally a consumer rebound. Finally, the string of cooling employment market reports in late August, indicating moderating payrolls, wage inflation and job vacancies, indicates that the tighter monetary policy is having its intended effect without major demand dips, lowering the likelihood of successive U.S. Federal Reserve rate increases in September and November.

This said, it is still important to be judicious about security selection. **Buying low-valuation companies with less defensible economic moats can lead to profit impairments, which we would define as RISK.** “Cheap” can come with its own set of reasons, oftentimes resulting in the earnings being disrupted. We have seen this bifurcation in areas where “winner-take-all” effects prevail, such as cloud computing, data storage, semiconductors, digital advertising, and animal healthcare. This has created elevated volatility and an uneven recovery, but also opportunity as this bifurcation widens.

A common question we receive from investors is, “Why not capture some profits every year?” To that, we would remind investors that the power of compounding rests in gains building upon prior gains. Without this reinvestment effect,

wealth would not compound. Furthermore, every decision is two decisions. The decision to sell necessitates a decision to re-enter the market at some point, at which point, prices may be significantly higher. This is why we remind our investors of what Peter Lynch once said: “Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.” This is true of compounding gains, and it is also true of re-investing dividends, which compounds gains even further.

We would like to remind investors that earnings growth ultimately drives security valuations in

the long term, and our focus remains on being investors of these secular winners at reasonable valuations. This approach has outperformed because it focuses on the drivers of value creation that are not evident to the markets initially, otherwise known as “option value.” This creates an expectations difference in what a security is priced at, versus its true underlying asset value.

Combined with durable economic moats, and a widening economic profile in client holdings, we will reiterate to investors that “quality prevails.” We hope you have found this update helpful and we welcome your comments.



Chapter 39:

The most widely “pre-announced” recession that may not arrive

October 13, 2023

The investment markets are home to a broad spectrum of perspectives, and part of our role is to parse through this mosaic and develop an interpretational advantage that can then be used in informed decision making. Style differences, contrasting viewpoints, the yin and yang of expansion and contraction all create opportunities to be agile and adaptable; make results-oriented investment decisions; and reflect on their long-term outcomes. Having a constructive, growth-oriented mindset is also important. Longevity, sustainability, and

profitability are the main cornerstones of value creation that we seek to identify in all our investment holdings. This is consistent across both periods of growth and capital preservation, including recessions.

On the topic of financial downturns, part of the success of being a seasoned investor is having the wisdom and fortitude to stay fully invested. **Recessions are a natural part of the investing landscape**, and for investors who have done their financial due diligence, open opportunities to re-position portfolios and capture attractive

long-term opportunities. In this sense, volatility should be embraced, not shunned. For example, we will remind investors that during the downturn of 2022, we re-positioned portfolios from small and medium cap companies into secular growers in the semiconductor equipment space and luxury goods. Our past investment journal detailing this can be found in *Chapter 37: Semiconductors as secular growth: Nvidia*. Furthermore, we would remind investors about timing. By the time a recession is identified, markets—being forward looking—will start to price in the ensuing recovery, which is what we have witnessed in 2023. Being a successful investor requires, sometimes, tuning out the noise and focusing on what really drives ownership decisions, which is the annuity power of an investment—even through a recession.

Investors who have been following the financial press will see that economists and strategists (the “consensus”) who had initially projected a recession in Q1 of this year have continually delayed their forecasts of a growth slowdown, now delaying them well into 2024. We believe that views of an impactful recession are likely to be misguided, given numerous factors – economic, financial, policy and market driven:

- **Economic buffers:** The nuances of this economic cycle, created by dislocations stemming from the pandemic and its aftershocks, have resulted in some aberrant economic behaviours;
- **Policy lags:** Lags once thought to be “long and variable” may instead be impacting the economy in shorter and more predictable ways, a view acknowledged by Jerome Powell, U.S. Federal Reserve Chair;

- **Financial impacts:** The underestimation of resilient incomes on the economy has been a noteworthy phenomenon this cycle; and
- **Market factors:** A productivity-led recovery on corporate earnings stems from accelerated computing and generative Artificial Intelligence (AI), optimizing profit margins and leading to structurally higher earnings power.

The recession has been “pre-announced” in the words of Louis Vuitton’s CFO Jean-Jacques Guiony in the company’s Q3 2022 sales call. According to Mr. Guiony, this is a “puzzling concept” because “in the economy, when things are announced in advance, they usually don’t happen because economic agents take measures to avoid them.” This is exactly what has occurred in 2023. Lags in the economy that were once thought to be “long and variable” are instead now shorter and more foreseeable, a viewpoint even acknowledged by Chair Powell himself. At his Jackson Hole Symposium, Powell stated:

“Now, financial conditions react well before the expectation of monetary policy,” and the result is that “the effects on the economy are actually faster than they would have been before.”

This is exactly what Louis Vuitton’s CFO was alluding to by stating that economic agents would react proactively before policy movements to mitigate undesired financial outcomes. At a broader level, the pandemic resulted in a series of aftershocks that caused disruptions in how a business cycle unfolds. The economic buffers we have witnessed in this cycle, some of which have been underestimated, include:

- **A structurally tight jobs market** that is cooling in an orderly manner, resulting in both resilient incomes and the containment of core inflation;
- **Household balance sheets** remain strong, aided by excess savings accumulated during the pandemic;
- **Supply-side factors** such as onshoring/reshoring of complex manufacturing activities have bolstered non-residential investment;
- **Extending mortgage amortizations** are alleviating the upward pressure on interest payments (indeed in Canada, the top five banks estimate between 23% to 30% of mortgages have amortizations of greater than 30 years as of July 2023); and
- In Canada, the **impact of immigration** has contributed to pent-up domestic demand. Given these economic buffers, thoughts of an impending downturn in 2024 are likely over-exaggerated. Indeed, September's Employment Report indicates that robust job creation can co-exist with cooling inflation, lending further support to the thesis of resilient incomes on the economy.

As mentioned in Chapter 38, we are in a productivity led earnings recovery, resulting in optimized profit structures and elevated earnings power. We witnessed that in Q2 2023's reporting season, where a previously anticipated earnings recalibration gave way to an earnings recovery. Corroborating our views of a productivity driven recovery, post Q2 earnings, U.S. productivity inflected positively for the first time since Q2 2021, relating directly to large cap margin expansion, and ultimately P/E expansion. Combined with a mix of decelerating core inflation, enhanced productivity, income resiliency, strong household balance sheets, and the economic buffers described above, we expect the next phase of this earnings driven recovery to further dissipate the bear thesis of an impending recession.

Indeed, financial markets are fluid, and often trade on surprises, not "pre-announcements," requiring agile decision making and data-dependent analysis. This agile decision making applies to times of expansion and contraction, including recessions, which are a natural part of being an investor.



Chapter 40:

We wish you a dovish holiday season

December 6, 2023

In our previous installment, we emphasized our baseline call of a soft landing for the U.S. economy, wherein the Federal Funds Rate is sufficiently high enough to bring down inflation without triggering a recession. Our views on this remain constant into 2024, as more data has now come in to support this concept. At the November Federal Open Market Committee (FOMC) meeting, it was noted that wage inflation was now consistent with a 2% inflation world, the Federal Reserve's target. Ensuing economic reports would indicate that the resilient labour market has unlikely been fueled by wage increases, but instead productivity gains. In a secular sense,

some of these productivity gains will come from the disinflationary impact of generative Artificial Intelligence (AI), which will increasingly be viewed as a substitute for the outsourcing of human capital. Productivity, as we will reiterate to investors, is **a long-term contributor to the disinflationary and secular impacts stemming from innovation and more optimal production possibilities.** As a result, current financial conditions would lead us to conclude that we have already reached the peak terminal U.S. Federal Funds Rate. While most market participants have priced in a series of interest rate cuts in 2024, our belief is that the number and magnitude being priced in may be

premature, based on the Federal Reserve's priority to bring inflation sustainably down to 2%.

Investors will recall that, at the beginning of this year, the fixed income markets were pricing in a protracted recession in risk assets, contrary to the base case of a soft landing targeted by the U.S. Federal Reserve. Later in the year, as the 10-year treasury yield climbed on stronger economic data and productivity gains, the yield curve started to dis-invert, resulting in the 10-year U.S. treasury bond returning almost 0% in total return year-to-date. This was one of the reasons that explained our muted enthusiasm for the fixed income universe and bond-like proxies in the equity universe at the start of the year. Now, with the yield curve returning to its normal shape (i.e. steepening), much of the fixed income market's bearish positioning has dissipated.

Having said this, economic forecasters are still "fighting the Fed" in a more subtle way—while the Federal Reserve's Summary of Economic Projections is for positive GDP growth and cooling inflation over time, half of economists' private forecasts are for a recession. These recession forecasts assume a sharp decline in consumer expenditures and private investment, which, as explained in our prior investment journal, is unlikely due to the degree of economic cushioning present in this cycle.

As we close out the year, we would also like to summarize our third quarter earnings, which continue to demonstrate that secularly growing, wide moat companies are outperforming in a narrow market leadership that rewards predictable growth characteristics. Our focus on selecting the growth and innovation leaders of

tomorrow continues to produce results. We have been capitalizing on our views of a steeper yield curve in 2024, selecting resilient earners with underrecognized cash flow and dividend yielding characteristics. The financials would be a case in point. With credit quality showing modest signs of normalization, and an overall sector that has been dislocated by investor sentiment, we believe that the companies' valuations do not reflect the strength of their underlying asset values. If loan growth resumes its current trend in a slow growth, moderating inflationary environment, and the yield curve continues to steepen, we believe our investment thesis will be borne out sometime in 2024.

To conclude, the market's resilience is underpinned by earnings results, which continue to show that sustainable growth characteristics with predictable return of capital attributes are rewarded. These sources of return can come from myriad areas: growth and innovation, de-globalization, regionalization of supply chains, and generative AI, to name a few. This is why we will re-emphasize to investors that we select secularly growing companies with sustainable and long-lived profitability profiles that are also good investment holdings over the long run; in other words, **good companies that are also good stocks**. Our selection strategy is underpinned by long-term earnings compounders leading thematic change and transition, as well as resilient earners with a sufficiently wide margin of safety. That productivity enhancements will likely have a disinflationary impact on the economy lends credence to our soft-landing thesis, and augurs for a broadening of market participation in 2024.



January 2024 to December 2024

We witnessed bifurcation in the markets this year, with large cap annuity producing winners generating the bulk of the market's return. Still, we noted that these markets are supported by company-led earnings growth, and despite questions over the timing of the US Federal Reserve's first interest rate cut, economic data remained resilient and supportive of S&P 500 valuation multiples. The year witnessed a number of rotations, which we maintained were short-lived. We primarily positioned our portfolios for a rebound in the secular bull market, under the backdrop of a soft landing. There was nothing great about the so-called "great rotation," we surmised, and small caps still lacked the quality earnings growth characteristics to be considered as investment candidates in our portfolio. Finally, in avoiding long duration fixed income treasuries, we avoided the worst of the "bond vigilantes"—investors who drive up borrowing costs by imposing fiscal discipline on government deficits. Despite the 10-year treasury bond losing 18%, the S&P 500 ended 2024 up 25%.



Chapter 41:

Good stocks and good companies

March 13, 2024

In our previous installment in December 2023, we discussed our investment philosophy of uncovering “good stocks that are also good companies.” In the current investment paradigm, these investments are leading a breadth of structural productivity enhancements in their end markets, as they represent the few earnings compounders that have both the financial capacity and proprietary data to productize generative artificial intelligence (AI). The data/infrastructure required to monetize AI continues to be a secular growth opportunity, with holdings such as Nvidia, Microsoft, and ASML as examples of innovation-led growth. Please see our June

2023 investment journal for a detailed deep dive into Nvidia. These holdings are also strong earnings compounders—in other words “good stocks that are also good companies”—as they demonstrate the power of compounding growth over a long timeframe. For example, \$5,000 USD of Microsoft shares purchased at inception on March 13, 1986 would be worth well over \$22 million USD today.

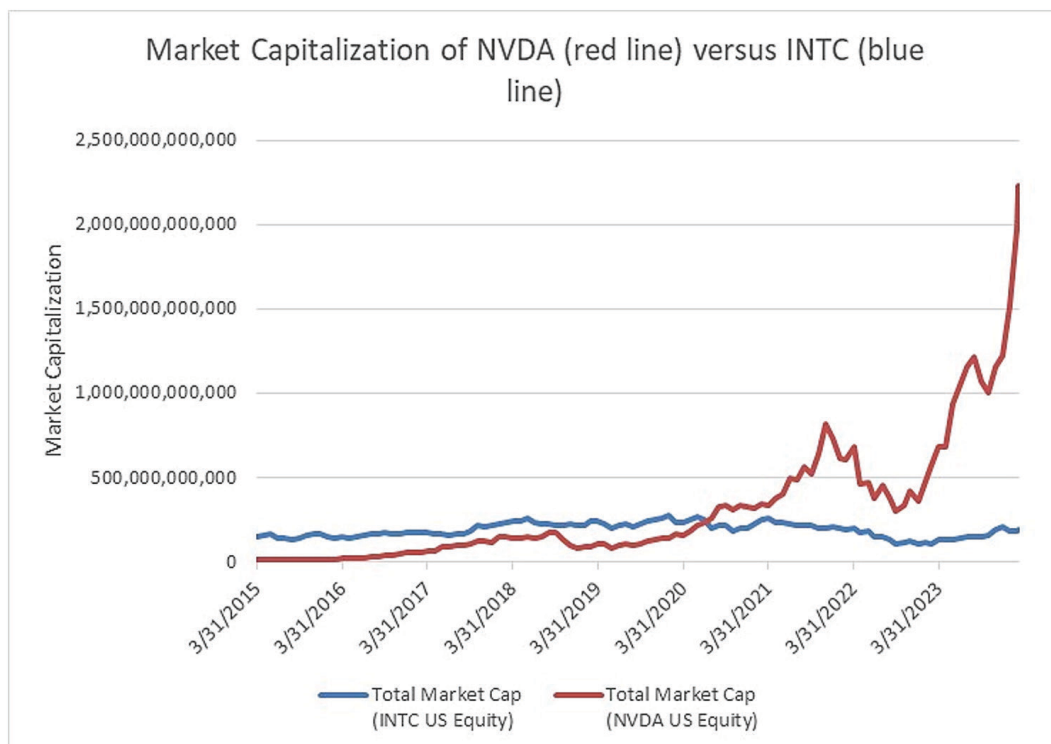
In this edition, we wish to address the converse of our philosophy, which is “good stocks that are poor long-term company investments.” Returning to our investment criteria of longevity, sustainability, and profitability, we cite examples

of companies which do not match these investment criteria. Examples would include the cannabis industry, regional bank financials, and legacy technology companies. While these companies' stocks may have exhibited positive price return characteristics intermittently throughout 2023, their longevity tends to be more shortlived without the underlying secular earnings power to support their valuations. As a result, the shares' ownership base tends to attract a different type of investor—one who is more focused on price performance characteristics over long-term underlying fundamentals. In addition, with the example of regional bank financials, some have become overleveraged as they have tried to grow their asset bases via

acquisition, which also amplifies commercial real estate risk, resulting in elevated provisions for loan losses. The result, as we have explained in our prior journals, is that “cheap stocks can come with their own set of reasons,” the primary one being that their earnings and asset quality can be disrupted, leading to asset impairments, which we would define as RISK.

The dispersion of winners and losers within sectors—termed “bifurcation”—is evident in a significant number of the sectors we hold, from large cap financials versus regional banks, to luxury goods versus mass market consumer discretionary, to large cap semiconductors versus emerging small cap technology. Take Nvidia versus Intel, both in the semiconductor

Exhibit 1: Market Capitalization of NVDA (red line) versus INTC (blue line)



Source: Bloomberg Terminal Data

industry, for instance. Nvidia has fortified its client base with a culture of innovation, in the process creating dominant franchises in new end markets and a vibrant ecosystem. In their case, winner-take-all effects abound, with structural fundamental growth in the data center leading to sustained and long-lived earnings growth. Intel's product portfolio, on the other hand, is mostly dominated by the PC end market, which is prone to commodification, creating low customer switching costs and low barriers to entry. The results are reflected in each company's share price: Nvidia's YTD return has been +79%, while Intel's has been -10%, even though both companies are in the same sector.

Moreover, over long timeframes, inflection and innovation-led growth eventually prevails. Investors will witness the market capitalization differences between Intel and Nvidia over time—as shown in Exhibit 1, it was not too long ago that Intel's market cap was higher than Nvidia's, until Nvidia's platform-led growth finally outpaced Intel. Intel, as the purveyor of Moore's Law in the 1960s and as one of the first investors in advanced lithography, eventually ceded share to its peers, but this took time.

Growth stalwarts have the financial resources to fund investments back into the business,

whereas Intel is dependent on government funding to start up its US-based foundries. We have mentioned in the past that in the tech sector, some of these companies create disinflationary tailwinds, which leads to higher anticipated earnings, which in turn leads to upwardly biased leadership within their own sectors. Nvidia is a case in point.

As investors can see, both company and industry selection have their role to play in developing a wealth-creating investment process. Identifying the paradigm shift of AI productization and the associated secular infrastructure buildout is one step, but the other step is to separate the legacy companies of yesterday from the winner-take-all effects of tomorrow. Identifying companies that have large addressable markets, the ability to expand within them, and grow dominant franchises is one of the cornerstones of our investment process—in other words, identifying, evaluating and selecting “good stocks that are also good companies.” In bifurcated markets especially, we will re-emphasize to investors that selectivity within broad sector and market themes is a distinguishing feature of our investment process.



Chapter 42:

Good companies, good stocks, and good valuations

May 9, 2024

In our last installment (Chapter 41), we detailed our investment process of identifying good companies that are also good stocks. Good companies, as we discussed, have three characteristics—longevity, sustainability, and profitability—that when paired with a valuation gap, also creates good stocks. Today, we wish to provide some historical perspective that shows valuations are still not overly extended, compared to past paradigms and investment climates. We would like to start with the US financials. Take Bank of America, for example.

In the aftermath of the Great Financial Crisis (GFC) of 2008/2009, the company's price to book (P/B) ratio climbed from a low of 0.25x to a 2018 cycle peak of 1.33x (annotated in Exhibit 1).

However, even as the bank repaired its balance sheet and demonstrated responsible growth characteristics in the decade after the GFC, its multiple continued to trade below its pre-GFC range of 2.0-3.0x price to book. With a strong deposit franchise, growing market share, and a prudently reserved balance sheet, BAC's P/B ratio in the aftermath of the pandemic is only

1.11x. Translated into share price movements, BAC still trades below its September 2006 high of \$53, a 42.6% difference from where the shares are currently trading (\$37.55/share) shown in Exhibit 2.

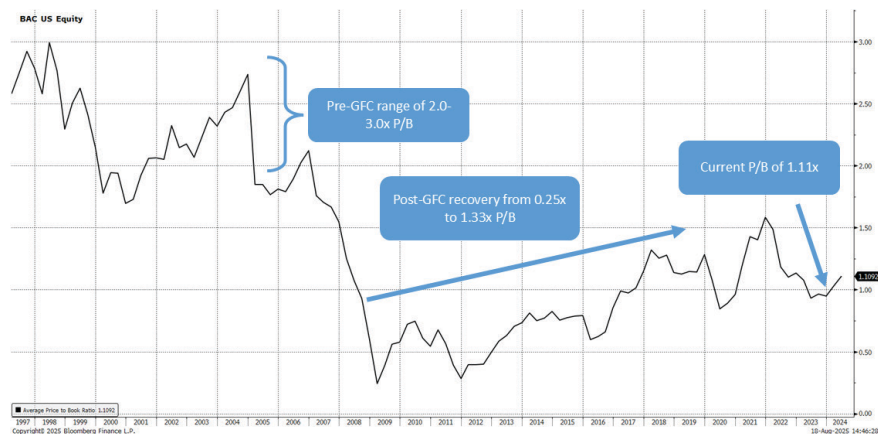
Even with stocks that are making fresh 52-week highs, their valuation multiples are nowhere near their historical peaks. Take Alphabet, for example. While its share price is at a 52-week high, its valuation multiple measured by its one-year forward price-to-earnings is still below its 2021 highs, shown in Exhibit 3. The reason for this is that Alphabet has successfully grown its earnings by 20% per year over the last five years, and over the next three years, it is expected to grow earnings by 15-17% per year. This will in turn further compress the forward valuation multiple, likely leading to a valuation gap which supports share price appreciation.

While S&P Global, the credit ratings agency, downgraded their outlook on five regional banks in March 2024, their large cap counterparts (JP Morgan, Bank of America) have demonstrated sustained asset quality, resilient credit health, and prudent reserve management practices,

possibly leading to an outsized share repurchase in the future. The large cap financials are well capitalized, supported by resilient and well diversified deposit franchises, and returns on equity that reflect prolonged strength in deposit margins. Finally, the large cap bellwethers have far more robust asset quality; for example, with JP Morgan reporting a surge in home lending revenue and releasing provisions from loan losses, it's a sign of improvement in consumer health. Herein lies an important point: while the book values of the regional banks are uncertain and vulnerable to commercial real estate risks (i.e. write-downs), the book values of the large cap financials are far more reliable and a reflection of their focus on responsible growth.

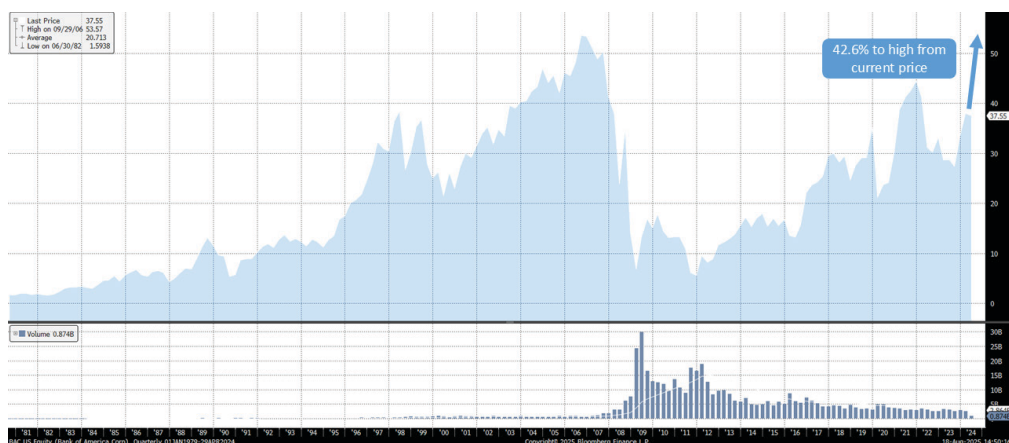
Part of successful portfolio management is to be able to assess bifurcation carefully, examining the intrinsic differences between business models and industries, and the implications on longevity and true intrinsic profitability. From this perspective, portfolio valuations in high quality large caps are by no means stretched. As our title implies, we identify good stocks that are also good companies, with attractive valuations.

Exhibit 1: BAC's price to book ratio versus historicals (as of April 29, 2024)



Source: Bloomberg Terminal Data

Exhibit 2: BAC's share price versus historicals (as of April 29, 2024)



Source: Bloomberg Terminal Data

Exhibit 3: Bloomberg estimated 1 year forward P/E multiple of Alphabet (as of April 29, 2024)



Source: Bloomberg Terminal Data



Chapter 43:

Spotlighting Alphabet: An expansive set of value creation activities

June 13, 2024

In our prior investment journal (Chapter 42), we referenced Alphabet, one of the highest weighted members of our investment portfolio. We have stated in past installments that compounding growth characteristics drive the vast majority of value-added in the equity markets. Alphabet, as a high-quality compounder, is a key example. We stated that even though its share price was making fresh 52-week highs, this was driven primarily by earnings compounding at 20% per year over the past five years. As a result, Alphabet's valuation multiple still remains below

its prior peak, buttressing our conviction in the company's wealth creating qualities.

In this installment, we wish to dissect the anatomy of Alphabet's wealth creating characteristics, going over its franchise value, networking advantages, and finally, the integration of generative AI into its tech stack. As readers can tell, this is an expansive set of value creation activities. In other words, Alphabet exhibits amplified reward-to-risk characteristics.

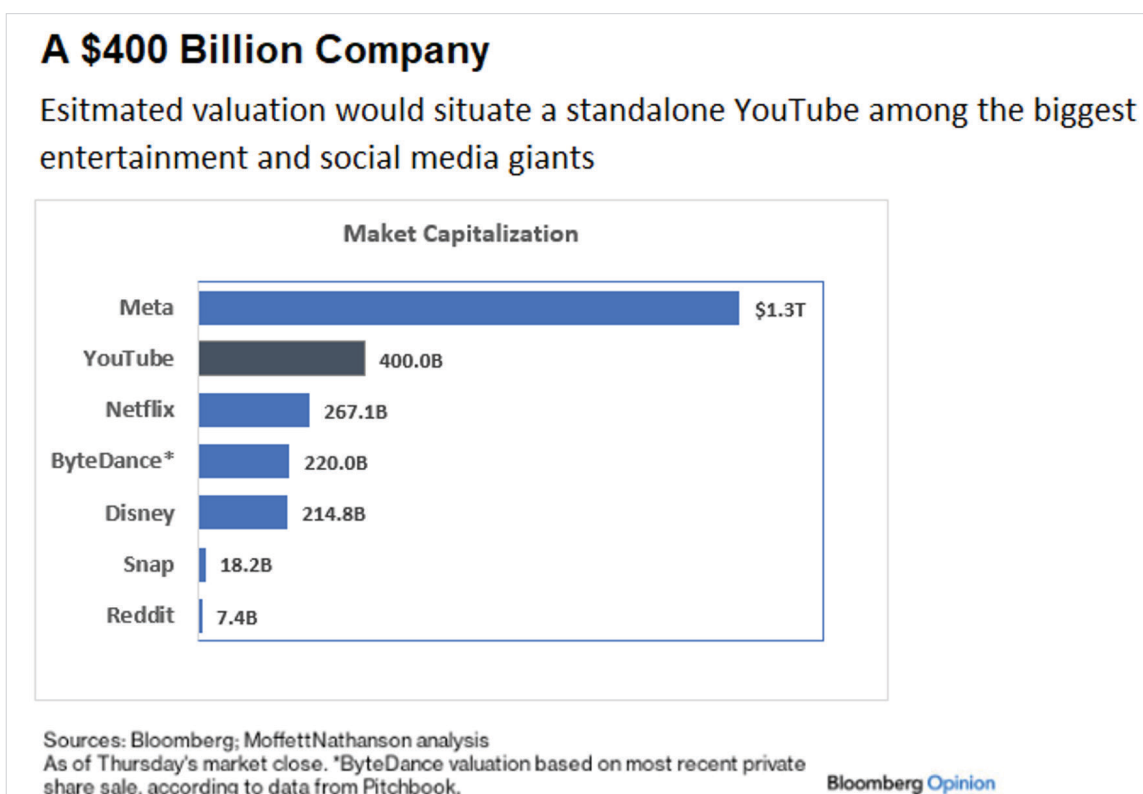
First, Alphabet's business model is that of an integrated search engine and digital

advertiser. The search engine collects data on users' preferences through search queries, and positions advertisers to provide services to these users, such as completing a transaction. In this way, Alphabet's search franchise, known as Google Search, generates network effects—the more users and advertisers who successfully interact on Alphabet's platform, the more valuable the platform becomes, thereby creating a virtuous cycle. As CEO Sundar Pichai states, "The core of Google is bringing information to people.... we try to work on things which billions of people will use everyday." There is value in the scale, breadth, and depth of Alphabet's network.

In fact, this is reminiscent of iPhone usage—the more people who interact on an iPhone's apps, and use its text and photo sharing features, the more valuable the phone becomes as a utilitarian device. Alphabet's moat is formidable: As of 2024, StatCounter estimated that Google had a steady 90% share of the search market, virtually unchanged from Bloomberg's past estimates from 2018. The same virtuous cycle goes for the YouTube platform, which is owned by Google, and which one analyst projection believes could command a market value of over \$400B (~20% of the company, shown in Exhibit 1). According to this analyst, based on the recurring subscription/advertising revenue

Exhibit 1: YouTube – A \$400 billion estimated company

YouTube's estimated franchise value



Source: Bloomberg and MoffettNathanson

stream of over \$65B in two years' time, YouTube is on course to become the biggest cable provider by 2026, at only 19 years young. As investors can see, the network advantages of generating greater value for both users and advertisers has created a significant and wide economic moat around Alphabet's core franchises. Scaled across billions of users, this network possesses formidable value.

These network advantages are becoming accelerated with the rapid adoption and monetization of Generative Artificial Intelligence (GenAI). To this end, Alphabet has consolidated its research leadership under Google Deepmind, the team of R&D scientists, engineers, and ethicists responsible for building AI models named Gemini and Gemma. Gemini is a complex, query-based chatbot that enables users to query and interact across a broad set of use cases. For example, Gems, an offshoot of Gemini, will enable the user to create a custom chatbot specialized in a certain recurring topic; for example, tutoring a user in calculus or developing a weight plan. The Gemini search experience is multimodal, meaning it can translate data from different formats into others, for instance, text to image, image to text, speech to image, etc. Gemini also comes in different versions: an ultra version for highly complex searches, a pro version for general purpose searches, a flash version for rapid searches, and a nano version for handheld devices. Finally, the search generative experience in the US will involve a distillation of web search results, known as "AI overviews," which will be integrated within Alphabet's search function, pulling from a mosaic of funneled results. As readers can see, the search generative experience of consumer

AI, developer AI and enterprise AI can be handled throughout the Alphabet ecosystem, creating enhanced switching costs and barriers to entry. The search generative experience will widen Alphabet's already formidable moat.

Finally, investors will recall that one of the distinctive features of wealth creating companies is their capital allocation philosophy led by prudent stewardship of the management, balancing the requirements of organic investment, innovation, and return of capital to shareholders. We would like to first touch on Sundar Pichai's stewardship since his appointment to CEO in August 2015. From December 2015 to the present, Alphabet's market capitalization has quadrupled under Mr. Pichai's leadership, from \$527B to \$2.19T. Meanwhile, share repurchases have increased by 34x from \$1.78B in 2015 to \$62.2B in 2023, now representing ~3.5% of the total market capitalization. At the same time, Alphabet currently carries net cash of \$80B, which has been replenished at a rate of \$60-\$70B in free cash flows per year over the last three years, and now expected to jump to \$80-\$90B per year. Moreover, Mr. Pichai's focus on profitable innovation is reflected in his career milestones. In 2004, Mr. Pichai led the product development efforts of Google's client web products, including Google Chrome and Google Drive. He also oversaw the development of Gmail and Google Maps throughout his tenure with Google. With extensive durable advantages in global search networks, generative AI, and advertising, Alphabet is both an innovator and changemaker.

As investors can see, a focus on the longevity,

profitability, and sustainability of a business's economic moat is at the heart of our research process. Moreover, identifying quality businesses that still exhibit a valuation gap produces an even more favourable return profile that is buttressed

by organic re-investment and return of capital characteristics. As legendary late investor Charlie Munger once stated, "The first rule of compounding: Never interrupt it unnecessarily." Alphabet would be a case in point.



Chapter 44:

Rotational corrections: A case study in “volatility does not equal risk”

August 27, 2024

In this installment, we wish to review the dynamics of a market in correction, defined as a short-lived pullback in asset prices. As we have pointed out in past installments, corrections are a natural part of investing in secular bull markets, as volatility-induced selloffs are not the same thing as risk. We wish to highlight the case study of this summer’s rotational correction, in which one group of stocks went out of favour temporarily, while another group of stocks came into favour. As an investing practice, we are reticent to chase what

has come into favour, only to watch that go out of favour as well. Investors may be aware of this so-called “great rotation,” in which Russell 2000 small cap companies outperformed their large cap S&P 500 counterparts by 13% in the month of July. Yet, in the ensuing recovery, this rotation was not sustainable because it was not based on earnings growth, and small caps gave up 7% of this gain in the following month of August. That is why we believe that staying fully invested in long-lived, annuity-producing companies that are leading wealth creators is the best long-

term strategy to prosper from the markets. The narrative of our case study follows:

Rotational correction triggered by an outside event. The rotational correction began in July, when the US Department of Commerce proposed export restrictions on US components used in semiconductor manufacturing equipment. Such a proposal, if it had gone into effect, would have significantly restricted purchases of semiconductor equipment in China, which is a major manufacturing hub for chips. In turn, our view is this proposal would have created significant shortages in any durable goods that use chips. Examples would include appliances, electrical and ventilation systems, consumer electronics, and the list goes on. This export proposal overshadowed otherwise excellent earnings results from our semicap and technology holdings, causing a 7% drawdown in the Philadelphia Semiconductor Index in a single session. We will take this opportunity to remind investors that our semiconductor holdings centre on the highest quality, most durable business models that produce resilient, long-lived earnings growth—these are the select few earnings compounders that are leading profitable growth in their respective value streams of the semiconductor infrastructure industry.

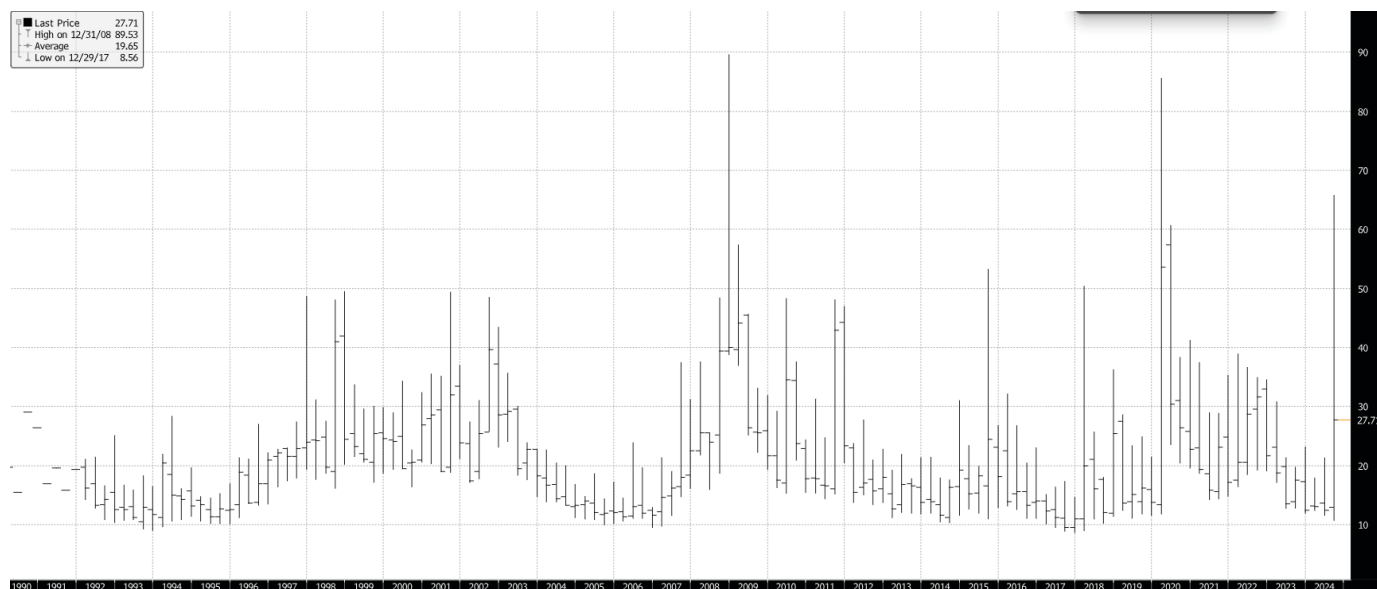
Easing of event risk. Eventually, cool heads started to prevail in the export control saga, and exemptions were offered to semiconductor equipment manufacturers in Japan, South Korea, and the Netherlands. This had the significant effect of de-risking the sector, contributing to a one-day semiconductor

market rebound of 7%. Because of their resilient earnings characteristics, the semiconductor manufacturers we hold led the rebound. It appeared that companies were now being rewarded for their fundamental earnings characteristics.

The unwinding of the carry trade. More volatility, however, was soon on the way. The week of July 29, the Bank of Japan ended a decades long policy of zero interest rates. This had the effect of raising the borrowing cost on the Japanese Yen. Then, on Friday, August 2, the US Employment Report for July was released, heavily influenced by the unfortunate impact of Hurricane Beryl. Markets panicked, with recessionary fears emerging again. Here is where we differed with the market. Although we will acknowledge that employment growth for the month of July significantly cooled, the creation of 114,000 payrolls per month is nowhere near recession territory. This further buttressed our conviction in the soft-landing thesis, as inflation has abated significantly, job growth has normalized to pre-pandemic levels, and the US Federal Reserve is likely on the verge of cutting interest rates in September.

Because global financial markets are highly interconnected, investors often borrow in low-yielding currencies like the Japanese yen, to invest in higher-yielding currencies like the US dollar, known in financial terminology as a “carry trade.” That the Japanese Yen now costs more to borrow, augmented by compressed profits on US equities, led to heightened volatility (Exhibit 1). As witnessed in this exhibit, intraday volatility levels measured by the VIX nearly reached the levels

Exhibit 1: Volatility Index (VIX)



Source: Bloomberg Terminal Data

of the last two systemic events: the 2008 Great Financial Crisis and the 2020 pandemic, even though this event was of a significantly lesser scale and not systemic. Investors who had done less financial due diligence started panicking and rushed toward a disorderly unwind of this carry trade. But as we expressed to investors, the time horizon of a disorderly unwind often lasts days, if at most weeks, before patient, long-term capital allocators return to the market. We had seen such disorderly unwinds during the 1998 crisis of Long-Term Capital Management, the 1994 run on the Mexican Peso, and the 1997 Asian Financial Crisis. Each was considered serious at the time, but none derailed the global financial system or the secular bull market therein.

Resolution. Being a long-term patient capital allocator is a virtue in a market correction. We took the opportunity to capitalize on relative

value within our holdings, shifting our positions to capitalize on the forthcoming resumption of the secular bull market. We also reminded investors that the real risk to investors is not corrections, but rather missing out on the best 10 days of the market. Technical corrections involving deleveraging are not fundamentally led, and often result in swift resumptions of the secular bull market.

Conclusion. In the week of August 12, markets staged a convincing recovery, rebounding by almost 4%. The catalyst sparking this was good inflation data, illustrating that we are in a soft landing. This episode illustrates how short-lived volatility can be, and the importance of remaining fully invested to capitalize on the long run earnings power of companies. Even at a target rate of 2% inflation, however, we would remind investors of the power of compounding: 2%

inflation compounded over 10 years would mean an erosion of purchasing power of 20%+. This behooves investors to invest in long-run annuity producing earnings growers that can withstand environments of both high inflation and low inflation. Finally, while the market drawdown

lasted half a month, the recovery was swift—a steep rebound of 7%+ over 10 trading days (August 5 to 16), indicating intact fundamentals within a secular bull market experiencing a soft landing, comporting with our original investment thesis.



Chapter 45:

The macroeconomic outlook for Q4 2024

October 24, 2024

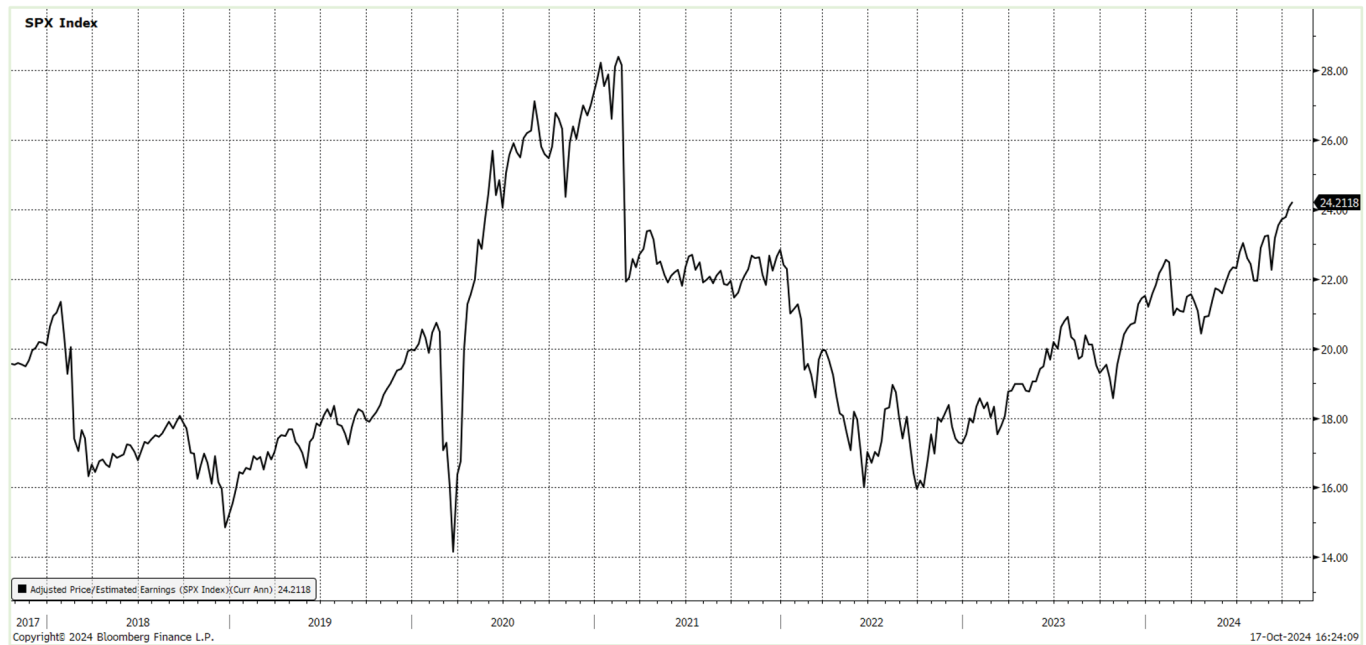
In this investment journal, we would like to update you on the macro-level dynamics shaping the US equity markets, as we head into the final quarter of the year.

In August, we explained that the rotational correction was a short-lived phenomenon, influenced by unfounded fears of a US recession and the subsequent temporary unwinding of the Japanese Yen carry trade. Investors will recall that we did not believe a recession was a likely outcome, given the US's resilient growth characteristics, and a recession's strict official definition of two quarters of negative GDP growth (which we did not see as likely). Since that time in mid-August, the US S&P

500 has returned an additional 5.73% on a better outlook for growth, validating our conclusions of a soft landing into a resilient economy. Here are the updates on the developments that continue to support our investment thesis.

Outlook is for growth: On September 26, the US Bureau of Economic Analysis revised their US Q224 Gross Domestic Income growth forecast to 3.4%, a sizeable revision of +2.1% from the prior August forecast. This profitable revision dispelled much of the negative idea generation around the economy heading into a hard landing, thereby impacting earnings. Moreover, in terms of the global growth outlook, the International Monetary

Exhibit 1: Forward P/E multiple for the S&P 500 Index



Source: Bloomberg Terminal

Fund (IMF) released their April 2024 report entitled “Steady but Slow: Resilience amid Divergence.” In this report, the USA received the largest positive growth revision in 2024, from 2.1% to 2.7%, citing stronger than expected growth and momentum carryover from 2023. A stronger than expected economy is typically a leading indicator of more prolonged earnings growth, supporting a growth orientated outlook.

Considerable progress on inflation. Given the Federal Reserve’s 50 basis point interest rate cut on September 18, we take this as confirmation from Federal Reserve Chair Powell that “significant progress” has been made toward returning inflation to its 2% target. At the same time, September’s US payrolls report beat by over 100,000 jobs, the unemployment rate fell, and

hourly wage gains rose. Therefore, while inflation is cooling, the economy/labour markets still remain resilient as we enter a rate-easing cycle, typically representative of the early stages of a new bull market.

Productivity is driving growth. The definition of productivity, in simple terms, is producing more output for every unit of input. With investments in technologically driven growth, much of the discussion focus has now turned to return on investment of that growth, a welcome discussion that puts the focus on companies’ profitability profiles in the coming years. In this regard, the large US technology companies see strong returns to their outlook, user engagement profiles, and revenue growth, buttressing durably higher returns on invested capital.

Valuations are not extended. While some observers may point to valuation expansion, we would like to put this into historical context for investors. Exhibit 1 is a chart of the S&P 500's forward P/E multiple showing that US equities are still below their 2021 peak. Additionally, with rising earnings revisions (as mentioned earlier), the P/E multiple will compress, making equities even more relatively attractive.

Solvency is benign. In an election year, there have been many exchanges over the subject of the national debt, and how each side's proposals would exacerbate deficit spending. We would like to draw investors' attention to the overall debt profile of the United States, which still appears relatively benign. Total debt of \$35 trillion can be measured against GDP of \$29 trillion and US Household Net Worth of a sizeable \$164 trillion, nearly 4.7x the US's total debt. While deficits may present near-term cash flow concerns, solvency is far from being a problem. In addition, despite all the heated exchanges around election uncertainty

in the US, it is the earnings power of companies in the US markets that is the most long-term wealth creating force, not the party in power. We hope this provides investors a "financial reality check."

Realizing that the markets are prone to disruption by outside forces such as geopolitical unrest, we remain cognizant of the caveats that could cause near-term volatility in this bull market. However, we are reminded that short-term volatility is not the same thing as true market risk, and that from an economic stance, our base case remains the same: With a growth-oriented market narrative, and benign inflation readings supporting an accommodative Federal Reserve, US equities are positioned optimally to perform well. Rarely have we had instances of the Federal Reserve easing into a resilient economy wherein the growth outlook continues to be revised higher. This is the soft-landing narrative we have presented to investors since 2022, and that narrative is now transitioning to one of growth, represented by the early stages of a new secular bull market.



Chapter 46:

2025: An earnings-driven secular bull market

December 3, 2024

In October, we described the US economy as being in a gradual rate-easing cycle wherein interest rates are being reduced while the economy remains resilient, marking a soft landing into a new secular bull market. We concluded that US equities continue to demonstrate excellent risk-reward characteristics, as technologically driven earnings revisions, growth, and productivity gains continue to support valuations. We also cautioned investors against chasing tactical rotations as they tend to be short-lived and not rooted in durable fundamentals. In this

installment, we would first like to expand the client outlook into some of the areas that we have intentionally avoided, including long duration fixed income. Second, we would like to review our portfolio's characteristics as we head into 2025, marking—we believe—the third year of the new secular bull market.

Within fixed income, some investors may be wondering why the rate easing cycle has not benefited long duration US government treasuries. After all, conventionally, treasury prices and bond yields tend to move in opposite directions. Yet, a look at the year-to-date

performance of the 10-year US treasury yield (Exhibit 1) shows that it has climbed from 3.87% at the beginning of the year to 4.44% as of this writing, indicating that the average 10-year treasury has lost over -14% of value (which we completely avoided). This may be surprising to investors, as US 10-year yields rising in an environment where interest rates are falling appears to be an anomaly. Here, we would like to introduce the concept of a “Bond Vigilante,” first coined by Chief Investment Strategist Dr. Ed Yardeni in the 1980s. In simplified terms, a bond vigilante is an investor who imposes fiscal discipline on government deficits by driving up borrowing costs. This puts upward pressure on yields, depressing the value of the 10-year treasury. Furthermore, as we have expressed to investors through many market cycles, the 10-year treasury does not produce any earnings growth, while in the long-term, US equities do.

Indeed, while long duration fixed income has failed to preserve value this year, the Nasdaq and S&P 500 have each appreciated sizeably, not only preserving but growing capital – thanks to the compounding power of earnings-led growth.

As process-oriented investors, we are always reflecting on shifts in our portfolio’s composition over time. 2022, the year of the downturn, was the year we significantly overweighted US technology and US financial shares, including a sizeable top-up in Nvidia in May 2022. Investors who have invested with us since that period may ask about the forward-looking growth outlook of the portfolio. We continue to believe that earnings-led thematics will drive the market, and at the same time, that it is prudent to employ a barbell approach to our holdings: A combination of companies, such as US financials, that consistently return excess capital and trade at undemanding valuations, complemented

Exhibit 1: YTD US 10-year treasury yields



Source: Bloomberg Terminal

by earnings and innovation growers, such as those found in US technology that can produce sustainably high returns on invested capital. At the same time, in an evolving consumer landscape, we believe in holding defensive safe havens with excellent brand desirability characteristics and secular growth opportunities.

Furthermore, geographically, we note a possible forthcoming divergence in performance characteristics between the US and Canadian economies as a result of trade policy differences between Canada and the incoming US Republican Administration; as a result, the majority of our portfolio continues to be fully invested in domestic US equities. We are prepared, as we have been in the past, for elevated volatility. That said, we have used past instances of volatility to effectively position portfolios for future growth. The result of this strategy is that we have outperformed and added value above all market benchmarks over a long timeframe, while producing positive absolute net returns.

We would also like to keep investors focused on the market's intrinsic, earnings-led growth. While we tend not to make long run market projections, strategist Dr. Ed Yardeni recently expressed his view that the S&P 500 could hit 10,000 by 2029 (+69% gain from the current writing's level of 5,916). Reconstructing his EPS growth figures, this would imply an EPS growth of 10% per year and a target earnings multiple of 22x, predicated on a pro-growth paradigm of lower regulation, lower taxation, and productivity enhancements. **We would remind investors that it is earnings growth, and not multiple expansion, that drives the long run compounding power of markets.** Indeed, as portfolio thematics continue to drive an earnings-led return, we believe earnings growth will continue to accelerate, marking modest room for multiple expansion and most of all, productivity-led returns on invested capital. We will remind investors that productivity gains are both disinflationary and produce significant bottom-line expansion, in a world that is becoming increasingly de-globalized.

Conclusion:

November 2018 to December 2024

In conclusion, longevity, sustainability, and profitability remain the core hallmarks of our investment process of identifying compounding growth characteristics. When we can get these compounding growth characteristics at a discounted valuation, we add even more value as a valuation gap surfaces between the company's trading price and its intrinsic value. As readers can see, we have witnessed many market paradigms, from the slow growth and low inflation regime of the pre-COVID era, to an era during the pandemic in which technological share shifts were accelerated, to finally, a more normalized economic atmosphere in which productivity and disinflation are taking center stage again. As expressed to readers in our preface, our reason for writing these journals is three-fold: First to educate and inform our investor base, leading to a more insight-driven investor psyche; Secondly, to act as a repository in which we keep a track record of all the times we were agile and data dependent with our investment decisions; and third, identify the times where we have improved or self-corrected our investment methodologies and processes, resulting in more optimal investment decision making. The result is what we express to clients as our practice's slogan: "Investing your wealth. Realizing your growth. Enabling your independence." We look forward to continuing to update our readers on future developments in future compendiums of our journals. We hope you have found this volume to be reflective and informative.



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