Interest Gained™

Our best insights and updates | Summer 2019 Issue No.14

COTTAGE LIFE

Is it more important to consider emotional attachment or financial gain when drafting your estate plan?

CUMBERLAND
Private Wealth

Contents

Client Asset Allocation Process

By Gary Perron, CFA
Vice Chairman*

It seems like the central banks around the world are in race to low and possibly negative short-term interest rates. Trump is bullying the US federal reserve for lower rates and the rest of the globe will follow America's lead.

So how does an investor allocate assets? Basically, there are three macro asset classes – cash, fixed income and equities in addition to the alternative asset class consists of physical real estate, private equity, and commodities (gold, oil, grains etc.).

For a long time, we have been recommending a heavy exposure to assets which generate real free cash flow. Cash and fixed income will generate very low rates of return so it will be difficult for these asset classes to generate a positive return, after tax and inflation. In some cases, companies(stocks) and alternative classes like real estate need to cover the real depreciation of their assets and don't produce a lot of free cash flow, if any, from their businesses.

The low rate environment has generated valuations beyond normalized levels and certain asset classes will be vulnerable when and if the global interest environment moves higher. Thus, the stock market indices will not be immune to a higher rate environment. Real estate and fixed-rate investments will be especially exposed to lower valuations because of an increasing interest rate.

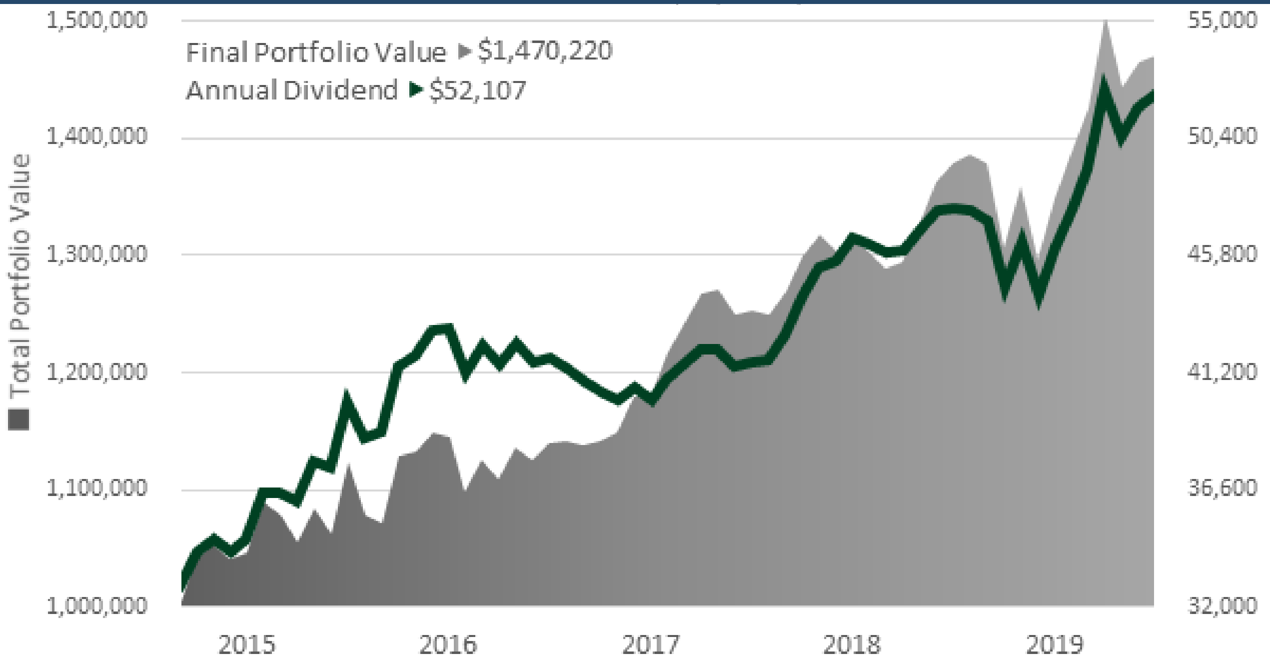
Again, how does an investor allocate assets within this environment?

* Cumberland Private Wealth Management Inc., Calgary

Global Enhanced Dividend Growth Strategy

The portfolios dividend stream has grown 11.1% per year since inception (October 2014), and our downside capture has been reduced to only 85.8% of the market's in this period. We have clearly proved, even in an up-trending environment over the last 5 years, the superior portfolio structure versus the standard 100% long portfolio structure. The investment process has many important parameters with one of the main parameters being the free cash flow generation of the companies we own in the portfolio. The revenue and earnings growth in the portfolio has averaged 11.5% for revenue and 15.9% for earnings. This investment strategy should perform better in a rising rate environment and more importantly, in a low rate environment. The charts below show the actual growth of dividends since inception and the total return including dividends.

Dividend Income of a $1,000,000 Portfolio



Global Enhanced Growth Strategy

We have slightly changed our investment process twice since inception of this mandate. Our last change was effective December 2017. We have strong numbers relative to the competition and market indices. Free cash flow is still a very important variable in the investment process, but most of these companies have a low to no dividend policy as they are reinvesting back into a faster growing business enterprise which shows up in revenue and cash flow growth. Again the 130/30 portfolio structure has reduced market risk with historical numbers and our short investment process has dramatically improved over the last 5 years. This has historically reduced our drawdown relative to the markets for down periods in the market.

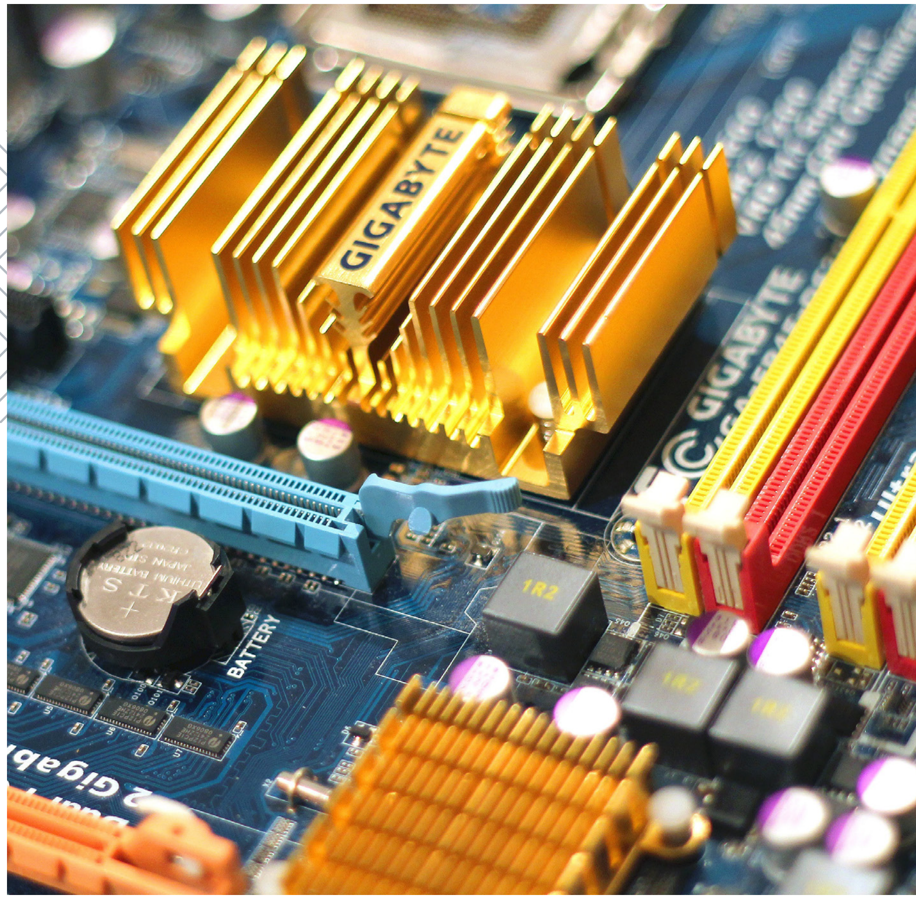
Growth of $1,000,000

We feel these Investment mandates with the portfolio structure of 130/30 should be a very large percentage of client asset mix. A retired client should have an overweight towards a dividend growth style while a millennial should have an overweight to a growth strategy. We also feel strongly, at this stage of the economic cycle, the short duration corporate bond structure (Kipling Strategic Bond Fund) should be a part of the asset mix for a balanced approach. This is not the time to have a full equity invested asset mix. We are coming into the election cycle – both Canada and US - and we expect a lot of volatility as the political policies of pro and anti-business will be in the headlines.

Every household's asset mix will vary depending upon their personal needs and the risk/return they want to assume. The challenge is to maintain purchasing power of your financial assets after tax and inflation, not only in Canada but also in the world. The asset mix needs to be diversified with investment styles, geographically and sector exposures. We all know the risks of being overweight Canada and especially energy in the last five years. Please feel free to reach out and get a review of your asset mix position and strategy, if we haven't already discussed.

PS. In my opinion (GP)- the federal election this fall will have a significant effect on future foreign/domestic investment in this country. No matter where one stands on the political spectrum, an argument can be made that the current administration and the parties that lean to the left have agendas that do not support both foreign and domestic investment conditions in Canada. If you disagree with the direction that the country is headed in, ensure you make your voice heard.

Enjoy the Summer.



Increasing Returns to Scale

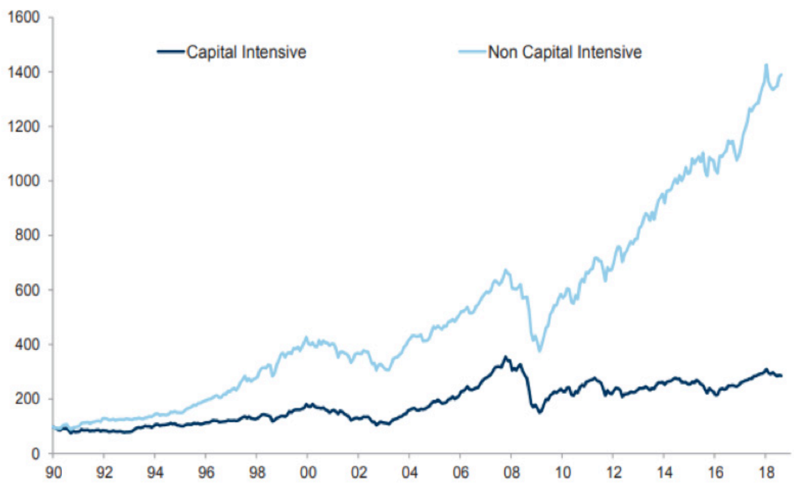
By: Derek Vangenderen
Associate Portfolio Manager*

The past ten years were a challenging period for managers, who continue to experience the pronounced underperformance of value stocks versus growth businesses. Companies with hundreds of billions in market capitalization continue to grow at double digit rates. Mean reversion has simply forgotten to show up.

Conventional wisdom believes mature businesses cannot grow this fast, or improve marginal profitability after becoming this large. However, there are a subset of businesses for which the opposite is true. For these companies, new customers can contribute significant profits while requiring no additional capital.

Capital-Intensive Sectors has Underperformed Since the Financial Crisis

World aggregate



Capital-Intensive Sectors: Forestry & Paper, Industrial Metals & Mining, Automobiles & Parts, Leisure Goods, Construction & Materials, Oil Equipment & Services, Fixed Line Telecommunications, Mobile Telecommunications, Electricity, Gas, Water & Multiutilities Non-Capital-Intensive Sectors: Beverages, Food Producers, Household Goods & Home Construction, Personal Goods, Tobacco, General Retailers, Health Care Equipment & Services, Pharmaceuticals & Biotechnology, Software & Computer Services, Technology Hardware & Equipment

* Cumberland Private Wealth Management Inc., Calgary

An additional viewer of a video or blog requires no meaningful work, but can create significant marginal advertising revenue. No further writers are needed for a personal blog to build up an audience, nor is an extra delivery man needed to download Microsoft's Office Suite. Between 1986 and 2018, Microsoft's revenue grew from $197.5 million to $110.3 billion dollars- a 21.8% annual growth rate.

Brian Arthur was one of the first writers to address increasing returns to scale, describing such companies back in the 1990's. These companies are often asset-light and are becoming a larger part of the overall market.

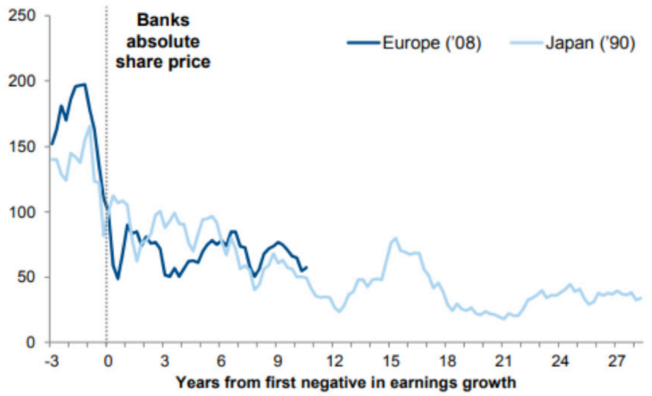
In the 2017 paper "Do Stocks Outperform Treasury Bills?" by Hendrick Bessembinder, they found between 1926 and 2015 only 4% of US stocks created the entire value of the market. That's less than 1,000 total companies creating all of the value. Just 86 of those top 1,000 companies created half of the aggregate $32 trillion dollars of wealth.

Segments of the market in Europe and the US are experiencing Japan's slow growth and poor equity returns, while others are operating like the great recession never occurred. Defensive non-cyclical businesses, typically found in healthcare, consumer staples, and technology benefitted at the expense of heavy industries liking banking and energy.

Distribution of excess lifetime returns on individual stocks vs. Russell 3000, 1980-2014

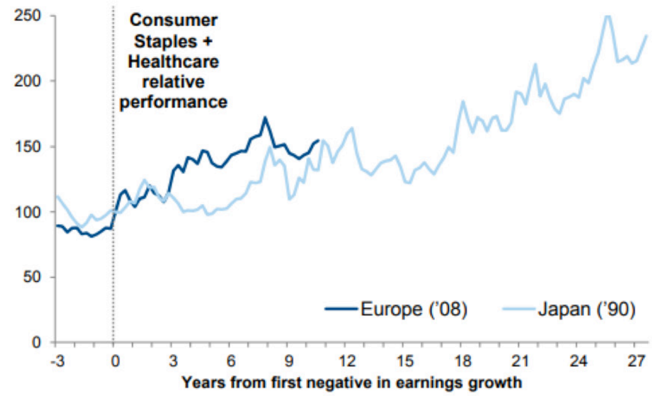
Source: FactSet, J.P. Morgan Asset Management

Exhibit 9: Japanese Banks' underperformance was sustained post the 1990s bubble, like that of European banks post 2008
Time 0 = 4Q 1990 Japan, 3Q 2008 Europe



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 10: 'Growth defensives' outperformed in Japan post the 1990s bubble and in Europe post 2008
Time 0 = 4Q 1990 Japan, 3Q 2008 Europe



Source: Datastream, Goldman Sachs Global Investment Research

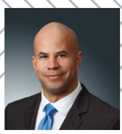
To achieve significant returns, you need to either invest in businesses with high durability and opportunities to expand operations over long periods of time, or flip value stocks once at fair value.

One emerging group that fits this mold was coined by Ned Davis as the "Computer Staples", the technology businesses that are probably not going anywhere. Two such companies are Tyler Technologies and ASML Holdings.

Tyler Technologies is one of the largest software providers to the local and state level governmental organizations. Winning contracts is a difficult and arduous process, however you enjoy 98% to 99% retention rates once a contract is won and they are diversified across thousands of individual customers. The overall market is growing 7% annually and Tyler has penetrated only 10% of it currently. Two thirds of current governmental software was created in-house, some up to 25 years ago by local governments and needs significant updating.

After a decade of development, billions of dollars invested, and every competitor dropping out, ASML Holdings is the effective monopoly provider for next generation extreme ultraviolet lithography. This equipment is instrumental in making next generation chips, etching the chip pattern onto the wafer during the assembly process. The technology is so precise it is analogous to signing your name with a fine ball point pen instead of a paint brush. The demand for chips with 5G, autonomy, and data centers continues to demand cutting edge technologies that can provide the highest precision for semiconductor manufacturing. We can now continue creating even faster, cheaper, smaller, and lower power consumption equipment versus old technology.

Extreme outcomes over long time horizons are what matter. Whether you own individual stocks or passive indices, most of your return will be generated by a fraction of the underlying businesses.



Beyond Belief:

Plant-Based Meat in the 21st Century

By Jon Cornish, CFA
Wealth Advisor*

Initial Public Offerings have always captured the imagination. What if you could buy something which would double or triple over the next week? Such is the case with the recent IPO of Beyond Meat who offers a pea-based alternative to beef based products. Beyond Meat instantly became a market star with an initial IPO price of $25 which almost reached $235 USD before plummeting to more down to earth numbers. Anytime you see a stock skyrocket like this, it's worth a look.

Are people buying Beyond Meat because of the quality of their specific product or are they buying the idea of plant-based meat?

Started by Ethan Brown ten years ago, Beyond Meat started as a passion project. Ethan was always environmentally conscious and worked on Ballard Power System's hydrogen fuel cell prior to starting his own company. A long time vegan, Mr. Brown desired to bring about environmental change more quickly and effectively than building a fuel cell with a dubious future. Instead, he wanted to tackle the way people thought of food. Some shifts in dietary habits are natural like kale instead of lettuce or quinoa instead of rice. Instead, Brown wanted to disrupt how we consumed food. Based on his beliefs about the way cattle are affecting our climate, the number of cows and the way they're treated and the health effects of eating beef, he sought to change how we define the term "meat," and offer an alternative which tastes just as good.

Cattle use 30% of the Earth's usable land surface. A Japanese study found that for every kilogram of beef produced, 34.6 kg of CO2 is produced; In comparison, only 4.57 kg CO2 for a kg of chicken. Basically, including methane, Brown believes we have too much cattle who produce too much pollution. Brown's feelings about beef-related health issues are easily understandable, red meat has long been shown to be detrimental to human health in large quantities. Lastly, animal welfare is a huge issue. If you've seen certain laws in the United States being passed to prevent the filming of factory farms, you'll know that the conditions in which we keep some of our cattle are not pleasant. Effectively, he predicted and helped prompt the change happening in the food world; People are going to eat less real meat and seek alternatives which are better overall for you and the world.

* Cumberland Private Wealth Management Inc., Calgary

While the nutritive value of the Beyond Meat burger isn't too much better than a regular beef burger (if at all), Brown's idea led to a burger which users 90% less greenhouse gases and uses 93% less land than cattle. Initial reviews of the Beyond Meat burger were generally positive. Still, Ethan took an agile approach to the continued development of the product, seeking to iteratively improve and expand their production. Based on these two things, he's garnered the attention of people worldwide seeking to eat less meat with the business projected to earn $240 million in 2019. Businesses don't reach this level of growth without a large potential market, with the global market for plant-based meat anticipated to reach $21.23 billion by 2025. There are serious opportunities in this space so, of course, there are competitors.

Nestle, Impossible Burger, Valess and Tyson are all currently competing with additional businesses entering over the next few years. There may be a technological gap between these companies but that might not matter in the long run. If you're a large enough company, you can pour money into research and get a plant based burger going in eighteen months like Nestle. Valess, with their diary, fiber and seaweed-based product, produces a Veggie McChicken for McDonalds in the Netherlands. The reviews of this Veggie McChicken are outstanding, and people are switching to the veggie version simply because it tastes better. Reviews of Nestle's burger aren't as good as people are comparing it to Spam. Still, these competitors are delivering what people want, a plant-based alternative to meat. While they might not all be high quality now, each of these firms wants a piece of that $21 billion pie so we will see a diverse array of fake meat coming to market over the next six years. With this competition in mind, let's look at the future of fake meat.

While Beyond Meat specifically chose to not include genetically modified organisms (GMOs) in their product, that won't be the case for their competition. With GMOs you can include a variety of novel proteins including Heme, a chemical which makes our blood red, and fake burgers "bleed." While Beyond Meat lacks this specific feature, heme leads to the more realistic red to grayish brown cooking process we're used to with beef burgers. As GMOs become more prevalent, companies could start to include the thousands of proteins we identify as "meat flavor" or more innovative approaches as well which could possibly include other organisms and novel chemicals we would not traditionally classify as meat.

We are only at the start of this shift in our food consumption.

It's no lie that people love meat and people in the developing world would especially love to eat more meat. There's just not much land left for more beef production and the environmental value of more cattle is debatable. Undeniably, there is a shift going on in the food world with more and more people identifying as flexitarian or vegetarian which has the potential to create a market as large as the meat business. With many other entrants into the fake meat market, it will be difficult for Beyond Meat to protect its current edge. Only through continual refinement of their product will their meteoric rise continue. Regardless, whether it's a few power players or a plethora of plant-based meat purveyors, as a foodie, one must relish in the amount of new and exciting food on the horizon.

There are always new investment opportunities on the horizon however, here at Cumberland, our investment process focuses on companies with proven cash flows, growing revenues, and a respect for the shareholder's capital. While we don't often involve ourselves in newly issued stock, it's important to be aware of possible disruptors the market might encounter in the future. Many companies had meager beginnings, securing a niche and evolving from there, just look at the progression of companies like Alimentation Couche-Tard in the early 2000s or Microsoft in the early 1990s. To find opportunities like these we have the NCM Entrepreneur's Class which focuses on investing in large, profitable companies with proven management teams which are underfollowed and underinvested by the market. To find out more about our wealth creation strategies, please contact your Cumberland Advisor.

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https://www.globenewswire.com/news-release/2019/03/28/1781303/0/en/Global-Plant-Based-Meat-Market-Will-Reach-USD-21-23-Billion-By-2025-Zion-Market-Research.html

Cottage Life

By Shawna Perron, MBA, CIM, FEA
Portfolio Manager*

Ahhh!
Summer is here and it's Cottage Life!

Remember that BIG fish you caught when you were five and came back to tell the story? Some of my most fond memories were made at our family cottage on Lake of the Woods in Ontario. We would spend a couple weeks out there visiting every summer with my dad's parents and cousins fishing, jumping off the boat house, learning to water ski and hiking through the old gold mine with grandma leading the way (it was her short cut back to the cottage). The feeling you get when it's summertime, school is out, the weather is great and there is water to be played in – that's cottage life!

It could not get better, right? While all this sounds amazing, there are some future implications to owning a cottage that are not necessarily as easy to manage. If it's your dream to pass down the cottage to future generations to come, thoughtful planning needs to take place.

Not to rain on your summer vacation parade but we need to think about succession of the cottage and what the family wants, and we all need to start thinking about this now! A cottage is known to be one of the most important and contentious assets within one's estate. As it is a place that typically brings family together, the cottage has significant emotional and, potential financial value. Which is more important to consider when you are drafting up your estate plan? Which one is going to have a greater impact on your family and its dynamics going forward? The answer is both, but in very different ways.

* Cumberland Private Wealth Management Inc., Calgary

The fond memories and positive sentiments one feels towards a family cottage carries substantial weight when it comes to planning on whether to keep the cottage in the family or to sell it. If you keep it in the family and it becomes a shared asset among several family members, how it will be owned and managed will be vital to the conversation and cohesion of the family going forward. If your intention is to sell the cottage, it is recommended that your intent is clearly communicated well in advance so there are no disputes over reasons why, especially if it is being sold or gifted to a single family member. Cottages can be one of the most contentious parts of an estate so it is critical to plan for the transition.

Financially, the cottage has likely appreciated over time and there are substantial tax implications. Being able to afford the cottage can become a major issue for the future beneficiaries if not planned well.

Considerations include:

- How to pay the capital gains tax and avoid double taxation?
- Can the children or beneficiaries afford to purchase the cottage?
- Who will be responsible to pay for the maintenance and up-keep?
- What the process is if one beneficiary wants to sell out of their share?
- How to keep the cottage ownership within the family and not part of matrimonial property?
- Does the cottage require a shared asset agreement to be put in place?
- Does a trust make sense?

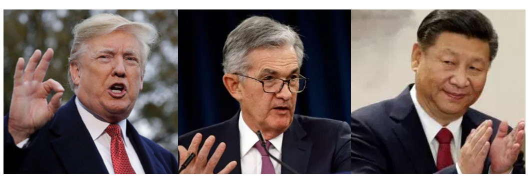
Deciding what is important to plan for requires thoughtful conversations and education around the options when deciding to keep the cottage in the family and for future generations to enjoy.

If you have been thinking about what to do but haven't fully decided, now is a great time to get the conversation started. Please give us a call and set up a time to meet to see how we can help facilitate the discussion.

Cumberland Fixed Income Second Quarter Review

By Diane Pang, CPA, CA, CFA
Lead Manager, Cumberland Fixed Income*

Who’s Got P WE~~LL~~R?



Source: Google Images

Most of us will remember Q2 as action-packed with highs, lows, explosive plays, trash-talking, team effort and finally, victory: Yes, the TORONTO RAPTORS are the NBA champions! Who would have thought that the underdogs would gain NBA power? Now that the playoffs are over, the 56% of us Canadians that tuned in to cheer for our beloved Raptors are now dragging our feet to get back to things we have sidelined. The financial markets had a very similar quarter to that of the Raptors’ fans.

The Play-by-Play for the Quarter

Highs- S&P 500 hitting a 52-week high (again) during the quarter as economic data in the US remained robust with GDP growth still above the 3% (for now), unemployment at historic lows at 3.6% and inflation (CPI) tracking within the Fed’s 2% target. Canada is also showing signs of positivity with an improving GDP, solid CPI print, oil hitting a year-to-date high during the quarter of USD$66/bbl, and a 10-year low unemployment rate of 5.4%. Given the backdrop of trade wars causing instability, both economies are faring well.

Lows – Manufacturing sentiment is low! New York Fed Empire State Manufacturing Survey’s last reading in June was the lowest level since October 2016, while Philadelphia’s was the lowest since February, resulting from the impact of heightened trade concerns during the quarter.

US 10-year treasuries and Canadian government 10-year bonds both hit 18-month lows during the quarter: despite both the Fed and Bank of Canada indicating they will be on hold with interest rates.

* Cumberland Investment Counsel Inc., Toronto

2-year rates are below overnight by 50bps and 25bps for the US and Canada, respectively (ie. indicating 2 and 1 interest rate cut).

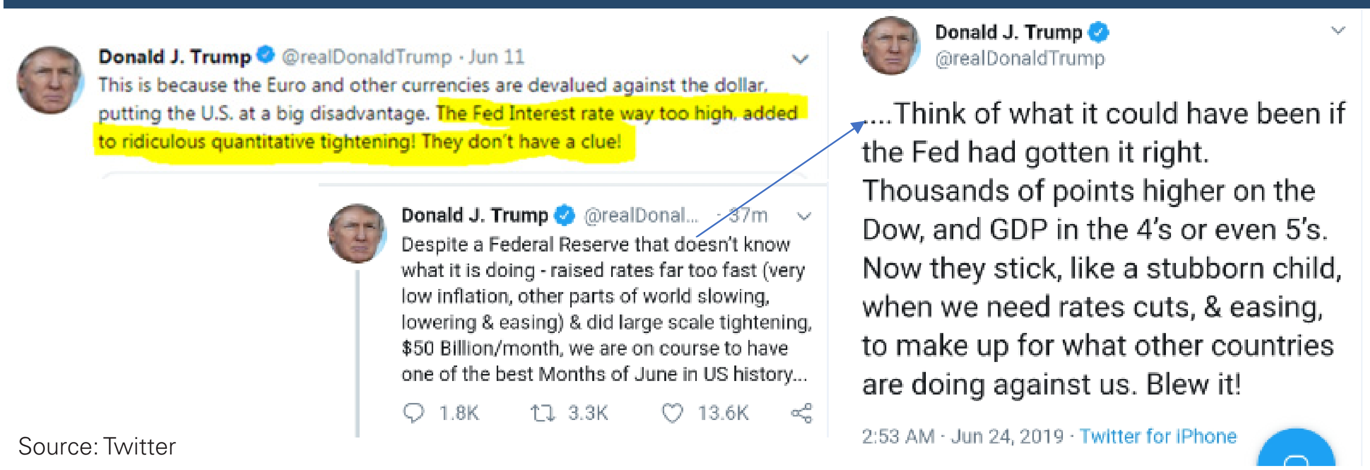
Explosive plays- Countries around the world thought they could hide in the shadows of the US/China trade war spotlight as the US and China see-sawed over whether or not to meet in early May. In the end, the meeting was inconclusive and left an overhang of uncertainty as investors fled to safety in the bond markets. By the end of May, Trump pulled out the unexpected and went on a 4-0 run (during a 5-day span from May 29th-June 2nd) against:

1. European Union – escalated on-going disputes with threats of penalties for trading with Iran;
2. Mexico – threatened 25% tariffs on imports if illegal migration didn't stop;
3. India – removed India from developing countries list that receives special trading privileges; and
4. Australia – "considered" putting tariffs on aluminum before it was quashed by the Pentagon.

These daily threats during that period caused major concerns for the markets as fixed income investors continued to flee into safe assets. Note: Year-to-date, the 10-Year US treasuries yields swung 80bps from peak to trough, in pure return, that is a move of 29%! While year-to-date, the 10-year Government of Canada bond yields swung 61bps from peak to trough, a move of 30%. Those are not the types of moves us bond investors can stomach, afterall, we are (relatively speaking), risk-averse people that are not as flashy for adventure as our equity peers.

Trash Talking

Exhibit 1: Trump's Twitter



Source: Twitter

While there continues to be critical comments from Trump regarding the Fed and their decisions with monetary policy, at the end of the day, Trump cannot fire the Fed Chairman, Jerome Powell, without cause. Powell is untouchable (really). Although, I guess Trump could find a loophole. Regardless, Powell has explicitly stated he will battle this out until the end (of his 4-year term). Powell also noted that "the Fed is insulated from short-term political pressures – what is often referred to as our independence… Congress chose to insulate the Fed this way because it had seen damage that often arise when policy bends to short-term political interests". Powell is focused on his task at hand: to set good monetary policy that will help prolong expansion in the US.

Team Effort- Q1 quarterly reportings were rather positive during Q2 and economic data was mostly optimistic; however, the on-going trade wars in the background were and still are a big question mark. Central banks around the world are all banding together and trying to be "accommodative" and will do what is necessary to stimulate their respective economies. The US and Canadian central banks have indicated they will be on hold, but will "act" if required and are closely monitoring the "situation" (aka. US/China trade war) to see if their economies are slowing faster than wanted.

Does this mean a race to 0? If you look at the table below, the US has the highest overnight interest rate vs. all the other G7 countries. Lower interest rates do not necessarily mean economic stimulation at this point. In Canada specifically, household debt to income is at 173%. Lower rates could just entice Canadians to borrow more and the risk would be overleveraging the consumer that it could exacerbate defaults if the economy sees weakness. Interest rate policy also affects currency, and if other countries cut interest rates, the US or Canada could see their currency appreciate, which could make exports unfavourable. As a result, if the US starts cutting interest rates, we may see Canada follow suit. The US is our largest trading partner, and a strong Canadian dollar vs. the US would make it unattractive for the US to import Canadian goods, therefore impacting our GDP.

Exhibit 2: Overnight Interest Rates

	Overnight Rate	Next Meeting
United States (lower bound)	2.25%	31-Jul-19
Canada	1.75%	10-Jul-19
European Central Bank*	0.00%	25-Jul-19
Bank of England	0.75%	01-Aug-19
Japan	-0.10%	20-Jul-19

* Inclusive of France, Germany, Italy
Source: Bloomberg

Victory- We are half way through the year, and as investors, if you stuck through the season and kept your money invested, you would be pleased with the balances in your accounts at the end of Q2. What a comeback from year-end!

Things that were sidelined

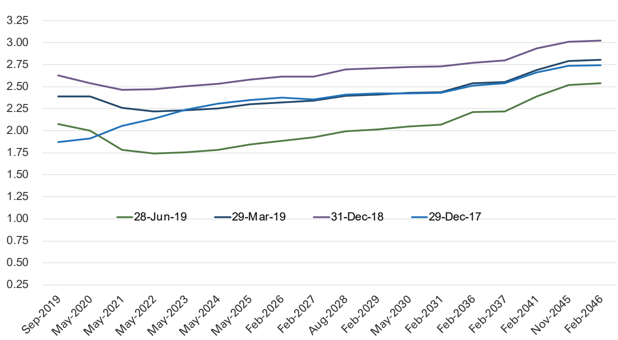
- US/China trade war resolution since the 6-week stalemate in mid-May.
- Ratification of USMCA (United States-Mexico-Canada Agreement)
- Brexit/No Brexit/UK elections
- US debt ceiling (that will come back in Q3)
- OPEC oil supply/cuts

Quarter Review

During their most recent meeting in June, the Fed continued to indicate that they will be on hold with interest rate hikes or cuts, but would be accommodative, acting if necessary to prolong the US expansion (ie. cut interest rates if and when it sees fit). While their latest assumptions in their dot plot showed that interest rates will be on hold for the remainder of the year, the market is expecting the Fed to cut at least once if not more by the end of 2019.

With a very volatile May, investors fled to safety assets causing the yield curve to move lower during the quarter anywhere between 27bps to 48bps. We note there is an inversion between the 1-year and 3-year part of the curve (ie. investors would be compensated more to be in a 1-year bond than a 3-year bond).

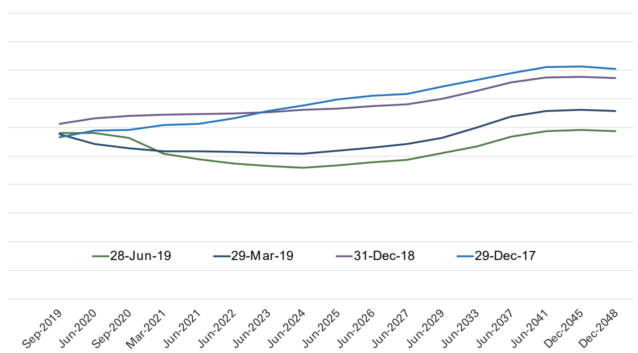
Exhibit 3: US Yield Curve



Source: Bloomberg

Canada typically follows the lead of the US; however, due to some improving economic data in Canada, it was torn directionally how to react. As a result, the move was slightly different: we saw 1 year rates move higher 10bps while the rest of the curve was lower anywhere between 7bps to 18bps.

Exhibit 4: Canada Yield Curve

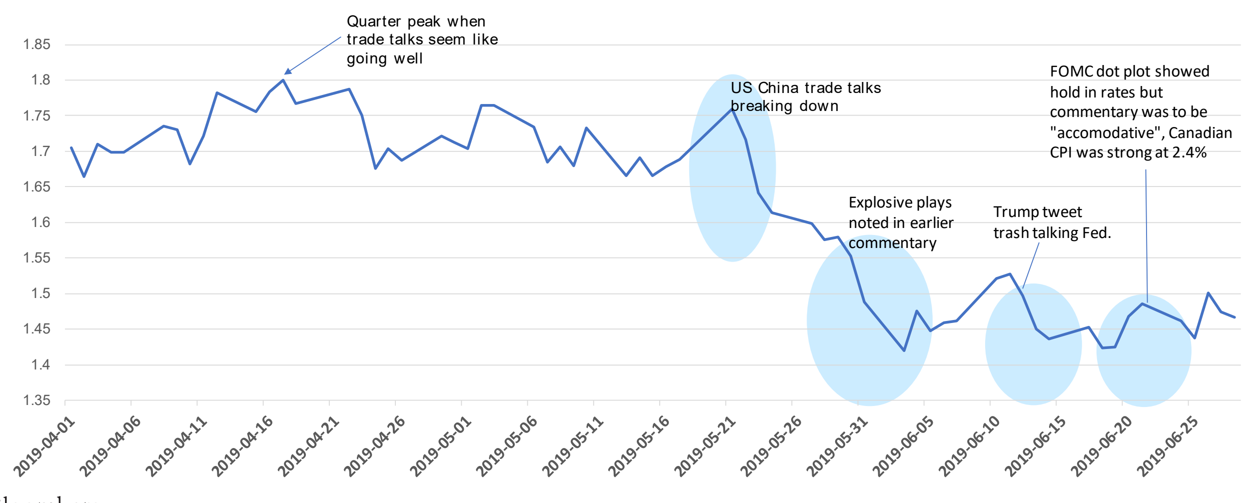


Source: Bloomberg

The volatility of the 10-year government of Canada yield index (Exhibit 5) moved from peak to trough 21% during the quarter, mainly from the news linked to our southern neighbours. This is interesting to see given moves like this are pretty big for bond investors.

Canadian investment grade corporate spreads compressed anywhere between 9bps to 20bps across the curve and rating categories, driven by the need for yield.

Exhibit 5: 10-Year Government of Canada Yield Index



Source: Bloomberg

Returns for various fixed income asset classes are in the table below. During the quarter, long corporate bonds outperformed as heightened uncertainty from the stalemate in US/China trade war negotiations lead investors to safe assets, combined with the need for yield.

Asset class returns	Q2/19	Q2/18	2018	2017
Bond Universe Index	2.51%	0.51%	1.41%	2.52%
Corporate Bond Index	2.68%	0.42%	1.1%	3.38%
FTSE High Yield Canadian Index	0.85%	1.33%	2.15%	9.94%
S&P/TSX Preferred Index	-2.69%	1.01%	-12.21%	13.44%

Outlook & Positioning: What goes up must come down

This world is far from perfect at the moment and our Canadian bond markets seem to heavily revolve around our neighbours south of us; however, what can you expect when it is the world's richest consumer market, as well as the world's largest bond market. Global GDP is impacted by US' consumer behaviour which in turn impacts Canada's GDP and the outlook to our economy. Bond markets are fluid as international flows out of and into the US could mean flows into and out of Canada (maybe not to the same extent of volumes, but to the rest of the world, we are viewed as the smaller, more conservative sibling). While we'd like to think Canada is independent (152 years!), we are so tied in many ways to our older and bolder sibling, so keeping abreast on their ways will help us in deciding how we should deal with our own markets. Divergence in monetary policies between the two countries is not out of the realm of possibilities, but we would need the see a pick-up in commodity prices (not just oil), a stabilized Canadian currency along with growing exports, and continued strength in our employment rate.

With the continued rally in bonds in Q2 driving yields lower, bond prices are higher (ie. above par – which is 100). In the Canadian Bond Universe out of the 1,469 bonds, about 1,394 (or approximately 95%) of the bonds are currently trading above par. Unlike our equity peers where there is no limit to how high a stock can go, in bond land, it is very different: bonds mature at par- what goes up must eventually come down. We are cautious of that.

We continue to stay disciplined and focused on preserving capital and managing risk/rewards for our investors. While there are risks still looming in the economy and we are cautious of overreaching for yield (especially in a low interest environment), we are, at the same time, not shying away from looking for opportunities to diversify, improve the quality, and/or enhance the yield stability in the portfolio – it just has to make sense! While the traditional bond markets may not provide great opportunities at the moment, our mandates have always been very flexible and have always allowed for non-traditional debt investments to diversify and enhance the portfolio, which we have used and will continue to take advantage of. In either respect, whatever we invest in, patience is key – it is a long season.

We head into Q3 wiser, refreshed, armed and ready for more action. Enjoy the summer and I look forward to seeing you at the next client event!

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