



ADVISOR MANAGED ACCOUNTS: OCTOBER 2019 COMMENTARY



October was eventful. The Equity Action Call went Yellow (cautious) from Green (positive) on the 9th of October. This change was primarily on the back of weakening strength in International Markets. The Canadian Market remains atop the list of desirable Asset Classes after climbing to the top of the list for the first time in recent memory. The US Market is ranked 2/7 and International Equities 6/7. We took action promptly to raise 10% in cash from our equity allocations and remain that way pending an improvement or deterioration in the Equity Action Call. This transition to Yellow is rather unique to our experience as it is driven by markets outside of North America while North America remains strong. This is somewhat problematic as we generally have much more exposure to North American stocks than International ones. However, the interconnectedness of Global Markets has generally meant weakness in one market ultimately percolates through all of them. The benefits of a rules based approach, like we employ, is that we first take action and then take the time to mull over the situation.

As a backdrop to our cautious stance, the headlines are filled with notes about all-time highs in both the Canadian and US markets - while this is true - it is the culmination of a long climb out of the lows of last fall that followed a raft of market highs in August and September 2018. So while the hyperbole can make it seem that markets are impossibly higher and higher, they are in fact only modestly higher than late summer last year. The September occurrence of a shift in market leadership from growth to value seems to have devolved to that part of a wrestling match when the wrestlers are down on the mat and it's difficult to figure who is "winning". Many of the previous 'winners' supported by growth and momentum were sold off in favour of previous market laggards. Growth style investing has outperformed for some time, while Value style investing - dominated by commodities, financials and dividend paying slower growth companies - have lagged. Time will tell if this is a temporary adjustment within the market or a sustained and longer term change in trend, but as always, we have been busy sifting and sorting with the aim of putting the strongest 'team' on the field and the strongest investment choices in our portfolios.

Canadian news in October was dominated by our election. Elections, of late, can be dominated by negative language about our economy and our prospects that can distract from what has been a generally fairly robust economic backdrop despite the mounting uncertainty south of the border, across the Atlantic, and across the Pacific. Not only have recent Canadian economic reports been positive, the Bank of Canada once again declined to join the parade of central banks cutting rates or launching new stimulus this year, a big vote of confidence in Canada's business environment from its central bank. In short we are cautiously optimistic but that optimism will be tempered by our discipline and rules.

The VIX, or "fear gauge" (a forward looking gauge that measures U.S. market volatility) has moderated to 13.2, with a monthly range between 12.2 and 21.4. These levels are below long term averages, implying a certain amount of calm in the market.



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Please locate your specific model from the sections below and read about what activity went on in your portfolio.

BLUE HERON CANADIAN ESG LEADER

October Trade Notes:

We manage this portfolio with the aim of generating a superior total return combining capital growth and dividends while investing only in Canadian companies who score in the top 40% of their peer group based upon Environmental, Social, and Corporate Governance (ESG) considerations. Global companies, who also must score in the top 40% of their peer group, based upon ESG criteria, make up about 30% of the portfolio.

During the month we sold our positions in **Canadian Pacific Railway Ltd** (Railroads), **Adobe Inc.** (Application Software), **Diageo Plc** (Distillers & Vintners), **Firstservice Corp** (Real Estate Services) and **Roper Technologies Inc** (Industrial Conglomerates).

We added new positions in **Major Drilling Group Intl Inc** (Diversified Metals & Mining), **Boralex Inc** (Renewable Electricity), **Apple Inc** (Technology Hardware, Storage & Peripherals), **Ansys Inc** (Application Software), **Parkland Fuel Corp** (Oil & Gas Refining, Marketing & Transportation) and **Royal Bank Of Scotland Group Plc** (Diversified Banks).

A number of new 52-week highs were achieved in the portfolio including **BRP Incorporated** (Leisure Products), **Lam Research Corp** (Semiconductor Equipment), **Edwards Lifesciences Corp** (Health Care Equipment), **Apple Inc** (Technology Hardware, Storage & Peripherals), **Taiwan Semiconductor Manufacturing Co** (Semiconductors), **Nice Ltd** (Application Software), **Microsoft Corp** (Systems Software), **Ballard Power Systems Inc** (Electrical Components & Equipment), **Element Fleet Management Corp** (Specialized Finance), **Wsp Global Inc** (Construction & Engineering), **Parkland Fuel Corp** (Oil & Gas Refining, Marketing & Transportation), **Home Depot Inc** (Home Improvement Retail), **Ansys Inc** (Application Software), **Dream Office REIT** (Office REITs), **Intact Financial Corp** (Property & Casualty Insurance), **Canadian Apt Properties** (Residential REITs), **Killam Apartment REIT** (Residential REITs), **Boralex Inc** (Renewable Electricity), **Major Drilling Group International Inc** (Diversified Metals & Mining), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power) and **Morneau Shepell Inc** (Human Resource & Employment Services).

BLUE HERON DIVIDEND ESG LEADER AND BLUE HERON INCOME ESG LEADER

October Trade Notes:

We manage this portfolio with the aim of generating a superior total return combining capital growth and dividends while investing only in Canadian companies who score in the top 40% of their peer group based upon Environmental, Social, and Corporate Governance (ESG) considerations. Global companies, who also must score in the top 40% of their peer group, based upon ESG criteria, make up about 10% of the portfolio. There is an emphasis on generating dividend income. Blue Heron Income ESG Leader is the balanced version of Blue Heron Dividend ESG Leader.

All positions in these portfolio continue to represent attractive investment opportunities, and no changes were made to our holdings during the month.

A number of new 52-week highs were achieved in the portfolio including **IA Financial Corporation** (Life & Health Insurance), **National Bank Of Canada** (Diversified Banks), **Microsoft Corp** (Systems Software), **Element Fleet Management Corp** (Specialized Finance), **Innergex Renewable Energy Inc** (Renewable Electricity), **Wsp Global Inc** (Construction & Engineering), **Parkland Fuel Corp** (Oil & Gas Refining, Marketing & Transportation), **Extendicare Inc** (Health Care Facilities), **Dream Office REIT** (Office REITs), **Intact Financial Corp** (Property & Casualty Insurance), **Canadian Apt Properties** (Residential REITs), **Killam Apartment REIT** (Residential REITs), **Boralex Inc** (Renewable Electricity), **Northland Power Inc** (Independent Power Producers & Energy Traders), **First Capital Realty Inc** (Real Estate Operating Companies), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Fortis Inc** (Electric Utilities), **Morneau Shepell Inc** (Human Resource & Employment Services) and **Sun Life Financial Inc** (Life & Health Insurance).

BLUE HERON GLOBAL ESG LEADER**October Trade Notes:**

We manage this portfolio with the aim of generating a superior total return combining capital growth and dividends while investing in global companies, who also must score in the top 40% of their peer group based upon ESG criteria.

During the month we sold our positions in **Adobe Inc.** (Application Software), **Starbucks Corp** (Restaurants), **Intercontinental Hotels Group** (Hotels, Resorts & Cruise Lines), **Ally Financial Inc** (Consumer Finance), **Diageo Plc** (Distillers & Vintners) and **Roper Technologies Inc** (Industrial Conglomerates).

We added new positions in **Fastenal Co** (Trading Companies & Distributors), **Fiserv Inc** (Data Processing & Outsourced Services), **Nike Inc** (Footwear), **Ansys Inc** (Application Software), **Royal Bank Of Scotland Group Plc** (Diversified Banks) and **Tesla Inc** (Automobile Manufacturers).

A number of new 52-week highs were achieved in the portfolio including **Lam Research Corp** (Semiconductor Equipment), **Edwards Lifesciences Corp** (Health Care Equipment), **Apple Inc** (Technology Hardware, Storage & Peripherals), **Resmed Inc** (Health Care Equipment), **Taiwan Semiconductor Manufacturing Co** (Semiconductors), **Stmicroelectronics N V** (Semiconductors), **Nice Ltd** (Application Software), **Ingersoll Rand Plc** (Industrial Machinery), **Microsoft Corp** (Systems Software), **Astrazeneca Plc** (Pharmaceuticals), **Prologis Inc** (Industrial REITs), **Fastenal Co** (Trading Companies & Distributors), **Home Depot Inc** (Home Improvement Retail), **Kansas City Southern** (Railroads), **Nike Inc** (Footwear), **Zoetis Inc** (Pharmaceuticals), **Ansys Inc** (Application Software) and **Asml Holding Nv** (Semiconductor Equipment).

We highlight one ESG screened company each month from our Blue Heron Portfolios:

Ecolab Inc. (Ticker ECL-US) provides water, hygiene and energy technologies and services. The Company's cleaning and sanitizing programs and products, pest elimination services and equipment maintenance and repair services support customers in the foodservice, food and beverage processing, hospitality, healthcare, government and education, retail, textile care and commercial facilities management sectors in over 170 countries.

(Thomson One. (2019). Retrieved from <https://www.thomsonone.com/>)

Ecolab helps customers address their cleaning, sanitising, food safety, water and energy management needs at nearly 3 million customer locations around the world. In 2018, Ecolab helped customers save 188 billion gallons of water (712 billion litres), more than 19 trillion BTUs of energy (c.4 million tonnes of CO2 e) and, by using recycled plastics and reusing packaging, 54 million pounds of waste (24,500 tonnes).

(Baillie Gifford Positive Change Report. (2018). Retrieved from <http://www.bailliegifford.com>)

Ecolab's rating is unchanged at 'AAA'. Ecolab, a provider of water treatment solutions, plans to spin off its upstream energy units including oil field chemicals production and the WellChem drilling and well completion chemistry business by mid-2020. It plans to retain the downstream business, which serves refineries and petrochemical plants. This separation may allow Ecolab to focus on the hygiene, food safety and industrial water markets, providing a compelling opportunity for investors looking to capitalize on the demand for energy and water scarcity solutions. Ecolab has embarked on a significant investment in digital capabilities to improve its monitoring of customer accounts and production and marketing efficiency which is helping its customers to optimize water use in their processes. Further, this move towards a digital strategy will help Ecolab leverage data from its customers to develop tailored analytical solutions to reduce water and energy consumption in their facilities.

(MSCI ESG Manager. (2019). Retrieved from <https://esgmanager.msci.com/esgmanager/>)

GROWTH PORTFOLIOS**BLUE HERON BALANCED****BLUE HERON GROWTH****October Trade Notes:**

We manage these portfolios with the aim of generating a superior total return combining capital growth and dividends.

During the month we sold our positions in **Canadian Natural Resources Limited** (Oil & Gas Exploration & Production), **Canadian Pacific Railway Ltd** (Railroads), **Ecn Capital Corp** (Specialized Finance), **Firstservice Corp** (Real Estate Services), **Intercontinental Hotels Group** (Hotels, Resorts & Cruise Lines) and **Roper Technologies Inc** (Industrial Conglomerates).

We added new positions in **Brookfield Renewable Partners** (Renewable Electricity), **Colliers International Group Inc** (Real Estate Services), **Brookfield Infrastructure** (Multi-Utilities & Unregulated Power), **Dream Office REIT** (Office REITs), **Gibson Energy Inc.** (Oil & Gas Storage & Transportation), **Royal Bank Of Scotland Group Plc** (Diversified Banks) and **Tesla Inc** (Automobile Manufacturers).

A number of new 52-week highs were achieved in the portfolio including **Air Canada** (Airlines), **Resmed Inc** (Health Care Equipment), **Taiwan Semiconductor Manufacturing Co** (Semiconductors), **Stmicroelectronics N V** (Semiconductors), **Nice Ltd** (Application Software), **Dream Global REIT** (Diversified REITs), **Microsoft Corp** (Systems Software), **Altagas Canada Inc** (Gas Utilities), **Ballard Power Systems Inc** (Electrical Components & Equipment), **Element Fleet Management Corp** (Specialized Finance), **Wsp Global Inc** (Construction & Engineering), **Parkland Fuel Corp** (Oil & Gas Refining, Marketing & Transportation), **Home Depot Inc** (Home Improvement Retail), **Boyd Group Inc** (Diversified Support Services), **Constellation Software Inc** (Application Software), **Dream Office REIT** (Office REITs), **Intact Financial Corp** (Property & Casualty Insurance), **Brookfield Renewable Partners Lp** (Renewable Electricity), **Canadian Apt Properties** (Residential REITs), **Killam Apartment REIT** (Residential REITs), **Dream Industrial REIT** (Industrial REITs), **Northland Power Inc** (Independent Power Producers & Energy Traders), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Morneau Shepell Inc** (Human Resource & Employment Services) and **Sun Life Financial Inc** (Life & Health Insurance).

INCOME PORTFOLIOS**BLUE HERON CANADIAN DIVIDEND****BLUE HERON CANADIAN INCOME****October Trade Notes:**

We manage these portfolios with the aim of generating an above average stream of dividend income and providing, over time, a superior total return combining dividends with capital growth. The portfolio currently has a dividend yield of -3.65%, versus 3.12% for the TSX Composite.

During the month we sold our position in **Canadian Natural Resources Limited** (Oil & Gas Exploration & Production) and added a new position in **Canadian Western Bank** (Regional Banks).

A number of new 52-week highs were achieved in the portfolio including **Dream Global REIT** (Diversified REITs), **National Bank Of Canada** (Diversified Banks), **Microsoft Corp** (Systems Software), **Altagas Canada Inc** (Gas Utilities), **Innergex Renewable Energy Inc** (Renewable Electricity), **Parkland Fuel Corp** (Oil & Gas Refining, Marketing & Transportation), **Canadian Western Bank** (Regional Banks), **Intact Financial Corp** (Property & Casualty Insurance), **Brookfield Renewable Partners Lp** (Renewable Electricity), **Canadian Apt Properties** (Residential REITs), **Killam Apartment REIT** (Residential REITs), **Northview Apartment REIT** (Residential REITs), **Dream Industrial REIT** (Industrial REITs), **Granite REIT** (Industrial REITs), **Northland Power Inc** (Independent Power Producers & Energy Traders), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Fortis Inc** (Electric Utilities), **Morneau Shepell Inc** (Human Resource & Employment Services), **Exchange Income Corporation** (Airlines) and **Sun Life Financial Inc** (Life & Health Insurance).

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Securities

Air Canada	2g,C38	Extencare Inc.	2g
AltaGas Canada Inc.	2a,2c,2e,7	First Capital Realty Inc.	2a,2c,2e,2g
Boralex Inc. Class A	2g,7	FirstService Corporation	2g,7
Boyd Group Income Fund	2g	Fortis Inc.	2g,7
Brookfield Infrastructure Partners L.P.	2a,2c,2e,2g,7	Gibson Energy Inc.	2a,2c,2e,2g,7
Canadian Apartment Properties REIT	2a,2c,2e,2g,7	Granite REIT	2a,2c,2e,2g,7,C1
Canadian Natural Resources Ltd.	2g,7	Industrial Alliance Insurance & Financial Services Inc.	2a,2c,2e,2g
Canadian Pacific Railway Ltd.	2a,2c,2e,2g,7,9	Intact Financial Corp.	2a,2c,2e,2g,7
Canadian Western Bank	2a,2c,2e,2g,7	Killam Apartment REIT	2a,2c,2e,2g,C1
Dream Industrial REIT	2a,2c,2e,2g	Morneau Shepell Inc.	2g
Dream Office REIT	2g	Northland Power Inc.	2a,2c,2e,2g,3a,7
BRP Inc.	12,2g	Northview Apartment REIT	2a,2c,2e,2g
Dream Global REIT	2g	Parkland Fuel Corporation	2a,2e,2g
ECN Capital Corp.	2a,2e,2g,3a,3c	Sun Life Financial Inc.	2a,2c,2e,2g,7
Element Fleet Management Corp.	2a,2c,2e,2g	WSP Global Inc.	2g
Exchange Income Corporation	2a,2c,2e,2g		

Disclaimers

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

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3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

9 An executive committee member or director of Canadian Imperial Bank of Commerce (“CIBC”), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

12 The equity securities of this company are subordinate voting shares.

C1 CIBC World Markets Inc. is connected to this company because CIBC World Markets Inc. is acting as underwriter for this company and it or one of its affiliates is part of a lending syndicate that has made credit facilities available to this company.

C38 The Class A shares of Air Canada are variable voting shares. The Class B shares of Air Canada are converted to Class A shares if they become held by a person who is not a Canadian.