



ADVISOR MANAGED ACCOUNTS: AUGUST 2019 COMMENTARY



It was a strange month for news flow. We received lots of client reaction to David Rosenberg’s article in the Globe and Mail on the 9th of August titled: “Investors, be as liquid as possible. These are truly historic and dangerous times.” Scrolling through the articles that he has authored or is referenced to in the Globe and Mail, yields a litany of woe. August 28th 2017 gives us the headline: “David Rosenberg: More Bearish signposts are emerging”. The S&P 500 ended August 2017 at 2471 and gained ~17.4% over the next 12 month closing August 2018 at 2901. Similarly, the TSX/S&P Composite went from 15211 to 16262 gaining ~6.9% . Neither of these returns factor in dividends.

David Rosenberg is a learned strategist with justifiably heralded opinions, but market prognostication is an extremely difficult business. So, Mr Rosenberg by being consistently negative is always eventually right as recessions follow expansions as surely as night follows day. The timing of his prognostications are very fluid but the message is consistent. Similarly, a broken 12 hour clock is also an extraordinarily accurate prognosticator of the current time - and it only displays the correct time twice a day - like clockwork!

I will recycle last month’s commentary as it is just as applicable now: It’s not that we are not worried it’s that we are always worried...always. Worry, on its own, is not action so we build processes and rules so that we have a reasonable framework to support our decision-making. Mark Twain once said, “It’s not what we don’t know that gets us in trouble. It’s what we know for sure that just ain’t so.” Well apparently Mark Twain may not have actually said that (thanks Internet), but it is still a worthy consideration. There is much concerning news and how news is presented seems to be increasingly frantic and attention seeking. We, and I imagine everyone, would like a little more certainty about all this uncertainty.

That said, again, despite considerable volatility and much angst the US market ended August slightly positive and Canada pretty much flat. So rather than unproductive worrying we rely on our unemotional Equity Action Call to support our tactical opinion on the market and industries. The Equity Action Call (EAC) remains Green implying that our portfolios continue to be fully invested to their target equity weights. As always, we remain watchful as events develop and will take appropriate actions in our portfolios as conditions dictate.

The VIX, or “fear gauge” (a forward looking gauge that measures U.S. market volatility) had increased to a high of 24.8 from last month end’s 16 before ending the month at 18.5 as volatility moderated. The monthly range was between 13.7 and 24.8 -so it was pretty lively month. Please locate your specific model from the sections below and read about what activity went on in your portfolio.



Neil Chappell, BCom, CIM, FCSI
Vice-President, Portfolio Manager,
Investment Advisor
neil.chappell@cibc.ca
250 361-2258



Graham Isenegger, BA, CIM, FCSI
Portfolio Manager, Investment Advisor
graham.isenegger@cibc.ca
250 361-2252

BLUE HERON CANADIAN ESG LEADER

August 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 **Brp Incorporated** (Leisure Products), **Descartes Systems Group Inc** (Application Software) and **Norfolk Southern Corp** (Railroads).

We added new positions in **Ballard Power Systems Inc** (Electrical Components & Equipment), **Empire Ltd** (Food Retail), and **Idexx Laboratories Corp** (Health Care Equipment)..

A number of new 52-week highs were achieved in the portfolio including: **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **American Water Works Co** (Water Utilities), **Empire Ltd** (Food Retail), **Shopify Inc** (Internet Services & Infrastructure), **Tmx Group Limited** (Financial Exchanges & Data), **Sba Communications Corp** (Specialized REITs), **American Tower Reit** (Specialized REITs), **Brookfield Asset Management Inc** (Asset Management & Custody Banks), **Killam Apartment REIT** (Residential REITs), **Canadian Apt Properties** (Residential REITs), **Edwards Lifesciences Corp** (Health Care Equipment), **Ballard Power Systems Inc** (Electrical Components & Equipment), **Morneau Shepell Inc** (Human Resource & Employment Services), **Advanced Micro Devices Inc** (Semiconductors), **Firstservice Corp** (Real Estate Services), **Sprott Inc.** (Asset Management & Custody Banks), **Element Fleet Management Corp** (Specialized Finance), **Gildan Activewear Inc** (Apparel, Accessories & Luxury Goods) and **Nice Ltd** (Application Software).

BLUE HERON DIVIDEND ESG LEADER AND BLUE HERON INCOME ESG LEADER

August 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.

During the month we sold our positions in **Bank Of Montreal** (Diversified Banks), **Manulife Financial Corp** (Life & Health Insurance) and **Cisco Systems Inc** (Communications Equipment).

We added new positions in **Canadian National Railway** (Railroads), **Dream Office REIT** (Office REITs) and **Intact Financial Corp** (Property & Casualty Insurance).

A number of new 52-week highs were achieved in the portfolio including: **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Intact Financial Corp** (Property & Casualty Insurance), **Fortis Inc** (Electric Utilities), **Tmx Group Limited** (Financial Exchanges & Data), **Killam Apartment REIT** (Residential REITs), **Canadian Apt Properties** (Residential REITs), **Dream Office REIT** (Office REITs), **Emera Incorporated** (Electric Utilities), **Morneau Shepell Inc** (Human Resource & Employment Services), **Innergex Renewable Energy Inc** (Renewable Electricity), **Sprott Inc.** (Asset Management & Custody Banks), **Element Fleet Management Corp** (Specialized Finance), **Sienna Senior Living Inc** (Health Care Facilities) and **Timbercreek Financial Corp** (Thrifts & Mortgage Finance).

BLUE HERON GLOBAL ESG LEADER

August 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 **Baozun Inc.** (Internet & Direct Marketing Retail), **Carmax Inc** (Automotive Retail), **Norfolk Southern Corp** (Railroads), **Union Pacific Corp** (Railroads) and **Cisco Systems Inc** (Communications Equipment).

We added new positions in **Astrazeneca Plc** (Pharmaceuticals), **Idexx Laboratories Corp** (Health Care Equipment), **Resmed Inc** (Health Care Equipment), **Apple Inc** (Technology Hardware, Storage & Peripherals) and **Asml Holding Nv** (Semiconductor Equipment).

A number of new 52-week highs were achieved in the portfolio including: **Ball Corp** (Metal & Glass Containers), **Resmed Inc** (Health Care Equipment), **American Water Works Co** (Water Utilities), **Accenture Plc** (IT Consulting & Other Services), **Sba Communications Corp** (Specialized REITs), **American Tower Reit** (Specialized REITs), **S&P Global Inc** (Financial Exchanges & Data), **Astrazeneca Plc** (Pharmaceuticals), **Zoetis Inc** (Pharmaceuticals), **Edwards Lifesciences Corp** (Health Care Equipment), **Estee Lauder Companies Inc** (Personal Products), **Advanced Micro Devices Inc** (Semiconductors), **Gold Fields Ltd** (Gold) and **Nice Ltd** (Application Software).

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

CarMax, Inc. (Ticker KMX-US) is a holding company. The Company is a retailer of used vehicles. The Company operates through two segments: CarMax Sales Operations and CarMax Auto Finance (CAF). The Company's CarMax Sales Operations segment consists of all aspects of its auto merchandising and service operations, excluding financing provided by CAF. The Company's CAF segment consists of its own finance operation that provides vehicle financing through CarMax stores. The Company operates approximately 160 used car stores in over 70 metropolitan markets. The Company's products and services include retail merchandising, wholesale auctions, extended protection plans (EPPs), reconditioning and service, and customer credit. (Thomson One. (2019). Retrieved from <https://www.thomsonone.com/>)

CarMax has been downgraded to 'BB' from 'BBB', (and was thus removed from our Global ESG Leader portfolio as it no longer passes our ESG Screen). The retail sector has been vulnerable to data hacking in the past few years, which heightens the privacy risks for companies such as CarMax which collects customer data at thousands of point-of-sale terminals, as well as through its online and mobile platform. The downgrade is driven by the company's failure to address data security risks, as evident in its lack of employee training on privacy and regular audits of its IT security systems. Despite collecting large volumes of customer data, CarMax does not offer any evidence of implementing an incident response plan to manage data theft. Also, with no evidence of data privacy training for its employees, the company is at a greater risk of internal data mismanagement. (MSCI ESG Manager. (2019). Retrieved from <https://esgmanager.msci.com/esgmanager/>)

GROWTH PORTFOLIOS

BLUE HERON BALANCED

BLUE HERON GROWTH

August 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 **Bank Of Montreal** (Diversified Banks), **Baozun Inc.** (Internet & Direct Marketing Retail), **Brp Incorporated** (Leisure Products), **Descartes Systems Group Inc** (Application Software) and **Norfolk Southern Corp** (Railroads).

We added new positions in **Ballard Power Systems Inc** (Electrical Components & Equipment), **Empire Ltd** (Food Retail),

Idexx Laboratories Corp (Health Care Equipment), **Resmed Inc** (Health Care Equipment) and **Sprott Inc.** (Asset Management & Custody Banks).

A number of new 52-week highs were achieved in the portfolio including: **Restaurant Brands International Inc** (Restaurants), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Resmed Inc** (Health Care Equipment), **Empire Ltd** (Food Retail), **Dream Industrial REIT** (Industrial REITs), **Shopify Inc** (Internet Services & Infrastructure), **Tmx Group Limited** (Financial Exchanges & Data), **Brookfield Asset Management Inc** (Asset Management & Custody Banks), **Killam Apartment REIT** (Residential REITs), **Canadian Apt Properties** (Residential REITs), **Boyd Group Inc** (Diversified Support Services), **Ballard Power Systems Inc** (Electrical Components & Equipment), **Morneau Shepell Inc** (Human Resource & Employment Services), **Advanced Micro Devices Inc** (Semiconductors), **Firstservice Corp** (Real Estate Services), **Ecn Capital Corp** (Specialized Finance), **Sprott Inc.** (Asset Management & Custody Banks), **Gold Fields Ltd** (Gold), **Element Fleet Management Corp** (Specialized Finance) and **Nice Ltd** (Application Software).

INCOME PORTFOLIOS

BLUE HERON CANADIAN DIVIDEND

BLUE HERON CANADIAN INCOME

August 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 ~4.23%, versus 3.12% for the TSX Composite.

During the month we sold our position in **Bank Of Montreal** (Diversified Banks).

We added a new position in **Canadian National Railway** (Railroads)

A number of new 52-week highs were achieved in the portfolio including: **Restaurant Brands International Inc** (Restaurants), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Fortis Inc** (Electric Utilities), **Tc Energy Corp** (Oil & Gas Storage & Transportation), **Dream Industrial REIT** (Industrial REITs), **Brookfield Infrastructure** (Multi-Utilities & Unregulated Power), **Brookfield Renewable Partners Lp** (Renewable Electricity), **Killam Apartment REIT** (Residential REITs), **Canadian Apt Properties** (Residential REITs), **Emera Incorporated** (Electric Utilities), **Exchange Income Corporation** (Airlines), **Morneau Shepell Inc** (Human Resource & Employment Services), **Innergex Renewable Energy Inc** (Renewable Electricity), **Sprott Inc.** (Asset Management & Custody Banks), **Sienna Senior Living Inc** (Health Care Facilities), **Timbercreek Financial Corp** (Thriffs & Mortgage Finance) and **Oneok Inc** (Oil & Gas Storage & Transportation).

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Securities

Algonquin Power & Utilities Corp.	2a,2c,2e,2g
Bank of Montreal	2a,2c,2e,2g,3a,3c,7
Boyd Group Income Fund	2g
Brookfield Asset Management	14,2g,3a,3c,7
Brookfield Infrastructure Partners L.P.	2a,2c,2e,2g,7
BRP Inc.	12,2a,2c,2e,2g
Canadian Apartment Properties REIT	2a,2c,2e,2g,7
Canadian National Railway Co.	2g,7
Descartes Systems Group Inc.	2a,2c,2e,2g
Dream Industrial REIT	2a,2c,2e,2g
Dream Office REIT	2g
ECN Capital Corp.	2a,2e,2g,3a,3c
Element Fleet Management Corp.	2a,2c,2e,2g
Emera Inc.	7
Empire Company Limited	13,2g,7,9
Exchange Income Corporation	2a,2c,2e,2g
Fortis Inc.	7
Gildan Activewear Inc.	2g,3a,3c
Innergex Renewable Energy Inc.	2g
Intact Financial Corp.	2a,2c,2g,7
Killam Apartment REIT	2a,2c,2e,2g

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