



ADVISOR MANAGED ACCOUNTS: JULY 2019 COMMENTARY



As summer continues, markets were modestly positive again on both sides of the border. As everyone goes on holidays, the market seems to be a little more volatile and news of trade wars and resulting tariffs (or threats of potential tariffs) continue to make headlines and add friction to the global economy. Meanwhile, a general shift from central banks from a tightening stance (raising interest rates) to neutral and accommodative (holding or lowering interest rates) has helped to buoy markets.

There seems to be universal consensus that a recession is imminent. This seemingly universal opinion can create quite a bit of investor angst as volatility increases. We endeavor to keep our angst out of the equation and focus on the processes we use to decide whether we are fully invested (the Equity Action Call) and our large spreadsheet where we measure the investment quality of what we do own versus what we could own. This constant evaluation ensures that we keep our emotions - and shrill headlines - out of our decision making.

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.

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 16, with a monthly range between 13.8 and 16.5. These levels are below long term averages, implying a certain amount of calm in the market.

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



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BLUE HERON CANADIAN ESG LEADER

July 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 **ECN Capital Corp** (Specialized Finance) and **Royal Bank Of Canada** (Diversified Banks).

We added new positions in **BRP Incorporated** (Leisure Products), **Sprott Inc.** (Asset Management & Custody Banks) and **TMX Group Limited** (Financial Exchanges & Data).

A number of new 52-week highs were achieved in the portfolio including: **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **TMX Group Limited** (Financial Exchanges & Data), **SBA Communications Corp** (Specialized REITs), **Killam Apartment REIT** (Residential REITs), **Brookfield Asset Management Inc** (Asset Management & Custody Banks), **Mastercard Incorporated** (Data Processing & Outsourced Services), **Visa Inc.** (Data Processing & Outsourced Services), **Nice Ltd** (Application Software), **Shopify Inc** (Internet Services & Infrastructure), **Thomson Reuters Corp** (Research & Consulting Services), **CGI Inc** (IT Consulting & Other Services), **WSP Global Inc** (Construction & Engineering), **Microsoft Corp** (Systems Software), **Firstservice Corp** (Real Estate Services), **Morneau Shepell Inc** (Human Resource & Employment Services), **Sprott Inc.** (Asset Management & Custody Banks), **Edwards Lifesciences Corp** (Health Care Equipment), **Element Fleet Management Corp** (Specialized Finance), **Gibson Energy Inc.** (Oil & Gas Storage & Transportation), **Adobe Inc.** (Application Software), **Roper Technologies Inc** (Industrial Conglomerates), **Canadian Pacific Railway Ltd** (Railroads), **Advanced Micro Devices Inc** (Semiconductors), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Progressive Corp Oh** (Property & Casualty Insurance), **Servicenow Inc** (Systems Software), **Workday Inc** (Application Software), **Transalta Renewables Inc** (Renewable Electricity), **American Water Works Co** (Water Utilities) and **Diageo Plc** (Distillers & Vintners).

BLUE HERON DIVIDEND ESG LEADER AND BLUE HERON INCOME ESG LEADER

July 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 **Fastenal Co** (Trading Companies & Distributors), **Infosys Limited** (IT Consulting & Other Services) and **NFI Group Inc** (Construction Machinery & Heavy Trucks).

We added new positions in **Darden Restaurants Inc** (Restaurants), **Paychex Inc** (Data Processing & Outsourced Services) and **Emera Incorporated** (Electric Utilities).

A number of new 52-week highs were achieved in the portfolio including: **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **TMX Group Limited** (Financial Exchanges & Data), **Innervex Renewable Energy Inc** (Renewable Electricity), **Killam Apartment REIT** (Residential REITs), **Darden Restaurants Inc** (Restaurants), **Thomson Reuters Corp** (Research & Consulting Services), **WSP Global Inc** (Construction & Engineering), **Timbercreek Financial Corp** (Thriffs & Mortgage Finance), **Microsoft Corp** (Systems Software), **Morneau Shepell Inc** (Human Resource & Employment Services), **Sprott Inc.** (Asset Management & Custody Banks), **Element Fleet Management Corp** (Specialized Finance), **Gibson Energy Inc.** (Oil & Gas Storage & Transportation), **Cisco Systems Inc** (Communications Equipment), **Sienna Senior Living Inc** (Health Care Facilities), **Emera Incorporated** (Electric Utilities) and **Transalta Renewables Inc** (Renewable Electricity).

BLUE HERON GLOBAL ESG LEADER**July 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 **Fastenal Co** (Trading Companies & Distributors), **Infosys Limited** (IT Consulting & Other Services), **CSX Corp** (Railroads) and **Ericsson** (Communications Equipment).

We added new positions in **Companhia Energetica De Minas Gerais** (Electric Utilities), **Carmax Inc** (Automotive Retail), **Gold Fields Ltd** (Gold), **Ally Financial Inc** (Consumer Finance) and **Baozun Inc.** (Internet & Direct Marketing Retail).

A number of new 52-week highs were achieved in the portfolio including: **Ball Corp** (Metal & Glass Containers), **SBA Communications Corp** (Specialized REITs), **Estee Lauder Companies Inc** (Personal Products), **Mastercard Incorporated** (Data Processing & Outsourced Services), **Visa Inc.** (Data Processing & Outsourced Services), **S&P Global Inc** (Financial Exchanges & Data), **Carmax Inc** (Automotive Retail), **Nice Ltd** (Application Software), **Intercontinental Hotels Group** (Hotels, Resorts & Cruise Lines), **Accenture Plc (Ireland)** (IT Consulting & Other Services), **Microsoft Corp** (Systems Software), **Starbucks Corp** (Restaurants), **Edwards Lifesciences Corp** (Health Care Equipment), **Ally Financial Inc** (Consumer Finance), **Zoetis Inc** (Pharmaceuticals), **Adobe Inc.** (Application Software), **Tractor Supply Co** (Specialty Stores), **Gold Fields Ltd** (Gold), **Roper Technologies Inc** (Industrial Conglomerates), **Advanced Micro Devices Inc** (Semiconductors), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Cisco Systems Inc** (Communications Equipment), **Ingersoll Rand Plc** (Ireland) (Industrial Machinery), **Progressive Corp Oh** (Property & Casualty Insurance), **Servicenow Inc** (Systems Software), **Workday Inc** (Application Software), **Companhia Energetica De Minas Gerais** (Electric Utilities), **American Water Works Co** (Water Utilities), **Diageo Plc** (Distillers & Vintners), **Relx Plc** (Research & Consulting Services) and **Iqvia Holdings Inc** (Life Sciences Tools & Services).

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

Edwards Lifesciences Corporation is a manufacturer of heart valve systems and repair products used to replace or repair a patient's diseased or defective heart valve. The Company is engaged in patient-focused innovations for structural heart disease and critical care monitoring. Its segments include United States, Europe, Japan and Rest of World. Its products are categorized into three areas: Transcatheter Heart Valve Therapy, Surgical Heart Valve Therapy and Critical Care. It also develops hemodynamic monitoring systems that are used to measure a patient's cardiovascular function in the hospital setting. (Thomson One. (2019). Retrieved from <https://www.thomsonone.com/>)

Edwards Lifesciences has been upgraded to 'AA' from 'A'. It has improved its quality controls as evident by a decline in recalls (14 to 4 between 2015 and 2018). It also resolved past concerns over the CEO's pay, whose 2017 pay falls in peer group range, with 89% of his direct pay as performance-based. With an increase of 24% in its workforce over 2015-2017 and two major acquisitions in 2017, the company faces elevated human capital risks such as attrition and productivity issues. However, its comprehensive employee program focused on talent development, diversity, engagement, and competitive benefits, may help mitigate these risks. It has robust product quality controls that comply with widely accepted standards like ISO 13485 and lean sigma, and include comprehensive supplier evaluation. It also maintains vigorous anti-corruption mechanisms with supplier compliance oversight but unlike leading peers, it is not a signatory of UN Global Compact. (MSCI ESG Manager. (2019). Retrieved from <https://esgmanager.msci.com/esgmanager/>)

GROWTH PORTFOLIOS

BLUE HERON BALANCED

BLUE HERON GROWTH

July 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 **Fastenal Co** (Trading Companies & Distributors), **NFI Group Inc** (Construction Machinery & Heavy Trucks), **Ericsson** (Communications Equipment) and **Salesforce.Com Inc** (Application Software).

We added new positions in **Carmax Inc** (Automotive Retail), **BRP Incorporated** (Leisure Products), **Gold Fields Ltd** (Gold) and **Baozun Inc.** (Internet & Direct Marketing Retail).

A number of new 52-week highs were achieved in the portfolio including: **Air Canada** (Airlines), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **TMX Group Limited** (Financial Exchanges & Data), **Killam Apartment REIT** (Residential REITs), **ECN Capital Corp** (Specialized Finance), **Brookfield Asset Management Inc** (Asset Management & Custody Banks), **Mastercard Incorporated** (Data Processing & Outsourced Services), **Carmax Inc** (Automotive Retail), **Nice Ltd** (Application Software), **Intercontinental Hotels Group** (Hotels, Resorts & Cruise Lines), **Shopify Inc** (Internet Services & Infrastructure), **Constellation Software Inc** (Application Software), **Thomson Reuters Corp** (Research & Consulting Services), **Restaurant Brands International Inc** (Restaurants), **CGI Inc** (IT Consulting & Other Services), **WSP Global Inc** (Construction & Engineering), **Microsoft Corp** (Systems Software), **Firstservice Corp** (Real Estate Services), **Morneau Shepell Inc** (Human Resource & Employment Services), **Element Fleet Management Corp** (Specialized Finance), **Gold Fields Ltd** (Gold), **Roper Technologies Inc** (Industrial Conglomerates), **Canadian Pacific Railway Ltd** (Railroads), **Advanced Micro Devices Inc** (Semiconductors), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Servicenow Inc** (Systems Software), **Workday Inc** (Application Software) and **Transalta Renewables Inc** (Renewable Electricity).

INCOME PORTFOLIOS

BLUE HERON CANADIAN DIVIDEND

BLUE HERON CANADIAN INCOME

July 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 ~4.19%, versus 3.12% for the TSX Composite.

During the month we sold our positions in **Infosys Limited** (IT Consulting & Other Services) and **NFI Group Inc** (Construction Machinery & Heavy Trucks).

We added a new position in **Paychex Inc** (Data Processing & Outsourced Services).

A number of new 52-week highs were achieved in the portfolio including: **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Brookfield Infrastructure** (Multi-Utilities & Unregulated Power), **Innergex Renewable Energy Inc** (Renewable Electricity), **Killam Apartment REIT** (Residential REITs), **Thomson Reuters Corp** (Research & Consulting Services), **Restaurant Brands International Inc** (Restaurants), **Timbercreek Financial Corp** (Thrifts & Mortgage Finance), **Microsoft Corp** (Systems Software), **Morneau Shepell Inc** (Human Resource & Employment Services), **Sprott Inc.** (Asset Management & Custody Banks), **Brookfield Renewable Partners Lp** (Renewable Electricity), **Gibson Energy Inc.** (Oil & Gas Storage & Transportation), **Cisco Systems Inc** (Communications Equipment), **Sienna Senior Living Inc** (Health Care Facilities), **Oneok Inc** (Oil & Gas Storage & Transportation), **Emera Incorporated** (Electric Utilities), **TC Energy Corp** (Oil & Gas Storage & Transportation), **Transalta Renewables Inc** (Renewable Electricity), **Chorus Aviation Inc** (Airlines) and **Northland Power Inc** (Independent Power Producers & Energy Traders).

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Securities

Algonquin Power & Utilities Corp. 2a,2c,2e,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
 Chorus Aviation 2g,CD15
 Constellation Software Inc. 2g,7
 ECN Capital Corp. 2a,2e,2g,3a,3c
 Element Fleet Management Corp. 2a,2c,2e,2g
 Emera Inc. 7
 CGI Inc. 12,2g
 Gibson Energy Inc. 2g,7
 Innergex Renewable Energy Inc. 2g
 Killam Apartment REIT 2a,2c,2e,2g

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