



ADVISOR MANAGED ACCOUNTS: MAY 2019 COMMENTARY



The month of May broke the positive streak we have been experiencing this year with major North American markets registering negative returns and an increase in volatility. Year to date returns are still very strong (well into double digits) which has us wondering what the second half of the year may have in store for us. Having long since put away our crystal ball (although, look carefully at Graham’s desk next time you are in!) “Time will tell” is all we can say for sure. At the present time our indicators remain positive and thus our portfolios are fully invested. Earnings growth and low interest rates have fueled market returns, while trade wars and political uncertainty have tempered enthusiasm.

The waste we as a society produce, and the recycling industry we rely on to deal with that waste has been a growing topic of concern. China and other Asian countries are limiting the amount of waste they will accept, and various jurisdictions are charging for or completely banning certain types of single use products ranging from plastic bags to single use straws. We found this 3 part series from Global news and interesting read ([Is Canada’s recycling industry broken?](#)), investigating Canada’s recycling industry and the many challenges it faces.

One solution highlighted is the EPR (Extended Producer Responsibility) system employed in B.C. since 2014. This is currently the only jurisdiction in North America where companies that produce or sell a product are also responsible for both funding and managing the entire recycling system that deals with the waste – instead of leaving that responsibility to municipalities and their taxpayers. Clearly more work needs to be done and we are interested to hear your thoughts on the subject.

As the days get warmer children (and parents) are looking forward to the end of school while summer vacation plans are being finalized. We wish you and your families a wonderful break and look forward to hearing stories from your travels when we get together next.

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) has increased to 16, with a monthly range between 13 and 23. These levels remain below long term averages but have increased of late implying an increasingly uncertain outlook 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

May 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 **Precision Drilling Corporation** (Oil & Gas Drilling), **Enerflex Ltd.** (Oil & Gas Equipment & Services), **Toromont Inds Ltd** (Trading Companies & Distributors) and **Dirtt Environmental Solutions Ltd** (Building Products).

We added new positions in **Mastercard Incorporated** (Data Processing & Outsourced Services), **Gildan Activewear Inc** (Apparel, Accessories & Luxury Goods), **Corus Entertainment Inc** (Broadcasting) and **Transalta Renewables Inc** (Renewable Electricity).

A number of new 52-week highs were achieved in the portfolio including **CGI Inc** (IT Consulting & Other Services), **Shopify Inc** (Internet Services & Infrastructure), **Descartes Systems Group Inc** (Application Software), **Thomson Reuters Corp** (Research & Consulting Services), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Morneau Shepell Inc** (Human Resource & Employment Services), **Progressive Corp Oh** (Property & Casualty Insurance), **American Water Works Co** (Water Utilities), **Firstservice Corp** (Real Estate Services), **American Tower Reit** (Specialized REITs), **Mastercard Incorporated** (Data Processing & Outsourced Services), **Darden Restaurants Inc** (Restaurants), **Canadian Pacific Railway Ltd** (Railroads), **Canadian National Railway** (Railroads), **Nice Ltd** (Application Software), **Vmware Inc** (Systems Software), **Servicenow Inc** (Systems Software), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Diageo Plc** (Distillers & Vintners), **ECN Capital Corp** (Specialized Finance), **Element Fleet Management Corp** (Specialized Finance), **Corus Entertainment Inc** (Broadcasting) and **Gildan Activewear Inc** (Apparel, Accessories & Luxury Goods).

BLUE HERON DIVIDEND ESG LEADER AND BLUE HERON INCOME ESG LEADER

May 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 **Enerflex Ltd.** (Oil & Gas Equipment & Services), **AG Growth Intl Inc** (Agricultural & Farm Machinery) and **Magna International Incorporated** (Auto Parts & Equipment).

We added new positions in **Sun Life Financial Inc** (Life & Health Insurance), **Cisco Systems Inc** (Communications Equipment) and **Fastenal Co** (Trading Companies & Distributors).

A number of new 52-week highs were achieved in the portfolio including: **Fortis Inc** (Electric Utilities), **Thomson Reuters Corp** (Research & Consulting Services), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Morneau Shepell Inc** (Human Resource & Employment Services), **Sienna Senior Living Inc** (Health Care Facilities), **Telus Corporation** (Integrated Telecommunication Services), **TMX Group Limited** (Financial Exchanges & Data), **Element Fleet Management Corp** (Specialized Finance), **Corus Entertainment Inc** (Broadcasting) and **Sun Life Financial Inc** (Life & Health Insurance).

BLUE HERON GLOBAL ESG LEADER

May 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 **Novo Nordisk** (Pharmaceuticals), **Deere & Co** (Agricultural & Farm Machinery), **Royal Bank Of Scotland** (Diversified Banks) and **Astrazeneca Plc** (Pharmaceuticals).

We added new positions in **Ingersoll Rand Plc** (Industrial Machinery), **Starbucks Corp** (Restaurants), **Accenture Plc** (IT Consulting & Other Services) and **Relx Plc** (Research & Consulting Services).

A number of new 52-week highs were achieved in the portfolio including: **Workday Inc** (Application Software), **Progressive Corp Oh** (Property & Casualty Insurance), **American Water Works Co** (Water Utilities), **Relx Plc** (Research & Consulting Services), **American Tower Reit** (Specialized REITs), **Zoetis Inc** (Pharmaceuticals), **Mastercard Incorporated** (Data Processing & Outsourced Services), **Darden Restaurants Inc** (Restaurants), **Starbucks Corp** (Restaurants), **Nice Ltd** (Application Software), **Vmware Inc** (Systems Software), **Servicenow Inc** (Systems Software), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Diageo Plc** (Distillers & Vintners), **Ball Corp** (Metal & Glass Containers), **Union Pacific Corp** (Railroads), **Csx Corp** (Railroads), **Ingersoll Rand Plc** (Industrial Machinery), **S&P Global Inc** (Financial Exchanges & Data) and **Accenture Plc** (IT Consulting & Other Services).

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

Gildan Activewear Inc. (Ticker **GIL**) is a manufacturer and marketer of branded basic family apparel, including T-shirts, fleece, sport shirts, underwear, socks, hosiery and shapewear. The Company operates through two segments: Printwear and Branded Apparel. The Printwear segment designs, manufactures, sources, markets, and distributes undecorated activewear products. (Thomson One. (2019). Retrieved from <https://www.thomsonone.com/>)

Gildan's rating is unchanged at 'AAA'. From the product stewardship angle, Gildan's position remains strong - pesticide-reduction efforts with its cotton suppliers and strong chemical oversight are likely minimize its risk of facing higher input costs from carbon pricing or reformulation costs due to more stringent chemical regulations. With evidence of unionization, employee stock purchase plan, annual bonuses for non-officer staff, and efforts to calculate and pay living wages in production facilities overseas, Gildan is well-positioned to manage labor-related risks. However, its acquisition of a struggling retailer American Apparel may increase Gildan's exposure to labor unrest in the short- to medium-term. (MSCI ESG Manager. (2019). Retrieved from <https://esgmanager.msci.com/esgmanager/>)

GROWTH PORTFOLIOS

BLUE HERON BALANCED

BLUE HERON GROWTH

May 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 **Bombardier Inc** (Aerospace & Defense), **Enerflex Ltd.** (Oil & Gas Equipment & Services), **Toromont Inds Ltd** (Trading Companies & Distributors), **Cardinal Energy Ltd** (Oil & Gas Exploration & Production) and **Dirtt Environmental Solutions Ltd** (Building Products).

We added new positions in **Corus Entertainment Inc** (Broadcasting), **Fastenal Co** (Trading Companies & Distributors), **Element Fleet Management Corp** (Specialized Finance) and **Maxar Technologies Inc** (Aerospace & Defense).

A number of new 52-week highs were achieved in the portfolio including **Park Lawn Corp** (Specialized Consumer Services), **Alimentation Couche-Tard Inc** (Food Retail), **CGI Inc** (IT Consulting & Other Services), **Air Canada** (Airlines), **Descartes Systems Group Inc** (Application Software), **Constellation Software Inc** (Application Software), **Waste Connections Inc** (Environmental & Facilities Services), **Thomson Reuters Corp** (Research & Consulting Services), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Morneau Shepell Inc** (Human Resource & Employment Services), **Firstservice Corp** (Real Estate Services), **Restaurant Brands International Inc** (Restaurants), **Mastercard Incorporated** (Data Processing & Outsourced Services), **Boyd Group Inc** (Diversified Support Services), **CAE Inc** (Aerospace & Defense), **Canadian National Railway** (Railroads), **Nice Ltd** (Application Software), **Servicenow Inc** (Systems Software), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Ecn Capital Corp** (Specialized Finance), **Element Fleet Management Corp** (Specialized Finance), **Corus Entertainment Inc** (Broadcasting).

INCOME PORTFOLIOS

BLUE HERON CANADIAN DIVIDEND

BLUE HERON CANADIAN INCOME

May 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 ~4.4%, versus 3.2% for the TSX Composite.

During the month we sold our positions in **Enerflex Ltd.** (Oil & Gas Equipment & Services), **AG Growth Intl Inc** (Agricultural & Farm Machinery) and **Cardinal Energy Ltd** (Oil & Gas Exploration & Production).

We added new positions in **Exchange Income Corporation** (Airlines), **TC Energy Corp** (Oil & Gas Storage & Transportation) and **Sun Life Financial Inc** (Life & Health Insurance).

A number of new 52-week highs were achieved in the portfolio including **Fortis Inc** (Electric Utilities), **Thomson Reuters Corp** (Research & Consulting Services), **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power), **Morneau Shepell Inc** (Human Resource & Employment Services), **Brookfield Infrastructure** (Multi-Utilities & Unregulated Power), **Sienna Senior Living Inc** (Health Care Facilities), **TC Energy Corp** (Oil & Gas Storage & Transportation), **Telus Corporation** (Integrated Telecommunication Services), **Emera Incorporated** (Electric Utilities), **Restaurant Brands International Inc** (Restaurants), **Northwest Healthcare Properties REIT** (Health Care REITs), **Exchange Income Corporation** (Airlines), **Corus Entertainment Inc** (Broadcasting) and **Sun Life Financial Inc** (Life & Health Insurance).

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Securities

Air Canada	2g,C38	FirstService Corporation	2g
Algonquin Power & Utilities Corp.	2a,2c,2e,2g	Fortis Inc.	2a,2e,2g,7
Alimentation Couche-Tard Inc.	12,2g,7	CGI Group Inc.	12,2g,7
Boyd Group Income Fund	2g	Gildan Activewear Inc.	2g,3a,3c,7
CAE Inc.	2g,9	Morneau Shepell Inc.	2a,2c,2e,2g
Canadian National Railway Co.	2g,7,9	NorthWest Healthcare Properties REIT	2a,2c,2e,2g
Canadian Pacific Railway Ltd.	2a,2c,2e,2g,9	Sienna Senior Living Inc.	2a,2c,2e,2g
Constellation Software Inc.	2g,7	Sun Life Financial Inc.	2a,2c,2e,2g,7
Descartes Systems Group Inc.	2g	TELUS Corporation	13,2a,2c,2e,2g,7,9
Element Financial Corporation	2a,2e,2g,7	Thomson Reuters Corporation	2g
Emera Inc.	2a,2b,2c,2e,2g,7	TransCanada Corp.	2a,2c,2e,2g,7
Exchange Income Corporation	2a,2c,2e,2g	TMX Group Limited	2g,7,CD25

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Jarvis, Carolyn and Megan Robinson, Is Canada’s Recycling Industry Broken? *Global News*. May 28, 2019.
<https://globalnews.ca/news/5199883/canada-recycling-programs/>