



ADVISOR MANAGED ACCOUNTS: JANUARY 2019 COMMENTARY



The first month of 2019 has provided quite a different investment experience to that of the last three months of 2018. That is to say, largely positive. Markets in both Canada and the U.S. have registered significant gains and offer a much different outlook to that at the end of 2018. At the time of writing (February 4) our Equity Action Call has moved back into the “green” territory, implying the risk and reward metrics for the overall market is favorable. With this change, we have moved our discretionary managed portfolios back to a fully invested position, after taking 10% from equities in October 2018 (*more on our Equity Action Call below*).

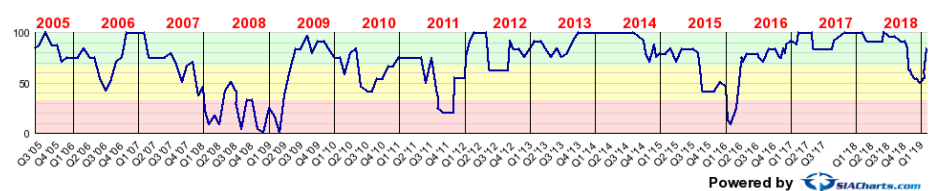
That said, interest rates that had been rising through 2018 have started to moderate as many of the economic indicators used to justify these increases have softened of late. While the general pressure on rates is still expected to be up, many now expect the moves to be spread out over a longer period of time. This causes us to moderate our enthusiasm for the equity market and resist extrapolating a very strong month of January into the rest of the calendar year. Just as the fourth quarter of 2018 may have been overly negative, the first month of 2019 may have been too fervent to continue at this pace.

Please see the attached report [2019 Global Economic Outlook: What to Expect](#) written by CIBC’s Chief Economist Benjamin Tal for an interesting overview. Included in the report are two video links to an outlook for stocks and bonds, as well as the Canadian Housing Market “Undoing the Crazy Years”. Each video is less than five minutes in length.

Equity Action Call

We use the **Equity Action Call (EAC)** as an objective overlay on all of our discretionary managed portfolios. Think of it as a kind of suspension system to reduce volatility on the downside. We feel this not only gives our clients the best chance of sticking to a long-term investment plan, but also adds value over the long run by differentiating between shorter-term ‘noise’ in the market and longer-term downward trends. More details on this system (on page 1) and our back-tested results (on page 2) are [here](#).

Below we have posted a longer-term chart of the various cycles of the Equity Action Call over the past 13 years.



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The system really shines in prolonged market downturns by giving us an unbiased reason to raise cash, and equally (if not more) importantly, giving us an unbiased reason to buy back into the market. In late 2007 for example, this system advised caution and by January 2008 had moved to a 'red' unfavoured stance for equities, well before the significant decline in the fourth quarter of 2008. By March of 2009, the indicator improved to 'yellow', and by May of 2009 was 'green,' implying investors should be fully invested. Not a terribly popular or comfortable call at the time, but as it turns out, the correct and very profitable action to take.

It has been a largely positive period in the markets for the last 10 years with only minor setbacks since 2009. We realize downside protection hasn't been as prevalent a topic for the investment media - upside gains from FANG stocks (Facebook, Amazon, Netflix and Google) and marijuana companies tend to take the lion's share of the spotlight. However, by taking a long-term objective and systematic approach to managing money we feel these safeguards will continue to add value for our clients over time.

The EAC is now '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 settled down from a high of 28 to close the month at 16.5, implying the market has moderated back to its long run average (or 'normal') level of volatility.

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

BLUE HERON CANADIAN ESG LEADER

January 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. This month:

- We sold our positions in **TMX Group Limited** (Financial Exchanges & Data) and **Motorola Solutions Inc** (Communications Equipment).
- We added new positions in **Algonquin Power Utilities Corp** (Multi-Utilities & Unregulated Power) and **American Tower Reit** (Specialized REITs).
- A number of new 52-week highs were achieved, including **American Tower Reit** (Specialized REITs), **Paypal Holdings Inc** (Data Processing & Outsourced Services), **Rogers Communications Inc** (Wireless Telecommunication Services) and **CGI Group Inc** (IT Consulting & Other Services).

BLUE HERON DIVIDEND ESG LEADER AND BLUE HERON INCOME ESG LEADER

January 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. This month:

- We sold our position in **TMX Group Limited** (Financial Exchanges & Data).
- We added new positions in **Innergex Renewable Energy Inc** (Renewable Electricity) and **North West Company Inc** (Food Retail).
- A number of new 52-week highs were achieved, including **Innergex Renewable Energy Inc** (Renewable Electricity), **Killam Apartment REIT** (Residential REITs), **Rogers Communications Inc** (Wireless Telecommunication Services) and **North West Company Inc** (Food Retail).

BLUE HERON GLOBAL ESG LEADER**January 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. This month:

- We sold our positions in **Zoetis Inc** (Pharmaceuticals), **Motorola Solutions Inc** (Communications Equipment) and **Ingersoll Rand Plc** (Industrial Machinery).
- We added new positions in **Innergex Renewable Energy Inc** (Renewable Electricity) and **North West Company Inc** (Food Retail).
- A number of new 52-week highs were achieved, including **Innergex Renewable Energy Inc** (Renewable Electricity), **Killam Apartment REIT** (Residential REITs), **Rogers Communications Inc** (Wireless Telecommunication Services) and **North West Company Inc** (Food Retail).

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

Vale S.A. (Ticker **VALE-US**) is a global producer of iron ore and iron ore pellets, key raw materials for steelmaking, and producer of nickel. The Company also produces copper, metallurgical and thermal coal, potash, phosphates and other fertilizer nutrients, manganese ore, ferroalloys, platinum group metals, gold, silver and cobalt. (Thomson One. (2019). Retrieved from <https://www.thomsonone.com/>)

Vale S.A. faced significant criticism and liabilities related to the collapse of Feijao mine tailings Dam in Minas Gerais, Brazil, which resulted in at least 60 fatalities and more than 200 people missing in January 2019, including members of the nearby communities and workers from Vale. Tailings spilled from the breached dam buried Vale's administrative office and cafeteria, killing several of the company's employees. (MSCI ESG Manager. (2019). Retrieved from <https://esgmanager.msci.com/esgmanager/>)

Vale S.A. was not eligible for inclusion in our Blue Heron ESG Leader portfolios before the recent event in Brazil because it failed to meet our rigorous screening criteria.

We believe that our reasonable, objective, and repeatable screening process helps to identify the best-rated ESG companies and leaves out those that may pose significant risks to the environment and the communities they operate in.

GROWTH PORTFOLIOS: BLUE HERON BALANCED & BLUE HERON GROWTH**January Trade Notes:**

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

- We sold our positions in **TMX Group Limited** (Financial Exchanges & Data), **Labrador Iron Ore Royalty Corp** (Steel) and **Vale S.A.** (Steel).
- We added new positions in **Constellation Software Inc** (Application Software) and **Keysight Technologies Inc** (Electronic Equipment & Instruments).
- A number of new 52-week highs were achieved, including **Waste Connections Inc** (Environmental & Facilities Services), **CAE Inc** (Aerospace & Defense), **MTY Food Group Inc** (Restaurants), **Killam Apartment REIT** (Residential REITs), **CGI Group Inc** (IT Consulting & Other Services), **Rogers Communications Inc** (Wireless Telecommunication Services), **Canadian Apt Properties** (Residential REITs) and **Morneau Shepell Inc** (Human Resource & Employment Services).

INCOME PORTFOLIOS: BLUE HERON CANADIAN DIVIDEND & BLUE HERON CANADIAN INCOME**January 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 3.1% for the TSX Composite. This month:

- We sold our positions in **TMX Group Limited** (Financial Exchanges & Data) and **Labrador Iron Ore Royalty Corp** (Steel).
- We added new positions in **Canadian Apt Properties** (Residential REITs), **North West Company Inc** (Food Retail), **Innergex Renewable Energy Inc** (Renewable Electricity), **Emera Incorporated** (Electric Utilities) and **Chorus Aviation Inc** (Airlines).
- A number of new 52-week highs were achieved, including **Granite REIT** (Industrial REITs), **Innergex Renewable Energy Inc** (Renewable Electricity), **Emera Incorporated** (Electric Utilities), **Canadian Apt Properties** (Residential REITs), **Rogers Communications Inc** (Wireless Telecommunication Services) and **Dream Industrial REIT** (Industrial REITs).

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Securities

Algonquin Power & Utilities Corp.	2a,2c,2e,2g
Alimentation Couche-Tard Inc.	12,2g,7
CAE Inc.	2g,9
Cameco Corporation	2g,7
Canadian Apartment Properties REIT	2a,2c,2e,2g,7
CGI Group Inc.	12,2g,7
Chorus Aviation	2g,CD15
Constellation Software Inc.	2g,7
Dream Industrial REIT	2g,7
Emera Inc.	2a,2b,2c,2e,2g,7
Fortis Inc.	2a,2e,2g,7
Innergex Renewable Energy Inc.	2a,2c,2e,2g,7
Killam Apartment REIT	2a,2c,2e,2g,7
Labrador Iron Ore Royalty Corporation	2g,7

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.

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

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