



## CANADIAN FOCUSED EQUITY PORTFOLIO -2 YEARS IN

August 31, 2020 marked the second anniversary for the Ballard Mudge Financial Group’s Canadian Focused Equity Portfolio. We wanted to pause and reflect on how the first two years have gone.

### Process Review

The Canadian Focused Equity portfolio is designed to be a core portfolio holding for Canadian investors. The benchmark is 70% S&P TSX Composite Index and 30% S&P 500 Index.

In the process of constructing the Canadian Focused Equity Portfolio, we attempt to estimate the future profitability of portfolio companies in 5 years time.

To achieve this we estimate the growth rate of the net assets per share of the companies, the future profitability of the companies relative to the size of the assets and how much investors should be willing to pay for the shares in 5 years time. We discount this future value back to today at 15% less the current dividend yield.

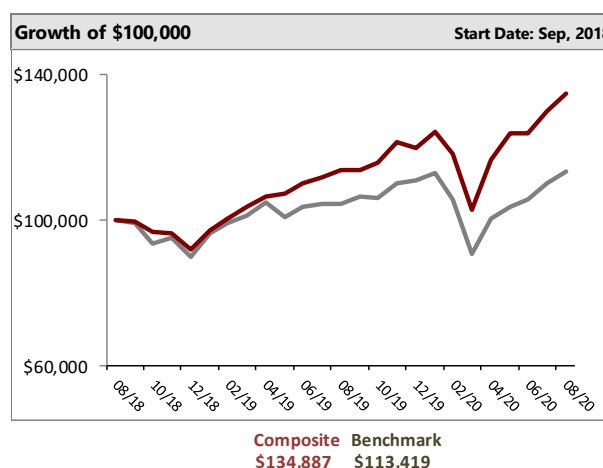
We then set out to build a concentrated yet diversified portfolio of excellent, conservatively financed companies trading at a discount to this value.

If our estimates are correct and assuming there are enough attractive opportunities, the goal is to return 15% per year over the longer period.

### Returns

While we certainly make no guarantees and 2 years is a period far too short to determine if it is working. It is rewarding to see early success through some volatile market periods.

|   | 1 Y   | 2 Y   |
|---|-------|-------|
| Canadian Focused Equity Portfolio Returns | 18.74 | 16.14 |
| Benchmark Returns                         | 8.48  | 6.50  |
| Diff +/-                                  | 10.27 | 9.64  |
| Up-Market capture                         | 1.19  | 1.08  |
| Down-Market capture                       | 0.86  | 0.71  |



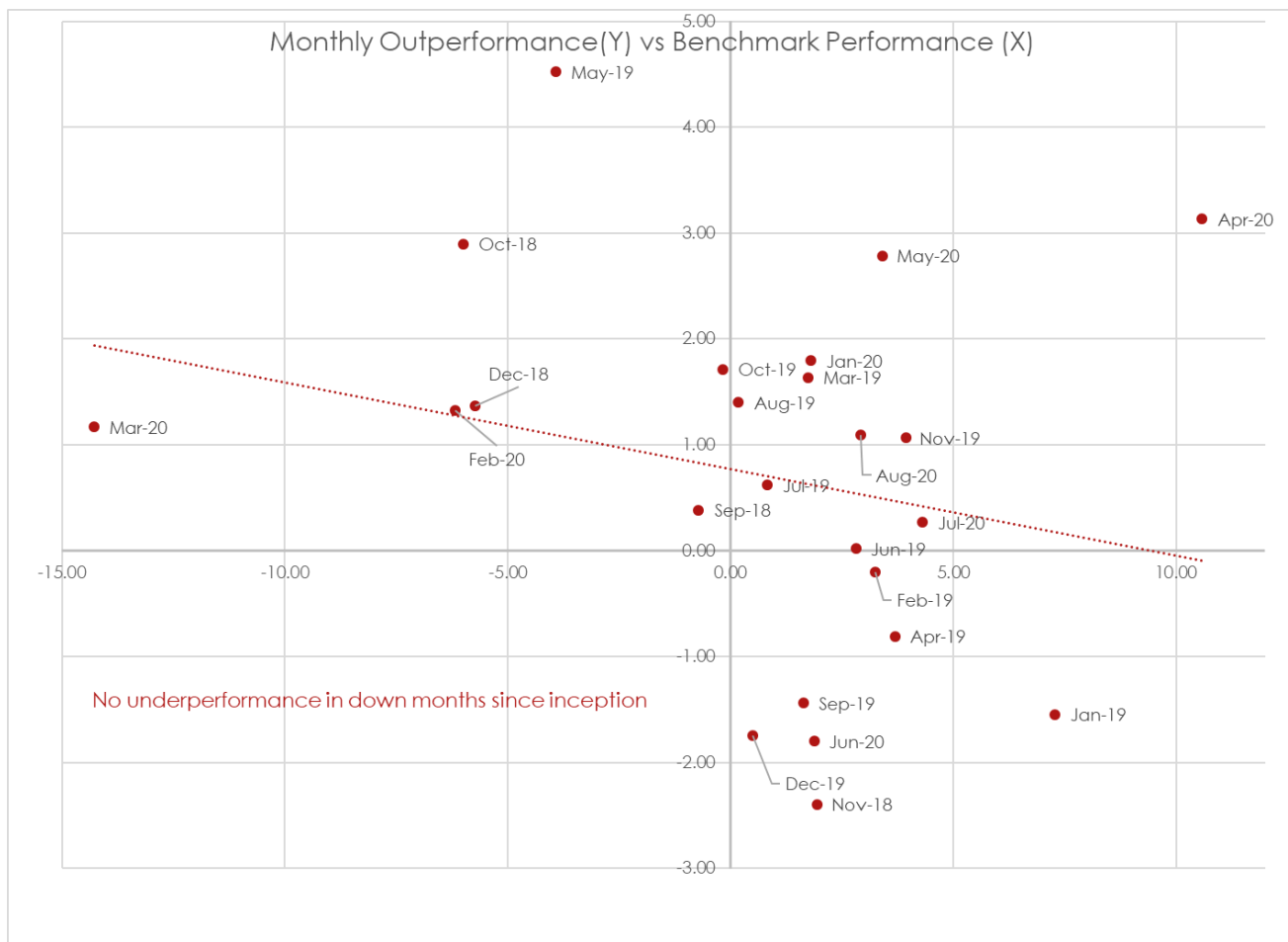
### Risk

If we are going to speak about returns, then we must also speak about the risk taken to achieve the returns.

We view risk as the permanent loss of capital. That said, we are also aware that a very bumpy road is unsettling to clients trying to achieve their goals. We will increase the cash balances in the portfolios when there is a general high level of valuation in the market, a high level of uncertainty or an increased potential for an external shock.

We too want to sleep at night.

The following chart shows the results of this focus. The trendline is the best fit line of the monthly outperformance of the portfolio (Y Axis) vs that month’s benchmark return (X Axis). The fact that the trendline is downward sloping means that we have been able to achieve a greater level of outperformance in negative return months than in positive return months.



To date the portfolio has not underperformed the benchmark in a month where the benchmark return is negative (No data points in the bottom left corner). At some point this will surely change but the trend highlights our focus.

Our preference for cash to cushion the downside also means that our top end potential can be somewhat reduced. We view this as a small price to pay to have ample dry powder when prices correct.

The past performance of this portfolio is of course no promise of future returns. We have just passed 2 years of management of this mandate and this is too short of a period to evaluate the portfolio or the process. We look forward to updating you on our progress in future.

Sincerely,

CIBC Wood Gundy  
David Mudge,  
Portfolio Manager

To find out more, please check out our website at [www.BallardMudgeFinancialGroup.com](http://www.BallardMudgeFinancialGroup.com) or contact us directly at [David.Mudge@cibc.ca](mailto:David.Mudge@cibc.ca)

Performance results set out in this document are based on composite of CIBC Wood Gundy Advisor Managed Accounts ("AMA") with more than \$75,000 invested in a specified investment strategy managed by the AMA Portfolio Manager. Composite inception date is based after the second month the first AMA account opened in the strategy. The subsequent AMA accounts in the strategy are included after second month following their inception. Also included in the composite are closed AMA accounts that held in the strategy, up to the last full month the strategy was held. Composite performance returns are geometrically linked and calculated by weighting each AMA account's monthly performance, including changes in securities values, and accrued income (i.e. dividend and interest), against its market value at the beginning of each month, as represented by the market value at the opening of the first business day of each month. Performance results are expressed in stated strategy's base currency and are calculated based on gross of fees. Individual account performance results for clients of AMA invested in the Strategy may also materially differ from the performance results set out in this document, which are based on the Composite, due to the factors described above, and other factors such as an account's size, the length of time the Strategy has been held, cash flows in and out of the individual AMA client account, trade execution, timing, market conditions and movements, trading prices, foreign exchange rates, specific client constraints against purchasing securities of related and connected issuers to CIBC Wood Gundy.

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