Quarterly Market Update
Q1 2019

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Overview

This report includes:

- Introduction
- Key Takeaways
- The Benefits of a Fee-Based Discretionary Account
- Model Portfolio Management Philosophy
- Model Portfolio Process
- Our Investments
- Model Holdings (Stocks)
- Model Holdings (Bonds & Preferred Shares)
- The Team
- Disclaimers

Introduction

Over the last six months we've moved many of our clients into fee-based discretionary accounts. In this type of account, clients delegate investment decisions to their portfolio manager, including what securities to buy, and at what price.

As part of the transition to discretionary accounts, we plan to prepare and distribute quarterly reports to all our clients—those with discretionary accounts and those with traditional investments.

This report for Q1 2019 is our first. In the following pages, you'll find relevant market insights, information about the securities in each discretionary portfolio, and any changes within the program.

Let us know what you think. We want your feedback so we can improve the report over time and make it as meaningful as possible for all our clients.

Key Takeaways

Stocks

Stocks performed well in the first quarter of 2019. Recovering all the losses suffered in the last half of 2018.

The Canadian market has outperformed the United States in Q1 2019, after underperforming in 2018.

With the prospect of weakening global growth, we expect the breadth and diversity of the US marketplace to outpace Canada's market.

Market Returns:

	3 months %	Since Inception %*
Canadian Stocks	13.29	7.17
US Stocks	11.32	3.86

Bonds & Preferred Shares

Bonds had a strong first quarter, as benchmark interest rates fell about 40 basis points in Canada. Preferred shares bounced off a low on December 27, 2018 to recover 6.12% since that date.

Canadian monetary authorities have stopped increasing interest rates in the face of weakening economic data at home and globally.

We expect bonds and preferred shares to tread water from here with central bank policy on hold.

Market Returns:

	3 months %	Since Inception %*
Bonds	3.91	5.32
Preferred Shares	1.42	-0.16

Our Models

Our portfolios performed as expected, protecting capital in the selloff in late 2018, while participating in the recovery in the first quarter but not as aggressively as the broader market.

Our advice to clients is to maintain conservative positioning through emphasis on higher quality securities and defensive sectors.

Langill & McHenry Model Returns:

	3 months %	Since Inception %*
Capital Preservation	2.33	3.52
Income	3.51	3.29
Balanced Income	4.53	3.46
Balanced Growth	6.37	3.76
Growth	7.39	3.86
All Equity	8.95	4.20

**Note: Gross Returns in CAD$, Since inception is from Dec 1, 2018.*

The Benefits of Fee-Based Discretionary Accounts

Late last year, Brett Langill & Adam McHenry became licensed Associate Portfolio Managers, a designation allowing them to manage discretionary accounts on behalf of their clients. For those clients who have already made the change, the following information is a brief reminder of the benefits offered by these types of investment accounts.

With a discretionary investment account, *you delegate investment decisions to your portfolio manager, including what securities to buy and at what price*. This type of account is ideal for clients who prefer not to talk to their advisor about every trading decision and who want to take advantage of urgent buy and sell opportunities.

The primary benefit of a discretionary account is *lower overall fees*. Non-discretionary accounts typically include higher fee mutual funds while discretionary accounts include a greater number of individual securities. If markets rise while your investment fees decline, your overall returns in a discretionary account should increase.

When you switch to a discretionary account, you begin by agreeing to *a personal investment policy statement*. Your investment advisor prepares this document in consultation with you. It includes your investor profile, including important information such as your investment objectives, risk tolerance, and your time horizon to reach your objectives.

When it comes time to make changes to the investments in your portfolio, this policy statement guides your investment advisor's decisions on what investments to include.

For example, if you have a low-risk tolerance and need to preserve your capital, your investment strategy is capital preservation. Your portfolio includes cash equivalents or fixed income securities and funds. Any changes to this portfolio must be consistent with the agreed upon asset allocation.

Learn more about discretionary accounts on our blog post HERE.

If you haven't made the transition into discretionary accounts yet but are interested in understanding more about the benefits, please give us a call to discuss or to set up an appointment.

Model Portfolio Management Philosophy

Model Portfolio Objectives:

- We designed the model portfolios with a conservative investment approach. The portfolios may not participate as much in gains when markets are rising. However, they are expected to be more resilient in falling markets to protect capital. As a result, the portfolios will tend to be less volatile and capital will be given more opportunity to compound over a long-period of time.

Portfolio Parameters:

- Six models with different asset allocation ranges based on risk and return objectives. Models include: Capital Preservation, Income, Balanced Income, Balanced Growth, Growth and All Equity.
- Zero embedded cost
- Fixed Income allocation = ~4-9 bonds, ~2-3 preferred shares, investment grade credit, short and laddered duration (<10 years)
- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +6% per year
- Diversified by geography, sector and style
- Large capitalization ("Blue Chip")

Model Portfolio Process

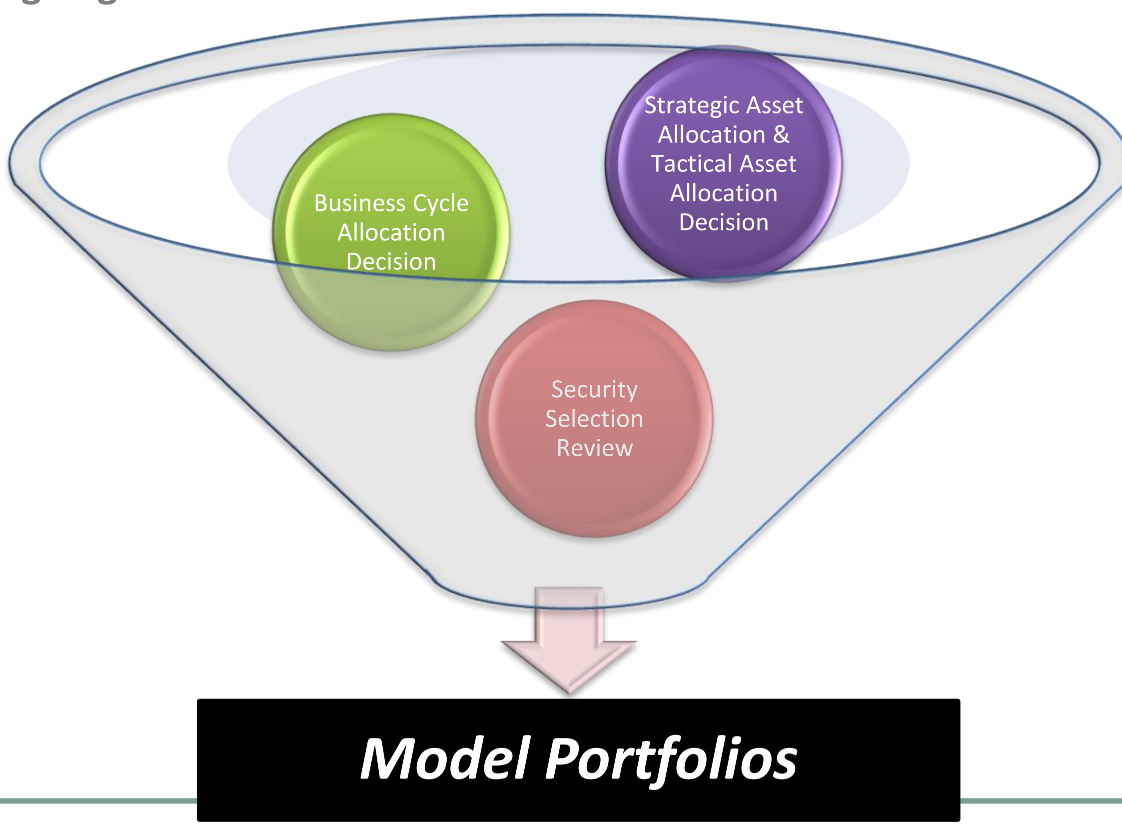
When we select investment securities for our model portfolios, we follow a disciplined three step process:

#1 Examine our asset mix vs. our expectations for long-term returns. This review helps guide our model portfolios allocation to Cash, Bonds & Preferred Shares, and Stocks.

#2 Review our business cycle allocation vs. our expectations for broad market. We then allocate to sectors of the market and security factors that are expected to perform well.

#3 Assess securities for inclusion in the portfolio based on: (i) Dividend growth, (ii) Leverage, (iii) Valuation and (iv) Market structure. Securities reflecting these features are typically of higher quality than average.

After the third step is complete, we include a portfolio of investment securities in our model portfolios reflecting our expectations for the market going forward.



Our Investments Include:

***Note: Equity Security logos only.*

Model Holdings: The Stocks We Own

All Equity Portfolio (2018-12-01 to 2019-04-11)					
Issue Name	**Portfolio Weight**	**Total Return**	**Dividend Yield**	**Dividend Growth Hist 5 YR**	**P/E - Forecast 12-Month**
Energy					
Enbridge Ord Shs	6.19	15.49	5.95	16.33	18.8
Transcanada Ord Shs	6.40	16.82	4.84	8.17	16.0
Materials					
CCL Industries Ord Shs Class B	-	0.91	1.24	24.77	18.3
Industrials					
Fedex Ord Shs	6.56	11.22	1.36	26.76	11.5
Ingersoll Rand Ord Shs	6.58	10.73	1.81	25.48	17.3
Union Pacific Ord Shs	6.08	9.69	2.11	15.39	17.7
CAE Ord Shs	6.67	13.65	1.31	13.00	20.5
Consumer Discretionary					
Carnival Ord Shs	5.60	- 3.46	3.81	13.70	11.0
Home Depot Ord Shs	6.65	13.34	2.70	21.44	19.5
Consumer Staples					
Coca-Cola Ord Shs	-	- 12.18	3.43	7.06	21.8
Health Care					
Medtronic Ord Shs	5.96	- 8.57	2.28	12.09	16.1
UnitedHealth Group Ord Shs	5.56	- 15.44	1.53	26.80	15.4
Financials					
Bank of New York Mellon Ord Shs	6.05	1.96	2.17	12.39	11.8
Toronto Dominion Ord Shs	5.87	2.16	4.02	10.01	10.4
Intact Financial Ord Shs	6.12	0.79	2.75	9.73	15.0
Information Technology					
Broadcom Ord Shs	6.99	33.82	3.43	54.31	12.5
Communication Services					
Walt Disney Ord Shs	6.38	2.45	1.51	17.50	17.3
Quebecor Ord Shs Class B	6.35	13.80	0.68	30.95	15.1
Langill & McHenry All Equity Portfolio	**100.00**	**6.35**	**2.63**	**19.98**	**14.79**
All Equity Benchmark		**7.39**	**2.43**	**10.91**	**15.63**

**Note: Total Return is since model inception of December 1, 2018, Returns captured are Gross of Fees.*

**Note: Benchmark is CAD$ returns and is comprised of 40% iShares S&P/TSX Capped Composite Index ETF (XIC) & 60% iShares S&P500 Index ETF (IVV)*

**Note: This is a hypothetical All Equity model portfolio. Cash weight is excluded, which is currently 4.80% of portfolio.*

**Note: Where the portfolio weight is 0%, that reflects the fact the position is no longer held in the portfolio, but the position is still reflected because of its impact on cumulative returns of the portfolio.*

Model Holdings: Bonds & Preferred Shares We Own

Capital Preservation Portfolio (2018-12-01 to 2019-04-11)					
Issue Name	**Portfolio Weight**	**Total Return**	**Price - Close**	**Maturity/Reset Date**	**Yield**
Bonds					
CMHT 1.950 06/15/19 ReOpened	9.41	0.70	100.64	2019-06-15	1.96
CWB 2.751 06/29/20 ReOpened	9.44	1.86	101.17	2020-06-29	2.44
MAITB 1.550 09/05/21 ReOpened	9.38	2.48	99.52	2021-09-05	1.83
CMHT 1.750 06/15/22 ReOpened	9.46	2.91	100.43	2022-06-15	1.80
MFC 3.317 05/09/28 '23 FRN Sub Deb	9.53	2.18	103.05	2023-05-09	2.85
PPLX 2.990 01/22/24 '23 MTN ReOpened	9.54	5.73	101.26	2024-01-22	2.86
NEWLF 2.300 06/02/25 ReOpened	9.52	4.42	100.66	2025-06-02	2.33
ALBTA 2.200 06/01/26 Bond ReOpened	9.54	5.23	100.01	2026-06-01	2.32
CMHT 2.350 06/15/27 ReOpened	9.49	5.07	102.26	2027-06-15	2.15
Preferred Shares					
BROOKFIELD RENEWABLE PREF 5.50% 2021JAN31	4.92	4.03	24.88	2021-01-31	5.53
EMPIRE LIFE RATE RESET PREF 5.75% 2021APR17	4.88	4.53	25.91	2021-04-18	5.55
BANK OF NOVA SCOTIA 5.51% RATE RESET PREF 01JUL2021	4.89	1.66	26.18	2021-07-26	5.25
Langill & McHenry Capital Preservation Portfolio	**100.00**	**3.58**	**100.53**		**3.08**
Capital Preservation Benchmark		**4.89**	**109.76**		**2.39**

**Note: Total Return is since model inception of December 1, 2018, Returns captured are Gross of Fees.*

**Note: Benchmark is CAD$ returns and is comprised of 100% of iShares Core Canadian Universe Bond Index ETF (XBB)*

**Note: This is a hypothetical Capital Preservation model portfolio. Cash weight is excluded, which is currently 5.00% of portfolio.*

**Note: Where the portfolio weight is 0%, that reflects the fact the position is no longer held in the portfolio, but the position is still reflected because of its impact on cumulative returns of the portfolio.*

The Team

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