

Groupe Di Tomasso Managed Portfolio Account

December 2019



Groupe Di Tomasso – Managed Portfolio Account

Features of the Model Portfolios

- We have modeled our management based on different asset classes. We have two model portfolios for the equity portion of the portfolio (**Income-Oriented Equity Value Portfolio** and **Growth-Oriented Equity Value Portfolio**), a model portfolio for the bond portion (**Bond Model Portfolio**) and a model portfolio for preferred shares (**Preferred Shares Model Portfolio**).
- The results shown are not those of an actual Managed Portfolio Account holder, but rather those of a fictitious portfolio that reflects the changes made in the model portfolios.
- **The Income-Oriented Equity Value Portfolio** is made up of equities of established Canadian, U.S. and European companies paying a high dividend, trading at a discount to their intrinsic value and with low volatility (*Beta**). We put emphasis on the yield and the growth of the corporate dividend. Inception date: August 2008.
- **The Growth-Oriented Equity Value Portfolio** has equities of Canadian, U.S. and European companies paying a low to average dividend as well as trading at a discount to their intrinsic value. We concentrate on the capital gain potential of these companies. Inception date: August 2008.
- **The Bond Model Portfolio** is composed of Canadian government and corporate bonds. We modify the duration of the portfolio according to our opinion on the future evolution of interest rates, economic growth and inflation. Inception date: April 2009.
- **The Preferred Shares Model Portfolio** includes preferred shares having different features: redeemable, retractable, floating or fixed rate. We modify the weighting according to our opinion on the future path of relevant interest rates. Inception date: January 2011.

*Beta: A measure of the risk potential of a stock or an investment portfolio expressed as a ratio of the stock's or portfolio's volatility to the volatility of the market as a whole.

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Portfolio results as of December 31st, 2019

Groupe Di Tomasso Model Portfolios	Annualized						
	3 months		1 year	3 years	5 years	10 years	Since Inception
Bond Model Portfolio ⁽¹⁾	0.39%		4.13%	2.65%	2.79%	3.02%	2.95%
Preferred Shares Model Portfolio ⁽¹⁾	2.03%		0.72%	3.30%	-0.98%	N/A	3.35%
Income-Oriented Equity Value Portfolio ⁽¹⁾	6.42%		14.94%	8.43%	8.51%	11.85%	9.96%
Growth-Oriented Equity Value Portfolio ⁽¹⁾	6.56%		20.44%	4.73%	8.00%	9.65%	7.18%

(1) Local currency; total returns. The performance displayed is shown before management fees.

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Our Method

- All our model portfolios reflect our philosophy - We have a prudent and disciplined approach to investing and we look for bargains, true to the 'value' investment style.
- Our equity portfolios are concentrated in a small number of firms (between 15 and 20 securities per model).
- We focus on equities having a **margin of safety**, trading at a discount to the estimated intrinsic value.
- We use an equal-weighting method.
- We set aside the markets and try to find the best securities available. We look for strength in terms of corporate internal growth, balance sheet and cash flow. We are not interested in the fluctuation in valuations that is attributable to the moods in neither the short-term market nor the price changes of commodities.
- When we believe that shares held have become overvalued, Groupe Di Tomasso may move to a larger cash portion in the portfolio.
- We try to predict trends in the interest rate yield curve, regarding our decisions related to the **Bond** Model Portfolio and our **Preferred Shares** Model Portfolio.

It is normal for our model portfolios to be less volatile than the reference indexes, being voluntarily invested in a more prudent manner.

Securities in our Model Portfolios as of December 31st, 2019:

Growth-Oriented Equity Value Portfolio	Weighting (%)
Allergan PLC	5.09
Scotiabank	4.85
Cascades Inc.	4.09
Capital One Financial (notes 5, 6C)	5.18
Carnival Corp.	4.51
Crescent Point Energy	3.96
CVS Health Corp.	7.69
DICK'S Sporting Goods	6.59
Encana	3.19
FedEx	2.68
Ford Motor Corp.	4.27
Magna International	4.54
Manulife Financial	5.17
Molson Coors	3.67
Newmont Goldcorp	4.96
Rogers Communications	2.50
Schlumberger	3.33
Target	4.93
Teck Resources	4.46
Cash (CAD 13.60% / US 0.74%)	14.34

Income-Oriented Equity Value Portfolio	Weighting (%)
AbbVie Inc.	2.94
Bank of Montreal	4.46
Bristol-Myers Squibb	6.11
Cisco Systems	4.88
Cominar REIT	4.83
Emerson Electric	3.04
General Motors	4.38
Industrial Alliance	5.84
International Business Machines	3.56
Intel	5.30
Kroger Co.	4.75
Linamar Corp.	3.77
Medtronic PLC	6.78
Power Corp.	5.65
Rio Tinto PLC	4.86
Suncor Energy	4.14
Tapestry Inc.	3.58
Total S.A.	4.16
Viacom Inc.	4.42
Wajax Corp.	2.60
Cash (CAD 8.46% / US 1.49%)	9.95

NOTES:

See *Disclosures* – on the last page

Bond Model Portfolio	Weighting (%)
First Trust Senior Loan ETF (CAD-Hedged)	4.46
Laurentian Bank 2.50% 23JAN20	4.28
Bank of Montreal GIC S/A 2.26% 8SEP20	8.56
Toronto-Dominion 2.50% 14DEC20 - US	4.47
Ford Credit Canada 3.279% 2JUL21	4.30
National Bank 1.809% 26JUL21	4.26
Suncor Energy DD 3.10% 26NOV21	4.34
Caisse centrale Desjardins 2.09% 17JAN22	4.28
Government of Canada 1.5% 1JUN23	5.96
Telus DD 3.35% 1APR24	4.41
Alimentation Couche-Tard 3.056% 26JUL24	5.20
Ville de Saint-Sauveur 2.25% 29JUL24	5.06
Bell Canada DD 2.90% 12AUG26	5.15
Royal BK FF-2021 NVCC 3.45% 29SEP26	4.36
Industrial Alliance FF-2022-2.64% 23FEB27	4.30
Bank of N-SFF-22 NVCC 2.58% 30MAR27	4.30
Province of Manitoba 2.60% 2JUN27	10.48
Province of New Brunswick 2.35% 14AUG27	8.57
Cash (CAD)	3.26

Preferred Shares Model Portfolio ⁽²⁾	Weighting (%)
BCE Series AD - Floating-Rate	2.67
Bank of Montreal Series 26 – Floating-Rate	2.69
Pempina Pipelines Series 11 – Fixed-Reset	2.60
Industrial Alliance Series B - Fixed Rate	2.44
Intact Financial Corp. Series 1 – Rate Reset	2.53
Sun Life Series 9QR – Floating-Rate	2.68
TD Bank Series Y – Fixed-Reset	2.87
Cash (CAD)	1.52

(2) Fully invested portfolio = 20%

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Changes made to the *Income-Oriented Equity Value Portfolio*

DECEMBER – Bristol-Myers Squibb Company - We have decided to increase the weighting of **Bristol-Myers Squibb Company**, at a price of US \$57.40. The percentage held in this security thus passes to 5.75% of the portion allocated to equities.

Company Description:

Bristol-Myers Squibb is a global biopharmaceutical company. Its therapeutic areas of intervention include oncology, immunotherapy and cardiovascular diseases. Bristol-Myers has a market capitalization of 91 billion US and an attractive current dividend yield of 2.9%.

<https://www.bms.com/>

Investment Thesis:

We believe that Bristol-Myers Squibb is trading at an attractive price and at a margin of safety of our valuation of its intrinsic value. We believe the final phase (clinical trials) research pipeline is undervalued, as several launches are anticipated through 2020.

DECEMBER – Viacom – The announced merger with CBS Corporation was completed. Viacom shareholders received 0.59625 of one share of the new **ViacomCBS** company for each Viacom share held (fractional shares were paid in US cash).

Changes made to the *Growth-Oriented Equity Value Portfolio* during the quarter

OCTOBER – Target Corporation - Following the significant appreciation of the stock in the market, we have decided to reduce the position held in **Target Corporation** at a price of US \$111.505. As a result of this change, the weighting of this company, has passed from 5.75% to 4.50 % of the portion allocated to equities. It is because we believe that Target Corporation shares are trading at a price higher than our estimate of the intrinsic value that we have decided to reduce the weighting.

NOVEMBER – Capital One Financial Corp. - We have decided to increase the weighting of **Capital One Financial Corp.** at a price of US \$94.82, following quarterly results which have surpassed expectations and also seem to confirm our investment thesis. The percentage thus held in this company, passes to 5% of the portion allocated to equities.

Company Description:

Capital One is a diversified financial services holding company. It offers a range of financial products and services to consumers, small businesses and commercial customers via branches and electronic and mobile channels. It is one of the largest providers of *Mastercard* and *Visa* credit cards in the United States and offers other consumer loan and deposit services.

<https://www.capitalone.ca/about/corporate-information/>

Investment Thesis:

The current price of Capital One does not accurately reflect the value of the company, in our view, as the security trades below its book value and at a low price/earnings ratio. Investors do not recognize the technology investments it makes, to better adapt to consumer credit risk, and to respond quickly to market demand, making the company a leader in analytics and forecasting the quality of consumer credit.

Changes made to the *Bond Model Portfolio* during the quarter

We believe that Canadian rates will remain around current levels or slightly lower due to weak economic growth and low inflation.

OCTOBER - We have purchased the **Ville de Saint-Sauveur 2.25 % 29 July 2024** bond at a semi-annual yield of 2.24%. This bond replaces the *Bank of Nova Scotia FF-2019 – 3.036 % 18OCT24* debenture which is being redeemed by the issuer.

NOVEMBER - We have purchased the **Alimentation Couche-Tard 3.056% 26 July 2024** debenture at a semi-annual yield of 2.69%. The credit rating, according to *DBRS*⁽³⁾, is BBB. This debenture replaces the *Canadian Western Bank FF-2019 – 3.463 % 17DEC24* debenture which is being redeemed by the issuer.

Changes made to the *Preferred Shares Model Portfolio* during the quarter

OCTOBER - We have sold the **Manulife Financial Corporation - non-cumulative dividend fixed-reset⁽⁶⁾ rate, Series 3** – preferred shares at \$ 12.45, for tax purposes. The sale transaction allows the realization of a capital loss. This will reduce the tax otherwise payable on gains realized in 2019. A net capital loss realized during the year can also be deducted from the net capital gains of the previous three years.

With the proceeds, we have replaced this security with the preferred share of **Intact Financial Corporation - Non-cumulative Rate Reset Class A, Series 1** - which has several features similar to the Manulife Financial preferred share. It is rated P2 by *DBRS*⁽³⁾. The next rate reset date is December 31, 2022. The reset spread is 172 basis points. The current yield is 5.69%.

⁽³⁾ *DBRS* - Dominion Bond Rating Service - An internationally recognized rating agency that provides timely and documented ratings to capital markets.

⁽⁴⁾ **Fixed-Reset Preferred Shares** - A Fixed-Reset preferred share pays a dividend that is fixed for a specified period (usually five years) and then reset every five years thereafter. In most cases, the revised rate is determined at the time of issue.

Our preferred share portfolio is invested primarily in investments that are indifferent or benefit from a lower interest rate on the 5-year Government of Canada bond. Due to the upcoming rate revision, the Intact Financial Corporation preferred shares, are vulnerable to lower interest rates as the 5-year Canada bond rate will be used to calculate the preferred share's performance for the next period, being 2022 to 2027. However, the price of the preferred share is expected to increase in a scenario of appreciation of the 5-year Government of Canada bond rate. We believe our portfolio is better diversified if it holds a security favored by a rise in interest rates.

NOVEMBER - We have made a few rebalancing transactions. Among other things, this makes it possible to take advantage of the weakness of a few securities and reinvest some of the cash. We believe that the yield spread is high for this asset class (that some preferred shares are cheap). We have traded in the following preferred shares.

Addition to the position:

BCE Series AD - Floating-Rate
Pempina Pipelines Series 11 – Fixed-Reset
Sun Life Series 9QR – Floating-Rate

Reduction of the position:

Bank of Montreal Series 26 – Floating-Rate

Disclosures

For important disclosures on the stocks discussed in this report, please go to
http://researchglobal.bmcapitalmarkets.com/Public/Company_Disclosure_Public.aspx

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