

Groupe Di Tomasso Managed Portfolio Account

December 2018



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 with Growth Model Portfolio** and **Growth with Income Model 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 with Growth Model 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 with Income Model 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, 2018

Groupe Di Tomasso Model Portfolios	Annualized						
	1 month	3 months	1 year	3 years	5 years	10 years	Since Inception
Bond Model Portfolio ⁽¹⁾	0.47%	0.71%	1.64%	2.46%	2.60%	N/A	1.47%
Preferred Shares Model Portfolio ⁽¹⁾	-1.02%	-9.52%	-4.84%	4.88%	-0.07%	N/A	3.54%
Income with Growth Model Portfolio ⁽¹⁾	-4.52%	-8.23%	-1.42%	7.99%	8.65%	12.31%	9.49%
Growth with Income Model Portfolio ⁽¹⁾	-8.61%	-15.89%	-12.75%	6.02%	6.40%	9.09%	5.98%

(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 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, 2018:

Notes – see Disclosures

<i>Growth with Income</i> Model Portfolio	Weighting (%)
Allergan PLC	4.52
Scotiabank (Notes 1,2,3,4,5,6A,6C,8A,8C,8E)	6.00
Cascades Inc.	4.51
Capital One Financial (Notes 5,6C)	3.41
Carnival Corp.	4.26
Crescent Point Energy	3.42
CSX Corp	3.97
CVS Health Corp.	6.65
DICK'S Sporting Goods	5.28
Encana	3.17
Ford Motor Corp.	4.46
Goldcorp Inc.	4.35
Manulife Financial (Notes 1,2,3,4,5,6A,6C,8A,8C,8E,9B)	6.04
Magna International (Notes 5,6C,8A,9B)	5.81
Molson Coors (Note 9B)	4.86
Rogers Communications	5.59
Schlumberger	3.80
Target	3.98
Teck Resources	5.35
WestJet Airlines	5.31
Cash (CAD 4.59% / US 0.67%)	5.26

<i>Income with Growth</i> Model Portfolio	Weighting (%)
AbbVie Inc.	3.71
AGT Food & Ingredients	3.76
Bank of Montreal	4.56
Cisco Systems	7.56
Cominar REIT	2.78
Emerson Electric	2.89
General Motors (Notes 1,2,3,4,5,6A,6B,6C,9B)	5.65
Industrial Alliance	4.11
International Business Machines (Notes 5,6C)	3.66
Intel	6.04
Kroger Co. (Note 9B)	5.46
Linamar Corp.	4.01
Medtronic PLC	5.37
Power Corp. (Notes 1,2,3,4,5,6A,6C,8A,8C,22)	4.78
Rio Tinto PLC	5.72
Suncor Energy	4.28
Tapestry Inc.	3.44
Thomson Reuters	4.93
Total S.A.	4.76
Viacom Inc.	4.14
Wajax Corp.	3.36
Cash (CAD 1.04% / US 3.99%)	5.03

Bond Model Portfolio	Weighting (%)
First Trust Senior Loan ETF (CAD-Hedged)	4.42
HSBC Canada 2.938% 14JAN20	4.41
Laurentian Bank 2.50% 23JAN20	4.37
Bell Canada DD - 3.25% 17JUN20	4.42
Bank of Montreal GIC S/A 2.26% 8SEP20	8.79
Toronto-Dominion 2.50% 14DEC20 - US	4.74
Ford Credit Canada 3.279% 2JUL21	4.28
National Bank 1.809% 26JUL21	4.28
Caisse centrale Desjardins 2.09% 17JAN22	4.29
Government of Canada 1.5% 1JUN23	6.05
Sun Life DD+FF-2019 2.77% 13MAY24	4.39
Bank of N-SDD+FF-2019 3.036% 18OCT24	4.40
CDN Western BK FF-2019 3.463% 17DEC24	4.40
Province of N-S 2.15% 01JUN25	9.40
Royal BK FF-2021 NVCC 3.45% 29SEP26	4.42
Bank of N-SFF-22 NVCC 2.58% 30MAR27	4.27
Province of Manitoba 2.60% 2JUN27	10.33
Cash (CAD)	8.34

Preferred Shares Model Portfolio ⁽²⁾	Weighting (%)
BCE Series AD - Floating-Rate	2.61
Bank of Montreal Series 26 – Floating-Rate	2.97
Royal Bank Series AJ - Fixed-Reset	2.63
Industrial Alliance Series B - Fixed Rate	2.33
Manulife Series 3 – Fixed-Reset	2.51
Sun Life Series 9QR – Floating-Rate	2.44
TD Bank Series Y – Fixed-Reset	2.86
Cash (CAD)	1.65

(2) Fully invested portfolio = 20%

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Changes made to the *Growth with Income* Model Portfolio during the quarter

OCTOBER - Capital One Financial Corporation. We have initiated a position in this company.

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 (it has \$ 350 billion in assets).

<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. Management, including founder Richard D. Fairbank, is rated as exemplary by Morningstar⁽¹⁾ and the corporate culture is focused on the long-term.

Investments in technology enable the company to be a leader in consumer credit quality analysis and forecasting.

⁽¹⁾Morningstar, Inc. is a global investment research and investment management firm. It provides investment research, stock and fund analysis, reports and tools, as well as investing and financial news.

OCTOBER - We have once again taken advantage of the recent Ups and Downs of the North American stock indexes. Timely rebalancing (adding or reducing) is an investment management tool that we use to manage risk and improve returns. We have therefore used this opportunity, to adjust the percentage held in certain specific companies.

We have **increased** the weighting in **Molson Coors Brewing, Scotiabank, Manulife and Magna Int'l.**

We have **reduced** the weighting in **CSX Corp. and Target.**

Changes made to the *Income with Growth* Model Portfolio during the quarter

DECEMBER – IBM Corp. We have initiated a position in this company.

Company description:

IBM Corp. provides information technology products and services. The company procures clients with integrated solutions and products that leverage data, information technology, in-depth business process expertise for businesses and an important ecosystem of partners and alliances. <https://www.ibm.com/ca-en/>

Investment Thesis:

IBM is trading at low ratios, and at a high free cash flow yield, due to investor's skepticism. We believe that revenue growth in "strategic imperatives" (social networks, mobile, analytics, cloud and security technology) will lead to higher ratios. An investment in IBM is a play on the Internet of Things (IoT or Internet-related objects). The current dividend yield is more than 5.00%.

OCTOBER - We have once again taken advantage of the recent Ups and Downs of the North American stock indexes, to make rebalancing transactions. Timely rebalancing is an investment management tool that we use to manage risk and improve returns. We have therefore used this opportunity, to increase the percentage held in certain specific companies.

We have **increased** the weighting in the following stocks: **General Motors, The Kroger Company** and **Power Corp.**

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

No change

Disclosures

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

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

OCTOBER - The Toronto-Dominion Bank has decided to repurchase its Series Y rate-reset preferred share, on October 31st. Our investment thesis was based on the adoption of regulations by the Basel Committee on Banking Supervision which made us believe that the Toronto-Dominion Bank was going to buyback this issue.

We have replaced this investment with another rate-reset preferred share⁽¹⁾ of the same issuer, namely the **Toronto-Dominion Bank 4.85%, Series 14**, at a price of \$ 25.42. This preferred share is rated P2 by S&P⁽²⁾ and DBRS⁽³⁾. The current yield being 4.77%. The next reset date will be October 31st, 2021.

Our investment thesis is based on the rate reset spread⁽¹⁾ of 412 basis points. We believe that this significant difference should result in Toronto-Dominion Bank repurchasing this issue⁽⁴⁾ on October 31st, 2021. Therefore, this rate-reset preferred share effectively becomes a redeemable preferred share, significantly reducing its risk. The return until the next rate reset date is 4.25%.

(1)-Fixed-Reset Preferred Shares

At inception, the coupon is set at a rate that reflects the five-year Government of Canada bond yield at the time plus a specified credit spread. The spread is fixed for the life of the investment, and is called the "reset spread". Every five years, there is a "reset date". At that time, the shares will either be called for redemption at \$25.00 or the coupon will automatically reset at the prevailing five-year Government of Canada bond yield plus the reset spread.

(2)-S&P – Standard and Poor's - American credit-rating agency and one of the main agencies worldwide.

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

(4)-There is no certainty as to the redemption of the preferred share by the Toronto-Dominion Bank.