

# Groupe Di Tomasso Managed Portfolio Account

December 2017



## 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 29<sup>th</sup>, 2017

Groupe Di Tomasso Model Portfolios	Annualized					
	1 month	3 months	1 year	3 years	5 years	Since Inception
<i>Bond Model Portfolio</i> <sup>(1)</sup>	-0.45%	0.84%	1.63%	2.53%	2.14%	2.97%
<i>Preferred Shares Model Portfolio</i> <sup>(1)</sup>	1.16%	3.91%	13.92%	3.35%	1.35%	4.88%
<i>Income with Growth Model Portfolio</i> <sup>(1)</sup>	1.58%	8.94%	12.51%	9.90%	15.04%	10.73%
<i>Growth with Income Model Portfolio</i> <sup>(1)</sup>	0.31%	3.76%	9.30%	11.83%	16.15%	8.21%

(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 29<sup>th</sup>, 2017:

**Notes** – see Disclosures

<i>Growth with Income</i> Model Portfolio	Weighting (%)
<b>Allergan PLC</b>	<b>2.96</b>
Scotiabank	4.68
<b>Cascades Inc.</b>	<b>5.24</b>
Carnival Corp.	4.60
Crescent Point Energy	3.46
CSX Corp	6.30
<b>CVS Health Corp.</b>	<b>5.03</b>
<b>DICK'S Sporting Goods</b> (note 9)	<b>3.90</b>
Encana	5.89
Ford Motor Corp.	4.37
<b>Goldcorp Inc.</b> (notes 5, 6C, 8A, 8C, 9, 16)	<b>4.55</b>
Manulife Financial	6.12
Magna International	4.97
Rogers Communications	4.47
Schlumberger	4.06
Target	5.51
Teck Resources	6.96
Time Warner	4.41
WestJet Airlines	5.52
Cash (CAD 5.33% / US 1.67%)	7.00

<i>Income with Growth</i> Model Portfolio	Weighting (%)
AbbVie Inc.	5.40
Bank of Montreal	5.07
Cisco Systems	6.05
Cominar REIT	3.51
Emerson Electric	5.42
General Motors	2.89
Industrial Alliance	5.56
Intel	5.38
<b>Kroger Co.</b> (note 9)	<b>4.33</b>
Linamar Corp.	6.38
Medtronic PLC	4.31
Power Corp.	5.02
Rio Tinto PLC	5.66
Suncor Energy	5.09
Tapestry Inc.	4.08
Teva Pharmaceutical	2.76
Thomson Reuters	4.46
Total S.A.	4.56
Viacom Inc.	4.49
Wajax Corp.	4.92
Cash (CAD 3.48% / US 1.18%)	4.66

Bond Model Portfolio	Weighting (%)
First Trust Senior Loan ETF (CAD-Hedged)	4.85
Spider® Barclays Short Term High Yield Bond ETF	4.67
Royal Bank GIC 2.50% 4JUN18	7.21
HSBC Canada 2.938% 14JAN20	4.56
Laurentian Bank 2.50% 23JAN20	4.49
Bell Canada DD - 3.25% 17JUN20	4.60
Bank of Montreal GIC 2.26% 8SEP20	9.02
Ford Credit Canada 3.279% 2JUL21	4.56
National Bank 1.809% 26JUL21	4.41
Government of Canada 1.5% 1JUN23	6.18
Sun Life DD+FF-2019 2.77% 13MAY24	4.53
Bank of N-SDD+FF-2019 3.036% 18OCT24	4.56
CDN Western BK FF-2019 3.463% 17DEC24	4.56
Province of N-S 2.15% 01JUN25	8.78
Royal BK FF-2021 NVCC 3.45% 29SEP26	4.59
Bank of N-SFF-22 NVCC 2.58% 30MAR27	4.43
Province of Manitoba 2.60% 2JUN27	8.95
Cash (CAD)	5.05

Preferred Shares Model Portfolio <sup>(2)</sup>	Weighting (%)
BCE Series AD - Floating-Rate	2.92
Bank of Montreal Series 26 – Floating-Rate	2.78
Royal Bank Series AJ - Fixed-Reset	2.52
Industrial Alliance Series B - Fixed Rate	2.45
Manulife Series 3 – Fixed-Reset	2.75
Sun Life Series 9QR – Floating-Rate	2.79
TD Bank Series Y – Fixed-Reset	2.52
Cash (CAD)	1.27

(2) Fully invested portfolio = 20%

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

**OCTOBER – COACH Inc.** - In order to better incorporate all of the brands it now owns, namely Coach, Kate Spade & Co. and Stuart Weitzman, COACH INC. has changed its name to **TAPESTRY INC.** The stock symbol, formerly COH that has become TPR, is the only change. <http://www.tapestry.com/>

**OCTOBER – THE KROGER COMPANY** - We have initiated a position in this company at a price of US \$20.86. The Kroger Company is the second largest food retailer in the United States with approximately 2800 supermarkets, stores and warehouses. It also manufactures and processes 40% of its private label products (it has 38 food production plants). About 1400 supermarkets also sell gasoline. The current dividend yield at the time of purchase was +/- 2.35%. <https://www.thekrogerco.com/>

**OCTOBER – POTASH CORP.** - We have **sold** the position at US \$18.93. We have also sold this security in the TFSA accounts. This transaction was used, in part, to settle the addition of **The Kroger Company**.

The conditions in the potash industry have changed, with some producers having adopted a strategy based on market share at the expense of price. The players in this industry lack discipline and suspended mining development projects could be restarted, if potash prices rise. Our investment thesis, based on an increase in demand from developing countries leading to price appreciation, has not materialized. We believe the multiples are high and that the stock shows little appreciation potential for the next 5 years.

## Changes made to the *Growth with Income*

### Model Portfolio during the quarter

**NOVEMBER – AECON GROUP** - We have **sold** the position in this company at \$19.50. We have also sold this security in the TFSA accounts.

Chinese company CCCC International Holding Limited (CCCCI) has offered \$20.37 CAD per share to acquire Acon Group. The transaction will be subject to review by the Canadian authorities and obtaining the green light from shareholders. The transaction should be completed at the beginning of 2018.

**NOVEMBER – MAGNA INT'L** – We have decided to take a more defensive approach with Canadian auto parts securities. We have reduced the position held in this company at US \$55.65.

There is uncertainty in the auto industry because of the renegotiation of the North American Free Trade Agreement (NAFTA). A key area of focus during the renegotiation is the rules of origin in the auto sector. We consider that all revenues generated in North America, but outside the United States, are potentially at risk. We are keeping the company in the model portfolio, but the percentage held has been reduced to a 'neutral' position of 5% of the portion allocated to equities.

**NOVEMBER – ADDITIONS** - We have accumulated cash in this Model Portfolio over the last few months, particularly following the recent sale of *Aecon Group Inc.* We are therefore taking this opportunity to modify the percentage of portfolio assets allocated to the equities of certain specific companies.

We have **increased** the weighting of **Cascades Inc.**, **CVS Health Corp.**, **Dick's Sporting Goods Inc.** and **Goldcorp Inc.**

**DECEMBER – ALLERGAN PLC** - We have initiated a position this company at a price of US \$170.637.

Allergan PLC is a global specialty pharmaceutical company engaged in the development, manufacturing, marketing and distribution of brand name pharmaceutical products, medical aesthetics, biosimilar and over-the-counter pharmaceutical products. It has operations in more than 100 countries. Top-grossing products include *BOTOX®* and *RESTASIS®*. <https://allergan.com/home>

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

*No change*

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

**DECEMBER – MANULIFE 2.178%** - We have bought this Non-cumulative dividend fixed-reset<sup>(1)</sup> Series 3 preferred share at \$18.08. This preferred share is rated P2H (high) by S&P<sup>(2)</sup> and P2 by DBRS<sup>(3)</sup>. The current yield being 3.00%. The next rate review will be on June 19<sup>th</sup>, 2021.

(1)-**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.

(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.

## Disclosures

For important disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx)

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