Rates Changing **Gears?**

BMO Private Wealth

BROCK Wealth Management

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Foreword:
Our Newsletter and the Model Portfolio Turn Ten!

It was over the summer of 2013 that I decided to put pen to paper and to write our first ever newsletter, titled "*Rates Changing Gears?*', to formalise the thought process and the investment approach that my business partner Elizabeth Cosgrove and I had been practicing – both separately and as a team – for many years. That decision began the semi-annual routine that in large part has defined my Julys and my Januarys: the preparation of this document. Over the years, the feedback that we have received from clients about this newsletter has been overwhelmingly positive – but as I frequently point out, we never insist that our clients read it cover to cover. This document is to be consumed in the manner preferred by each client. Some dive in headfirst and some dip their toe in to test the waters, and some are content to acknowledge its arrival and move on with their busy lives: all of which are equally valid. I have to admit, as much as this process requires many hours of work from myself and my team, and as much as we do this as a service to our clients, writing this commentary is a service to myself, because as a Portfolio Manager, the opportunity to step away from the day-to-day noise of cable-news market commentary and sound-bite analysis to think on the issues of the day in broader terms helps ground my view and helps bring me back to my core investment principles.

<u>The Model Portfolio's Performance</u>

Over the years, it has often been the case that on presenting this document to a new prospective client, and explaining the process behind the Model Portfolio, we have been faced with the very reasonable question "yes, but how did the Model Portfolio perform?" As you will be able to see on pages 21 & 22 of this document, that question now has a clear answer.

The observant reader of this newsletter would know that prior versions of this document have never contained any reference to a rate of return: no performance information whatsoever. There are several reasons for this. First, when you publish a newsletter like this one for the first time, it is impossible to present the historic rate of return for a Model Portfolio with no written history. The first edition of this newsletter understandably did not contain any performance information for that reason alone. Beyond that, I am not a mutual fund manager. I do not administer a single portfolio distributed identically amongst my clients. As our clients will know, we administer each client portfolio in a personalized way, and while there may be very large consistent elements to my clients' holdings given the nature of the Model Portfolio, there are always differentiated items. Take the timing of one client's

deposits as compared to another client's withdrawals, for example, or the timing of routine portfolio rebalancing for one client as compared to another. Furthermore, in certain cases, our clients have held specific positions that we could not easily liquidate given the presence of large, embedded capital gains, or holdings that the clients have grown attached to and wish to preserve despite causing a disparity with our typical sector or security allocations in the Model Portfolio. Beyond this, each client's asset allocation is different – specifically tailored to that client's circumstances. For all these reasons and so many more, my answer to the performance question has always been "we measure client performance at the client level." Fundamentally, this will continue to be the case. While we will present a performance analysis of our Model Portfolio in this document semi-annually – a theoretical exercise – the most relevant performance metric will be the one that is presented to you at your annual review – your practical performance reality.

So what has changed? Why will we now present performance information in this document?

More than anything else, the emergence of discretionary portfolio management as our primary tool for servicing our client portfolios has allowed us to consider adding this element to our newsletter. The Managed Portfolio Account (MPA) program – our vehicle for discretionary portfolio management – has for many years been a part of our approach, even before this newsletter was ever conceived of. However, over the course of the last five years, discretionary portfolio management has gone from a healthy minority of our client portfolios to the overwhelming majority of our client portfolios. At the time of writing this note, 87% of the assets that we have the privilege of administering are done so under the MPA program, using the discretion provided to me as a Portfolio Manager. This has allowed us to increase to a very large extent the cohesion of our investment approach. While every client's circumstances remain unique and every client's asset allocation remains highly personal, the securities owned on the equity side of the vast majority of our clients' portfolios are highly consistent from portfolio to portfolio.

The other thing that has changed is that I was given access to the enthusiastic help that I needed to complete the daunting project of a representative measurement of the Model Portfolio's true historic performance.

In the spring of 2022, **Klara Pelland** joined our team for what was initially going to be a brief summer term. A finance student at the University of Ottawa, Klara has helped us with many projects over the course of her tenure with our team - a tenure that went from one summer to two, not to mention the school year in between. Klara will be returning to full-time studies at uOttawa in the fall, in view of completing the final semester of her undergraduate degree, before embarking on the process of obtaining her Chartered Financial Analyst designation and returning to her native Montreal. Her contribution to our team over the course of the last fifteen months has been immense, and we cannot wait to see what the future holds for her.

This gives me the opportunity for a brief aside to share with you that **Leanne Hoey** will be returning to our team effective mid-September. Leanne will be taking over Klara's client-scheduling responsibilities for our English-speaking clients, with **Megan Labelle** doing so for our French-speaking clients, so do not be surprised if Leanne or Megan reach out to you in the coming months to book your annual review.

One of Klara's main responsibilities was processing ten years' worth of Model Portfolio data. The calculations necessary to produce the kind of rate of return and portfolio volatility data that this newsletter presents are quite complex. Every security substitution executed in the last ten years as presented in our semi-annual newsletter had to be considered using the date and price as presented. Every publication of the semi-annual newsletter provided the basis to calculate the rebalancing of the Model Portfolio to the allocations contained in the document. Every dividend received had to be manually recorded. In short, this was done in the right way, and that meant the hard way, requiring an enormous amount of data entry, problem solving, and patience.

Thankfully, to help carry this enormous project over the finish line, Klara received some backup with the arrival to our team of **Elyse Gauntsmith**, who helped bring this project to fruition, and applied her eye for detail as a former auditor to the difficult task of analyzing all the portfolio data.

I want to offer both Klara and Elyse my sincerest thanks for their contributions to this project.

There are a few points that I would like to make regarding the performance pages you will find in the Model Portfolio section of this document:

- First, just as the Model Portfolio itself only puts forward the equity (stock) portion of our recommended holdings, the performance numbers included in this document do not consider asset allocation or fixed income performance in any way. Only a minority of our clients hold portfolios that consist of a 100% exposure to the stock market. Given this, it should be expected that you will see meaningful differences when comparing your personal portfolio's historic rate of return (which factor in your stocks *and* your fixed income holdings) to the Model Portfolio's 100% equity performance numbers.

- Next, it is important to underscore that the numbers contained in this document do not consider investment management fees of any kind, but instead present the return information on a "gross-of-fee" (before fees) basis. The performance numbers that are specific to your portfolio – those presented to you at our annual review meetings – are all on a "net-of-fee" (after fees) basis.

- Finally, the assumption underlying our performance calculation methodology is that the Model Portfolio is rebalanced twice every year, on the publication date of each newsletter, using the allocations contained on the Model Portfolio page of each newsletter, and dividends are reinvested as they are received. In practice, we rebalance client accounts at different times throughout the year, often using substantial deposits or withdrawals as opportunities to rebalance holdings, and we reinvest accumulated dividends through that process. The timing of portfolio rebalancing will have a meaningful impact on performance.

It is also important to point out that in the performance analysis that we have built, we have given volatility metrics the same prominence as rate of return metrics. Investors often go straight to the bottom line – the rate of return – when assessing the attractiveness of an investment, but that analysis would be incomplete. In fact, the analysis of a portfolio's performance is a meaningless exercise if it is done in the absence of the measurement of the risk that that portfolio has presented to it is investor. As such we have presented our portfolio's historic standard deviation, as well as risk-adjusted return metrics such as Sharpe Ratio (rate of return per unit of risk) and upside/downside capture to try to provide our clients with the context that is needed to understand the Model Portfolio's historical performance.

Having made these important points, we present performance and volatility numbers in the latter part of this document (see pages 21 & 22) with great confidence in the methodology used in their calculation.

This exercise has helped me confirm on a quantitative basis what I already knew intuitively: as a portfolio, our model demonstrates the characteristics of a low-volatility approach, admittedly growing at a slower pace during strong markets, but holding the line during times of market weakness. This behavior is by design, and the result of selecting companies that are leaders in their respective industries, and so may be better-established, or less adventuresome, than the average company. After all, it is our role to administer our clients' life savings, and a cautious approach to portfolio volatility is called for given that important mandate. Having achieved our primary objective of a low volatility approach to asset management, it is gratifying to see that our performance numbers have outpaced the total return of the S&P/TSX composite index over the course of the last decade.

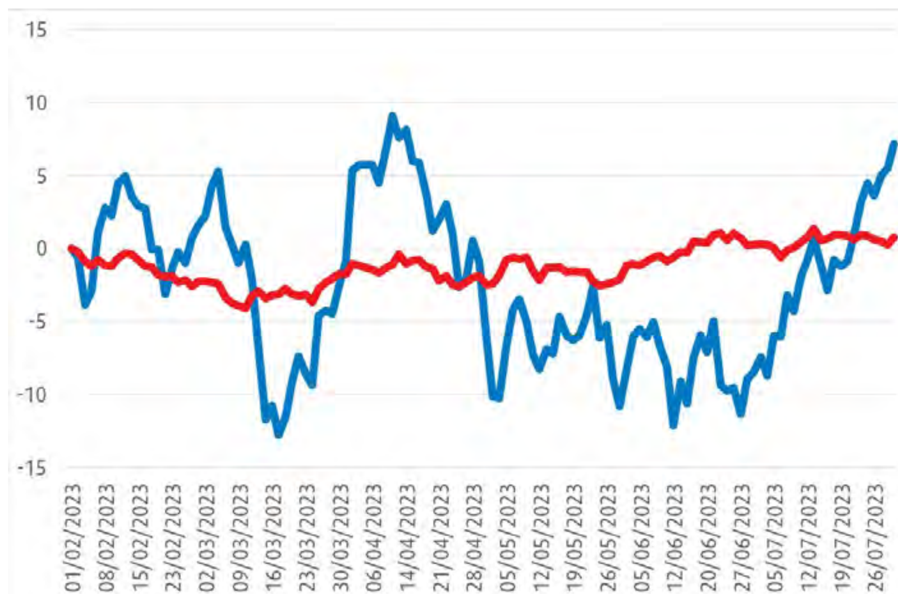
Now it is time for me to get on with it! Enjoy the newsletter, and I look forward to what the next ten years of our collaboration will bring.

Philip's Comments

As I write this morning (in late July), we are tracking the announcement of some U.S. economic data[1] which is decidedly skewed to the positive, and markets are advancing because of it. I know this does not sound like a remarkable situation, but the very fact that the market is advancing after solid economic data, and not cowering in fear over the prospect of further interest rate increases is something to be celebrated. Indeed, a reversal of the "good-news-is-bad-news" mentality is a precondition to a healthy market in our view, and something that we touched on in last winter's newsletter. This also underscores one of the main messages of this newsletter: the interest rate cycle that we have been subjected to over the course of the last two years is likely coming to an end, and we need to make sure investors are prepared for what comes next.

Since the publication of our last newsletter, *Turn the Page*, markets have been defined by volatility and recovery, with most major indicators from the value of the Canadian dollar against the greenback (up 0.75%)[2], to the price of oil (up 7.15%)[3] (see Figure 1), to the value of the S&P/TSX Composite Index (down 0.60%)[4] neither losing nor gaining much ground despite an eventful two quarters.

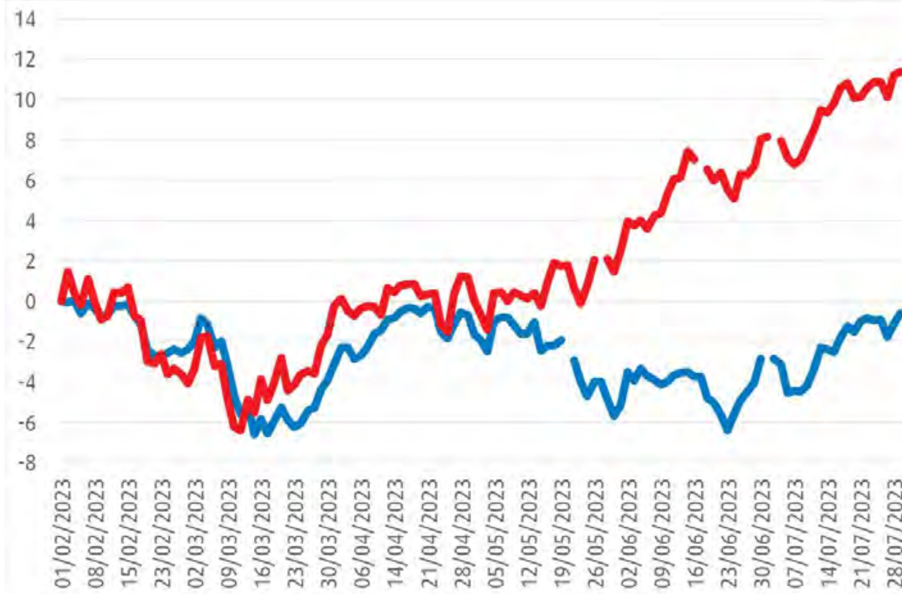
Figure 1: Oil (WTI Crude) & Canadian Dollar (CAD/USD) (February 1 2023 – July 31 2023)



Source: FactSet

By far the strongest performing financial indicator has been the S&P 500, which has seen a substantial rise in 2023 (up 11.4%)[5] (see Figure 2).

Figure 2: S&P 500 & S&P/TSX Composite Index (February 1 2023 – July 31 2023)



Source: FactSet

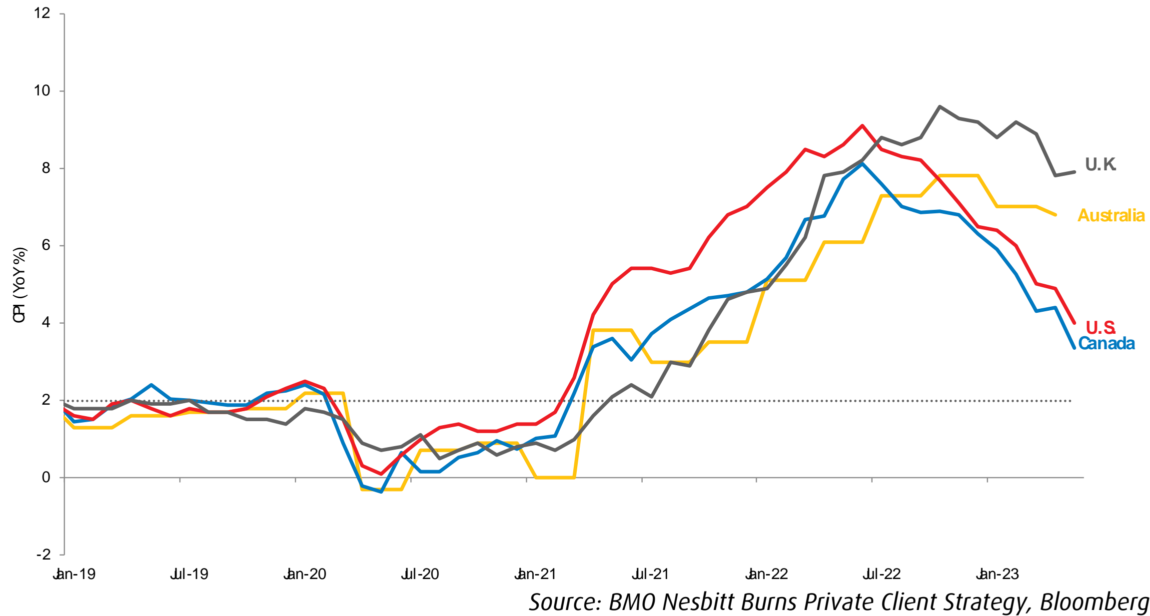
However, a quick dive beneath the surface shows us that the index's performance has been hyper-concentrated in 5 high technology companies (model portfolio components Alphabet (GOOGL), Microsoft (MSFT), and Amazon (AMZN), as well as Apple (AAPL) and Nvidia (NVDA)), spurred forward by the seemingly sudden appearance of artificial intelligence as an investment theme, and a stronger-than expected US consumer. Looking at the bottom 495 stocks in the 500-stock S&P 500 index, we see performance very comparable to Canadian markets – a more muted gain for the year.[6]

With the drastic action taken by central banks last year, increasing interest rates more suddenly than at anytime in modern economic history[7], the natural, ongoing question that has emerged has been "when will the recession arrive?". It seems like economists and market pundits have been calling for recession "in two quarters from now" for the last eight quarters – constantly pushing back the long-predicted economic contraction. Yet the economy has shown itself to be surprisingly resilient, as demonstrated low unemployment, positive economic growth, high consumer confidence, and a housing market that saw itself bend but not break. Could it be that central bankers around the world, and in North America in particular as it pertains to our context, are on the verge of doing the improbable and engineering a "soft landing"? Only time will tell, but I think it is likely that if you had, twelve months ago, presented US Federal Reserve Chair Jerome Powell and Governor of the Bank of Canada Tiff Macklem with a picture of today's economy, they would have been very pleased with what they saw.

The picture was indeed very different than last summer, a summer characterized by roaring inflation, with CPI numbers on both sides of the border very elevated: 8.1% in Canada[8] and 9.1% in the United States[9]. Compare that to the numbers that were released over the course of the month of June, both in Canada (2.8% - Canada's first

inflation number within the Bank of Canada's 1-3% target range in over 2 years[10]) and in the United States (3.0%)[11] (see Figure 3).

Figure 3: ***Selected Country Inflation Rates*** *(January 2019 – Present)*



Source: BMO Nesbitt Burns Private Client Strategy, Bloomberg

Significant progress has been made. But it likely does not feel that way at the grocery store, as food inflation has not lessened meaningfully over that timeframe. It is also important to remind ourselves of the basics: a lower rate of inflation transpiring after a high inflationary period still points to ever-increasing prices, it is the rate of increase that has slowed (disinflation), the prices have not dropped (deflation). The world will seem expensive to us for a while yet, until we acclimatize ourselves to this price level.

With inflation seemingly coming under control, and with central banks both in Canada and the United States having recently increased interest rates yet again (for the US, the current Fed Funds Rate represents a 22-year high[12]), we may be entering into a new phase where central bank decisions are less jarring to market participants. Simply put, a 25 basis point interest rate increase from time-to-time when rates are already at moderate to high levels, is far less impactful to consumers and to investors than the kinds of interest rate increases we saw last year, moving from essentially 0% to over 4% in the blink of an eye, because each 25 basis point increase represents a smaller percentage of the overall rate structure than it did when rates were impossibly low. Central banks have also re-armed themselves with the ability to lower interest rates should future economic conditions warrant it – something they could not do when rates were effectively 0%.

This leads us to believe that we may be entering into a period of more predictable financial conditions, a normalized economic environment, where interest rates do not move as far, as fast, and where inflation, while still a concern, is not leaping

forward at a pace like we saw last summer. Financial markets despise nothing more than uncertainty, and a period of economic stability like the one that I just described would likely be positive for equity markets. In fact, some of the changes that we are contemplating for implementation in the model portfolio touch on this very dynamic: the transition from rapidly rising interest rates to a more stable and steadier picture. It is because of this, and as a call-back to the history of this newsletter, that we are allowing ourselves to reprise on the 10th anniversary of this document, the 21st edition, the title we used in the first edition of our newsletter: *Rates Changing Gears?* Plus ça change…

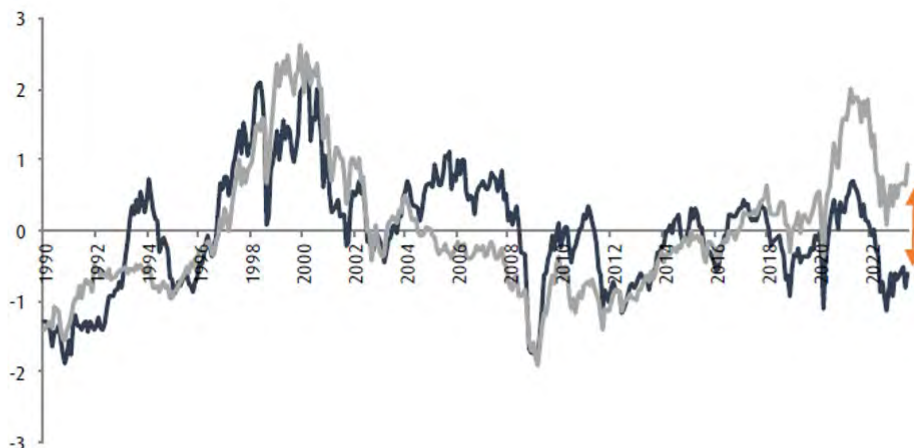
Circle Check

When I was 16, I took a driving course, as it was a way to speed my progression along Ontario's graduated licensing system. I remember that one of the necessary steps before entering a vehicle, was to "circle check" the car: walking around the vehicle to ensure that all of its component pieces were in proper working order, and to ensure that there were no obstacles that would impede our departure. I will admit that I was probably 16 years old last time I ever circle checked another car, nevertheless I think that performing a circle check of sorts on current market conditions it is not a bad place to start.

<u>Equity valuations</u>

We see a real difference between Canadian and U.S. equity valuations[13] (see Figure 4), the latter of which have been driven higher by the substantial increase this year in the handful of securities we referenced at the start of this report, many of which have been buoyed by the emerging artificial intelligence theme.

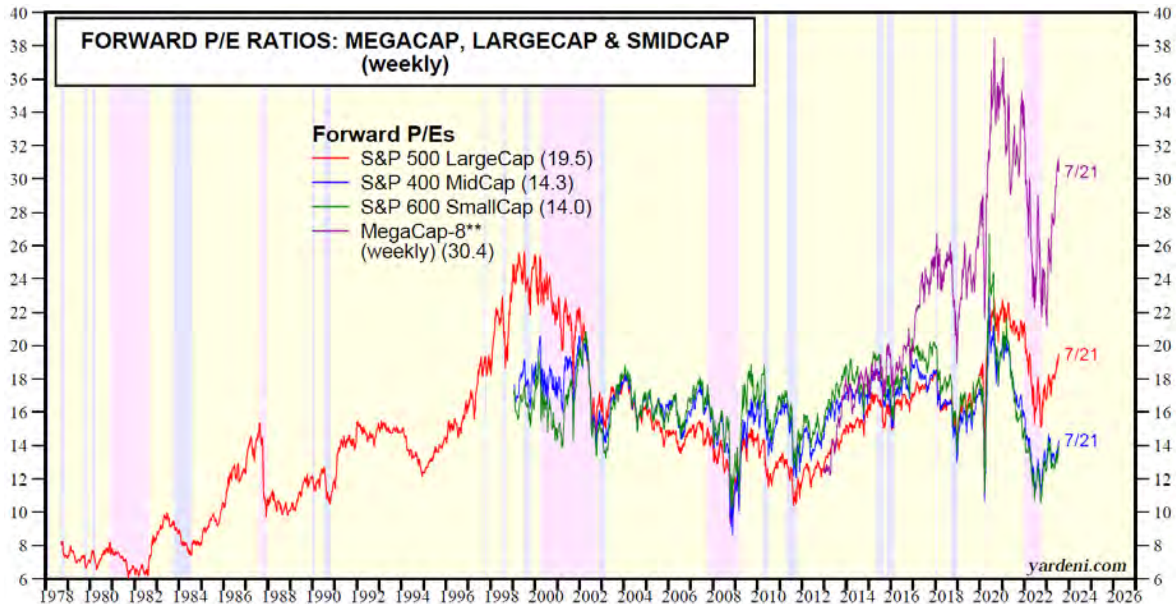
Figure 4: ***Valuation Composite: S&P/TSX vs S&P 500*** *(1990 – present) (average z-score of P/E, NTM P/E, P/B, P/S and inverted DY)*



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES

We see a similar phenomenon when we make a comparison between the broad S&P 500 index and the eight largest "MegaCap" firms (GOOGL, AMZN, AAPL, META, MSFT, NFLX, NVDA, and TSLA) – a group of stocks that trade at an average of 30.4x forward price/earnings, as compared to the more reasonable 19.5x level of the broader market[14] (see Figure 5).

Figure 5: ***Valuation Gap Between MegaCap-8 and the Rest of the S&P 500*** *(1978 – present)*



Source: Yardeni Research, Inc.

Clearly, lower valuations (and therefore better value) are likely to be found in Canadian stocks and many U.S. stocks (excluding those listed above) as compared to U.S. "MegaCap" growth stocks. A long-term investor would want to take advantage of such disparities and migrate capital to lower valuation equities, many of which conveniently provide steady income by way of recurring dividends. We executed such a change in January of last year, moving our passive portfolio component from a market-weighted S&P 500 index to an equal-weighted index, thereby decreasing our exposure to high technology US firms. While that change likely still represents the wisest course of action, clearly it was an early (read: too early) move given the strong performance of the technology sector over the last six months.

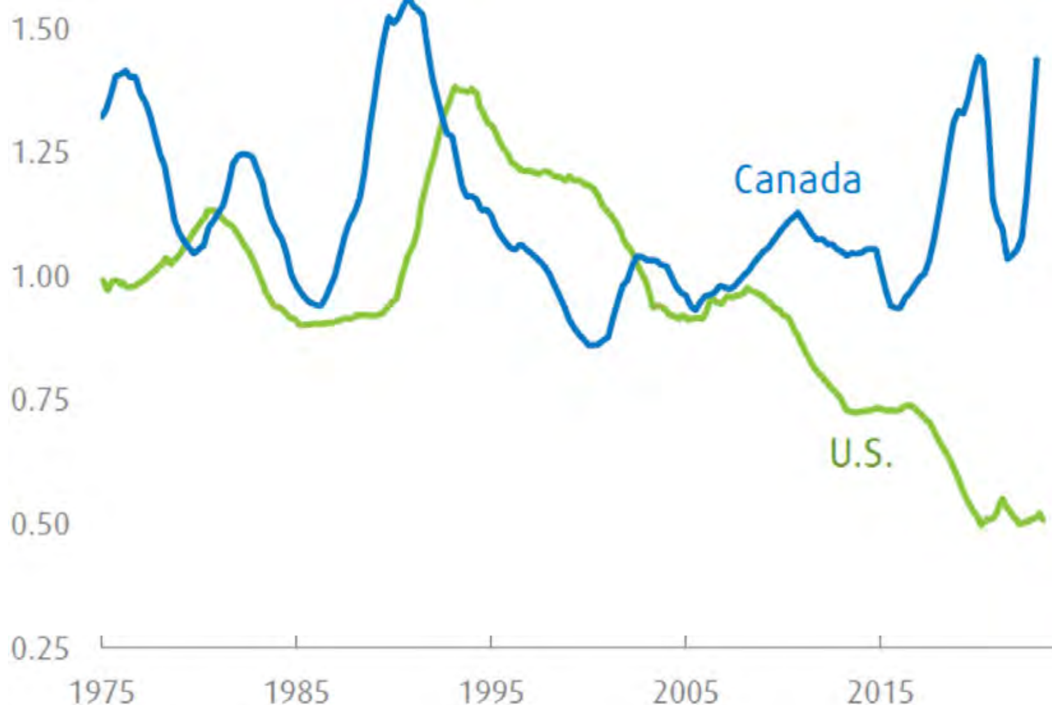
Employment

On the jobs front, the US economy has added 3.8 million new jobs over the course of the last year[15] and just about every employment indicator[16] is pointing to a still-tight labour market, however the pace of job creation in the United States is gradually slowing[17] which is one of the main objectives of the US Fed's interest rate policy

given that an overheated labour market is very inflationary. On the Canadian side of the border, we are witnessing low rates of unemployment and strong job creation figures, as evidenced by the 60,000 new jobs[18] created in the month of June. Despite these new jobs, the Canadian unemployment rate has drifted slightly higher due to a growing labour force, spurned forward by rapid population growth.

Indeed, population growth has set us apart from our southern neighbors (see Figure 6), and Canada's population surpassed 40 million people[19] in June.

Figure 6: ***Population Growth*** *(3-year % change, annual rate; 1975 - present)*



Source: BMO Nesbitt Burns Private Client Strategy, BMO Economics, Haver Analytics

While some aspects of such fast population growth will be inflationary, such as housing for instance, the addition of labour supply also has deflationary benefits. At its core, solid population growth allows for economic growth which is beneficial over the long run.

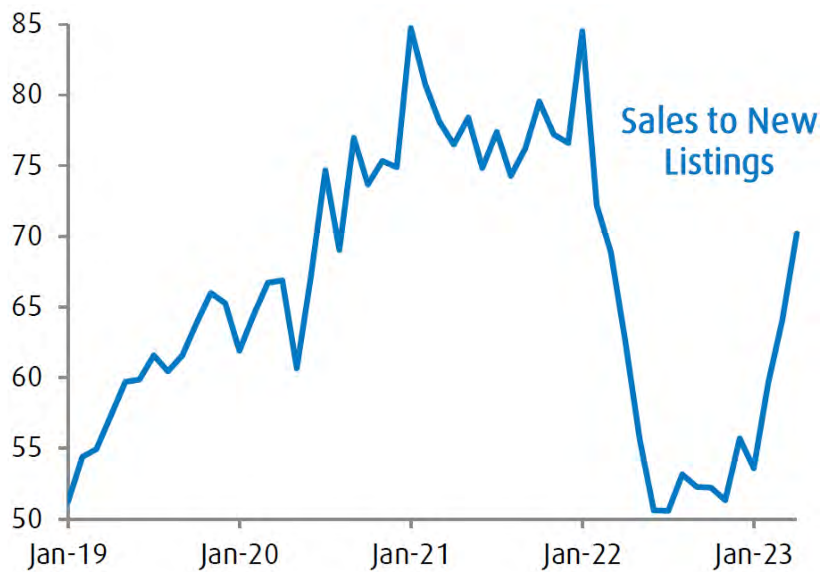
Housing and the health of the consumer

The Bank of Canada began increasing interest rates in March of 2022, and almost immediately, housing prices and other real estate market metrics began to correct. This correction now seems to be in the process of reversing itself (see Figures 7 & 8), likely in part due to increasing demand from population growth. Ultimately, strong home values are positive for economic momentum as they engender a wealth effect, which causes households to feel like they can expand their consumer spending.

Figure 7: ***Canadian Home Price Index*** *(Jan 2022 – April 2023)*

Source: BMO Nesbitt Burns Private Client Strategy, BMO Economics, Haver Analytics

Figure 8: ***Sales / New Listings*** *(SA, Ratio; Jan 2019 – present)*



Source: BMO Nesbitt Burns Private Client Strategy, The Canadian Real Estate Board, BMO Economics, Haver Analytics

As goes housing goes the consumer, and we are seeing consumer confidence[20] levels hit heights not seen in two years – helping disarm the self-fulling nature of recessionary concerns amongst consumers.

Roadwork Ahead

With our circle check complete we can embark on our travels towards better financial markets, though clearly there will be areas where we will need to proceed with caution. Any period of rapid economic change like what we have seen since the pandemic-era shifts in inflation and interest rates, can lead to unintended consequences and economic risk. There are a few areas that we can highlight - unsurprisingly all of which are related to the topic of interest rates.

The inverted yield curve

We have been operating with an interest rate structure known as an *inverted yield curve* for a full year now. Yield curve inversion takes place when short term bond yields are higher than long term bond yields, a situation that defies logic unless one assumes that interest rates will need to be cut significantly in the future due to worsening economic conditions. The degree to which the yield curve is currently inverted surpasses any prior inversion since the 1970s[21], and given that interest rates are much lower than they were at that time, the relative effect of the current inversion is stronger. This is far from a normal situation, and it poses a particular a challenge to financial institutions who have built their businesses around borrowing money at low short-term rates and lending it out at higher long-term rates. Stability in the U.S. financial system suffered a blow last spring, as three U.S. banks (Silicon Valley Bank, Signature Bank, and First Republic Bank) failed in part due to the detrimental effects of yield curve inversion, though it can be said that each of these institutions were exposed to specific financial pressures related to their own business practices. While it is hard to know what the long-term effects of this degree of yield curve inversion will be, with the rest of the economy on a path to normality, we would expect that the relationship between short-term rates and long-term rates will eventually normalize as well.

Commercial real estate

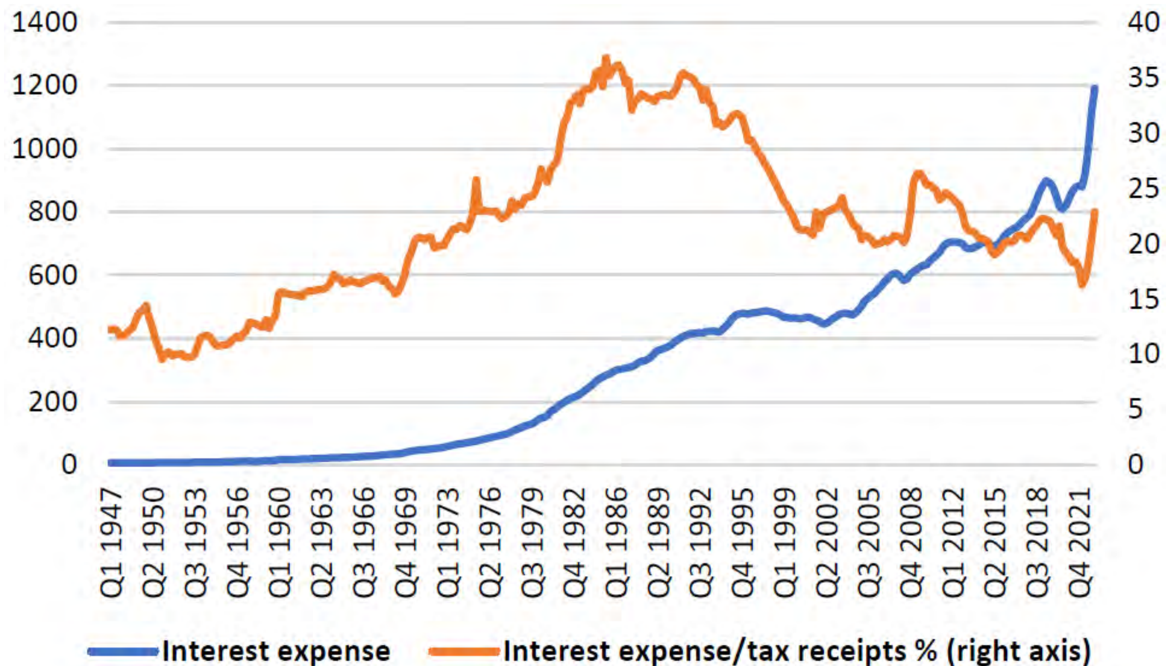
One area related to banking that is of particular concern is commercial real estate, as real estate companies are directly exposed to interest rates given that they are heavy borrowers. Delinquencies are rising, and we have already seen numerous defaults[22] as large mortgages come due on buildings that have seen their rental income severely curtailed by a post-pandemic hybrid work environment. It is for this reason that we have specifically avoided office-property real estate investment trusts in the Model Portfolio for the time being.

Public sector finance

Another area where interest rates will begin to show real negative effects, is around governmental finances. Both in Canada and the United States, government debt loads have increased meaningfully, in part due to well meaning provisions put in

place over the course of the COVID-19 pandemic. To paraphrase Pyrford International's second quarter commentary, the economic resilience we have seen since the abatement of the COVID-19 pandemic has taken place in tandem with record government debt loads, and for the first time in three decades, interest expense will consume a large proportion of governmental spending (see Figure 9) – in the U.S. surpassing even their substantial defence budget[23].

Figure 9: ***US Interest Expense on Government Debt*** *(Q1 1947 – Q4 2021)*



Source: Pyrford International, Refinitiv Datastream

Money is no longer free, and just as consumers are well advised to learn this lesson before their next mortgage renewal date, so should governments recall the hard lessons learned during the public finance crises of the early 1990s.

Our Destination

It is our belief that we are headed towards a more "normal" set of economic circumstances, which should not be interpreted as a riskless market, given the factors that we just reviewed in the previous section. We therefore can feel comfortable moving from a portfolio structure that is well-defended against rising interest rates, to one that benefits from stable or even gradually declining rates.

Whenever I write one of these newsletters there is always a topic that – looking back – has dominated markets in the recent period yet did not even enter into my thinking when I last put pen to paper. This time around, it was artificial intelligence (AI). I will admit to not having taken a deliberate artificial intelligence approach to security selection in this portfolio over the course of its construction. What I have

done is attempted to consistently select companies that are leaders in their respective fields. As a result of this approach, the portfolio has benefited from the AI foothold provided to us by companies like Microsoft and Google. This strength, along with their general operational excellence, continues to justify their role in the heart of the Model Portfolio – however it will be crucial to continue to rebalance in a disciplined manner sector overweights in communication services and high technology to ensure the priority remains on those companies that trade at reasonable valuations and pay reliable dividends.

As mentioned in our last newsletter, we have continued to implement guaranteed investment certificate laddering in client portfolios, in an attempt to take advantage of the current favorable interest rate environment. While there will continue to be an important role for diversified bond portfolios as a risk control, we will remain disciplined in our laddering strategy.

More moderate inflation, more stable interest rates, lower unemployment, reasonable valuations on Canadian securities, and recovery in housing metrics are all signs that point to an economic environment that should provide some comfort to investors. However, in portfolio management, cruise control is never justified – and it will continue to be my privilege as your portfolio manager to keep both hands on the wheel for the next decade, just like the last.

Conclusion

Opportunities for investors can be found both in equity markets and fixed income markets as a result of the current interest rate environment. Given this, we continue to rebalance investors' portfolios towards their personalized asset allocation targets – without deviating too heavily towards either fixed income or equity.

- Inflation has moderated significantly in North America, but the progress has not been even (food inflation, for example, remains elevated) and we can expect central banks to remain vigilant and ready to raise interest rates yet again. Thankfully, we can expect markets to find future incremental rate increases less jarring than the drastic actions taken in 2022.

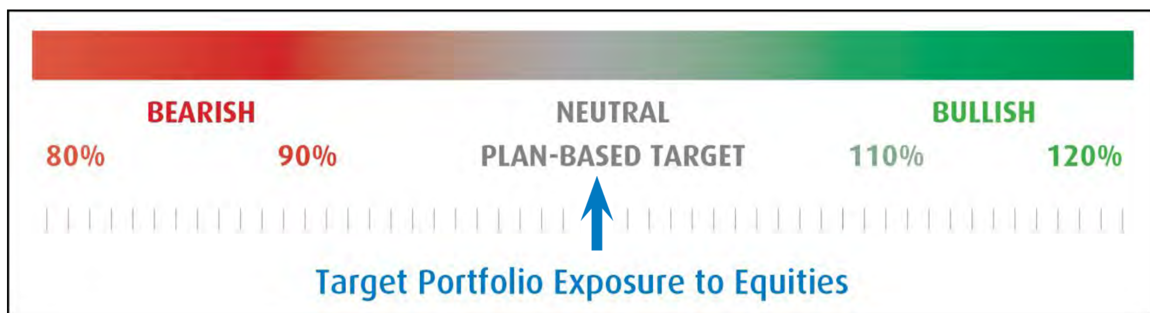
- Relative to U.S. equities in general, we can find more favorable valuations in the Canadian context, all while exposing ourselves to an economy buoyed by strong population growth and a recovering housing market. Amongst U.S. equities, the top handful of MegaCap firms have been responsible for most of the S&P 500's growth this year and are therefore trading at concerning valuations.

- Interest rates and the shape of the yield curve are posing challenges to areas such as commercial real estate and public finances and have helped cause instability in the financial system this year. If these challenges can be navigated, we should find ourselves on a course to normalized financial markets – a good environment for investors.

Asset Allocation

Every investor's asset allocation target should be determined through a financial planning process. The portfolio's equity allocation should be in line with this target when our view on the markets is "neutral". At times, financial markets will present us with possibilities for greater growth or greater risks. Modifying the asset allocation of the portfolio to account for these factors is appropriate, so long as the investor's actual asset allocation does not deviate too severely from their plan and remains within their investor profile and risk tolerance boundaries.

At this time our view is that portfolios should be tilted as follows (deviations are a percentage of equity exposure, not a percentage of the total portfolio):



For example, a portfolio with a long-term strategic target of 60% equity should currently be targeting an equity weight fully in line (100%) with this target.

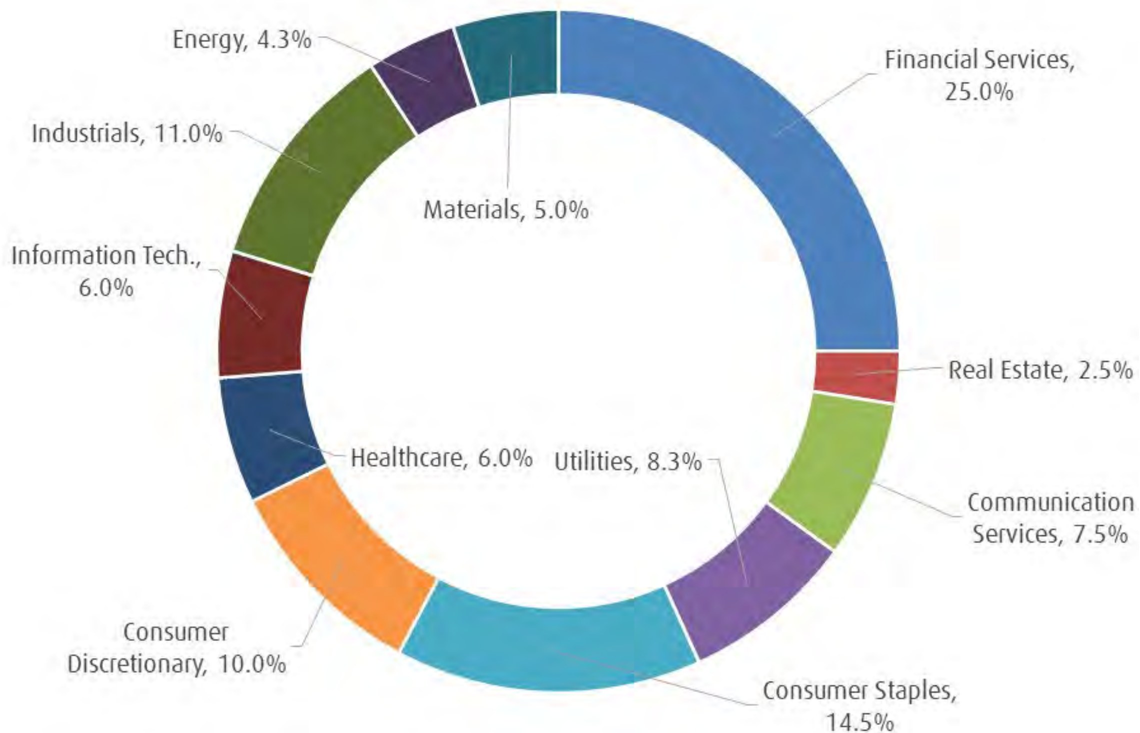
Please note that our Model Portfolio is meant to be a guide as to the equity portion of our clients' portfolios – not their entire portfolio. Clients who have *Balanced* or *Income* investor profiles will require significant assets in fixed income securities in addition to the equities they hold.

Model Portfolio Metrics

	Model Portfolio	S&P/TSX Composite[24]
Yield*	2.80%	3.13%
Portfolio Beta*	0.76	1.00
Number of Holdings	30	228

Sector Allocation (Core Portfolio)

Financial Services	25.0%	30.9%
Real Estate	2.5%	2.4%
Communication Services	7.5%	3.8%
Utilities	8.3%	4.3%
Consumer Staples	14.5%	4.0%
Consumer Discretionary	10.0%	3.9%
Healthcare	6.0%	0.3%
Information Tech.	6.0%	7.8%
Industrials	11.0%	13.5%
Energy	4.3%	16.9%
Materials	5.0%	12.1%



*As at 2023-07-31; source: S&P Global, FactSet

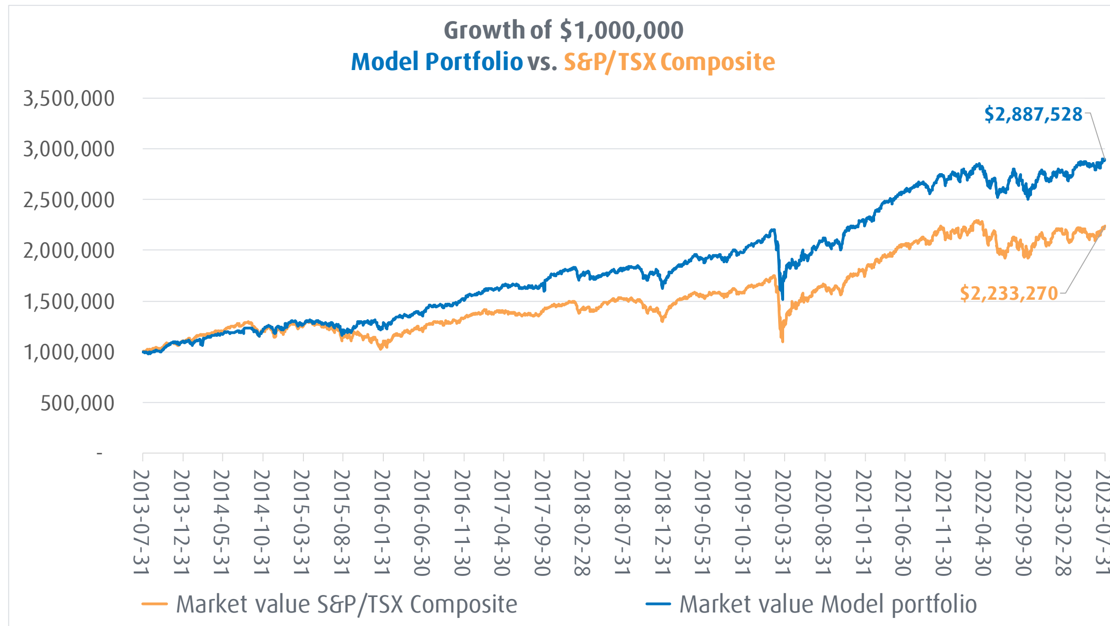
Model Portfolio Performance History

Portfolio Mandate

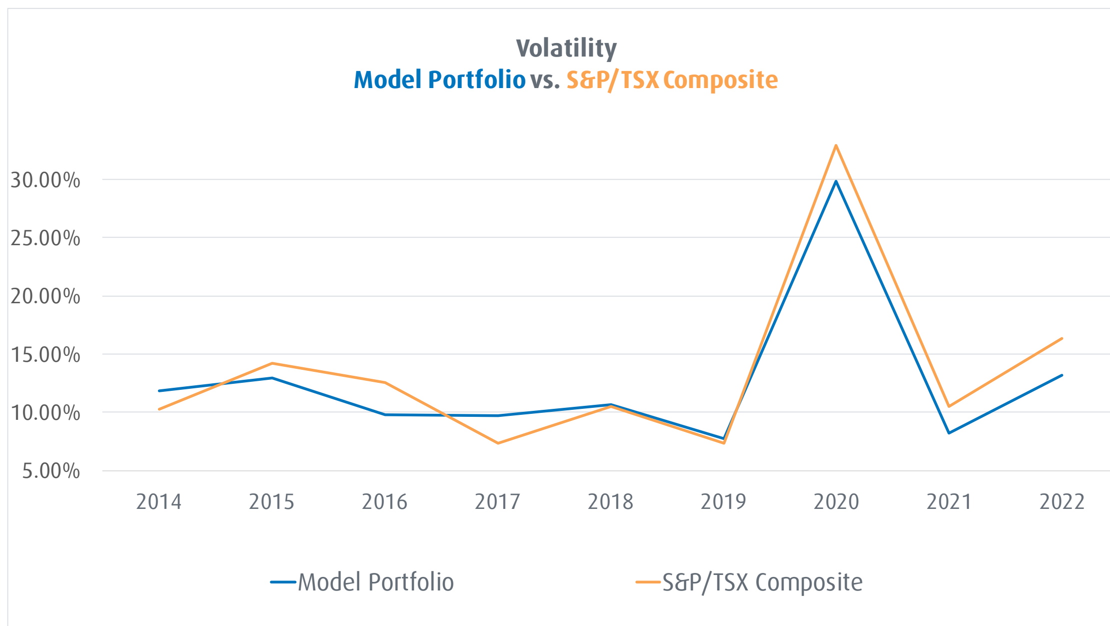
The Model Portfolio is an equity portfolio seeking to provide a Canadian investor with long-term capital appreciation and income, while targeting lower-volatility investment outcomes. The security-selection approach diversifies holdings by industrial sector, with a bias for Canadian holdings in areas where, in our view, Canadian companies hold a competitive advantage.

Key Facts

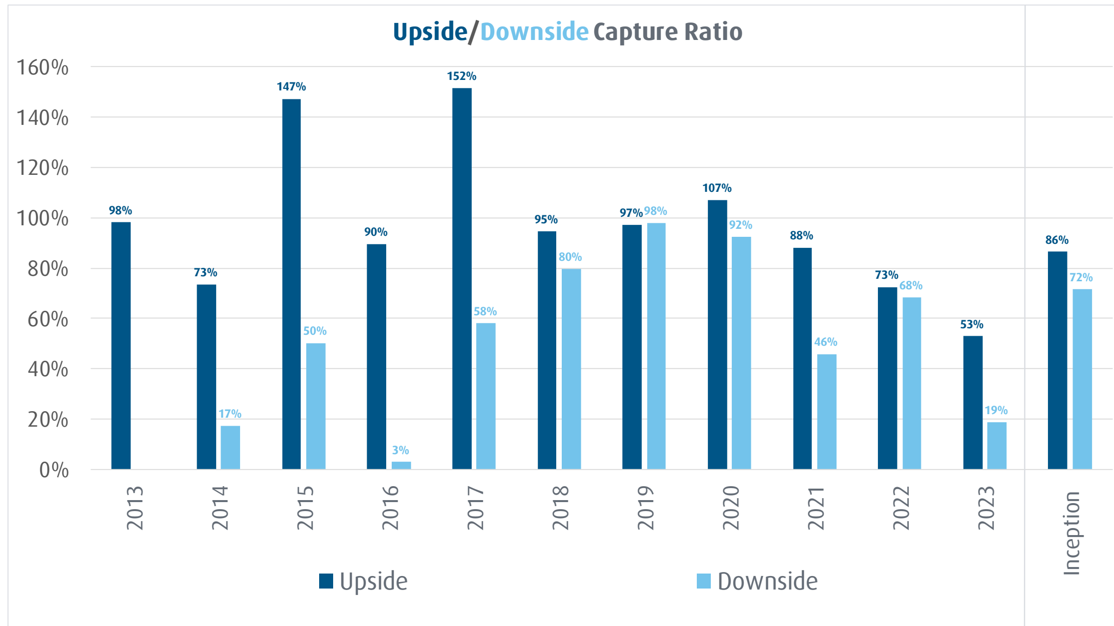
Creation date:	01-Aug-23
Benchmark:	S&P/TSX Composite Index
Number of holdings:	30
Valuation date:	31-Jul-23
Rebalancing frequency:	Semi-annually
Currency:	CAD



The chart above assumes that a hypothetical investor invested $1,000,000 in the model portfolio and benchmark on August 1, 2013. The chart shows the relative growth of the $1,000,000 initial investment, on a gross-of-fee basis, assuming no additional cash contributions and assuming the reinvestment of dividends.



The chart above leverages the same data as the "Growth of $1,000,000" chart, and depicts the relative volatility between the model portfolio and the S&P/TSX Composite, measured by standard deviation. Lower volatility is favorable.



The chart above depicts how much of the benchmark gains and losses were captured by the model portfolio. Higher upside capture and lower downside capture ratios are favorable.

ANNUAL PERFORMANCE

	Cumulative			Annualized			
	YTD	3 months	1 year	3 years	5 years	10 years	Inception
Model Portfolio	7.57%	0.52%	7.28%	12.65%	9.67%	11.19%	11.19%
S&P/TSX Composite	8.43%	0.78%	8.23%	11.73%	7.92%	8.37%	8.37%

RISK CHARACTERISTICS

	Annualized Standard Deviation			Sharpe Ratio			
	3 years	5 years	10 years	3 years	5 years	10 years	Inception
Model Portfolio	0.11	0.12	0.10	1.02	0.67	0.97	0.97
S&P/TSX Composite	0.14	0.16	0.12	0.74	0.41	0.59	0.59

CALENDAR YEAR PERFORMANCE

Calendar Year	Model Portfolio	S&P/TSX Composite
2022	-2.18%	-5.84%
2021	22.79%	25.09%
2020	7.72%	5.60%
2019	22.22%	22.88%
2018	-5.59%	-8.89%
2017	15.94%	9.10%
2016	20.13%	21.08%
2015	4.38%	-8.32%
2014	12.15%	10.55%

*The calculation of performance data set forth herein has been prepared by the author as of the date hereof and is subject to change without notice. The author makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions, which are accurate and complete. However, BMO Nesbitt Burns Inc. ("BMO NBI") makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this report or its contents. Information may be available to BMO NBI or its affiliates that is not reflected herein. This report is prepared solely for information purposes. Please note that past performance is not necessarily an indicator of future performance. The indicated rates of return are gross data of fees or commissions. Individual results of clients' portfolios may differ from that of the model portfolio as fees may differ, and performance of specific accounts is based on specific account investiture. The noted model portfolio may not be appropriate for all investors. This report is not to be construed as an offer to sell or a solicitation or offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO NBI may act as financial advisor and/or underwriter for certain corporations mentioned herein and may receive remuneration for same. *Both Associate Portfolio Managers and Portfolio Managers can offer the BMO Nesbitt Burns. Managed Portfolio Account to clients. For simplicity, we have used the term "Portfolio Manager." Bank of Montreal or its affiliates may act as a lender or provide other services to certain of the corporations mentioned herein and may receive remuneration for the same.*

Meet Our Team

Philip Brock, CFA, CFP, F.Pl., B.Com
Portfolio Manager and Financial Planner
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Philip made his entry in the financial industry almost two decades ago, in 2004, and joined BMO Nesbitt Burns as an Investment Advisor in March of 2006. Since then, Philip has advised many families on retirement and estate planning, personal credit, and investment management. In addition to his work with clients, Philip served as Assistant Branch Manager for the Ottawa Dalhousie/Lansdowne branch of BMO Nesbitt Burns between 2014 and 2019. Philip holds a B.Com. from the University of Ottawa with options in finance and international management and holds the Chartered Financial Analyst (CFA) designation. In addition, he has been practicing financial planning as a CFP® certificant since 2007 and has held the *Institut Québécois de planification financière*'s F.Pl. designation since 2015. Philip is happy to offer his services in English and French.

Born in Montreal, Philip has lived in the National Capital Region since 1987. He calls Orléans home along with his wife Kathleen and their young sons, David, Jonathan and Nicolas. When he's not providing financial advice to his clients, he and his family can usually be found on the ski hill, camping, cottaging, or travelling.

Patricia Butler, DEC, B.A.
Senior Investment Associate
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Patricia has worked in the financial services industry for over 35 years and is well known to our clients, having joined BMO Nesbitt Burns in 2004, after having worked in various positions in banking, lending, and investments at other financial institutions. She completed her Diplome d'études collégiales (DEC) at Vanier College in Montreal in 1983, completing a program in special care counselling. She then received a BA from Concordia University in 1987 and has completed the Canadian Securities Course (CSC), Conduct and Practices Handbook course (CPH), Professional Financial Planning Course (PFPC) and the Derivatives Fundamentals and Options Licensing (DFOL) course. As a Senior Investment Associate, Patricia engages with our clients around issues of financial planning and portfolio maintenance and is happy to assist clients in either English or French.

A Montreal native, Patricia enjoys golf, boating, reading and spending time with her husband, two children, and three grandchildren.

Elyse Gauntsmith, CPA, BBA
Client Service Assistant
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Elyse joined the financial services industry in 2017 following her undergraduate and graduate studies at St. Francis Xavier University and the University of Toronto. A Certified Public Accountant (CPA), Elyse was a Dean's List graduate receiving her BBA in Accounting, and subsequently received a Graduate Diploma in Accounting. More recently, she has completed Chartered Financial Analyst (CFA) Level 2 as well as the Canadian Securities and Canadian Professional Handbook courses. Prior to joining BMO Nesbitt Burns in January 2023, Elyse was a manager at Ernst & Young where she participated in a variety of financial statement audits and the preparation of corporate tax returns. During 2022, Elyse pursued an international transfer to the EY Paris office to further her professional development, including her proficiency in French.

Outside of work, Elyse is most passionate about staying active, traveling and reading. Elyse will always find time to prioritize a workout and participates in a bi-weekly book club. She strives to visit at least one new country a year.

Clara Augustine, BBA
Senior Client Service Associate
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Clara has nearly two decades of experience in Business Administration and Sales Management. She received her BBA from the University of New Brunswick, subsequently beginning her career in the financial services industry. Clara worked with several BMO Bank of Montreal branches in a management capacity, joining BMO Nesbitt Burns in 2018, when she completed her Canadian Securities Course and Conduct and Practices Handbook course. She works closely with each member of our team to ensure your administrative needs are met seamlessly in the pursuit of your investment goals, and is pleased to offer her assistance in either English or French.

Clara was raised on the East Coast, where she lives with her husband and their young children. She is passionate about fitness, cooking, and spending time near the ocean with her family.

Megan Labelle, DEC, BBA
Senior Client Service Associate
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Megan entered the financial services industry in 2016, completing her Canadian Securities Course and Conduct and Practices Handbook course to become a licensed investment representative. Megan earned her DEC from Heritage College in 2013 and was a Dean's List graduate of St. Francis Xavier University's BBA degree with a focus on leadership in management. Before BMO Nesbitt Burns, Megan's career was in hospitality with five years of experience in front office operations at hotels of varying size. She is dedicated to fostering strong client relationships and trust, as well as careful attention to detail, and loves keeping the team organized. She is pleased to offer assistance in English and French.

Megan was born and raised in Aylmer, and is now settled in Ottawa. In her spare time, she enjoys cooking, spoiling her chihuahua Flash, listening to audiobooks, traveling the world with her partner, and has a passion for advocating equality and LGBTQ+ rights.

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If you are already a client of BMO Nesbitt Burns, please contact your Investment Advisor for more information.

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