SEAMARK

September 30, 2020

# SEAMARK POOLED BALANCED FUND

## Our Philosophy and Strategy

The SEAMARK Balanced Fund investment philosophy embodies several defining tenets:

- The firm employs an equity bias, recognizing that ownership offers the greatest investment reward.
- Bonds typically offer lower investment potential than equities. In that bonds represent 'safe money', they form a foundation for balanced portfolios and must be both secure and liquid.
- In balanced mandates, the asset mix is varied 'from the bottom up' within predetermined parameters, driven incrementally by the relative valuation of individual securities, one investment at a time.
- Companies selected for investment are made from our Total Equity platform, allowing for the construction of integrated, efficient equity portfolios.
- Careful attention is paid to valuation, attempting always to 'buy well'.
- Once invested in a company, SEAMARK exercises patience on behalf of its clients, with tax efficient low turnover rates, allowing the management of the underlying company to compound high returns on behalf of its shareholders.

The specific objective of the Pooled Balanced fund is to preserve capital and minimize market value fluctuations while generating superior long-term returns through capital gains augmented by current income. The Fund's performance is benchmarked against a blend of 5% FTSE 91-Day T-Bill Index, 40% FTSE Canada Universe Bond Index, 27% S&P/TSX Composite Index, 20% S&P 500 Index, and 8% Morningstar Developed Markets excluding North America GR Index. Return in excess of this benchmark is an objective only and is not guaranteed by any party.

The fund seeks to achieve its objective within asset mix constraints set forth below:

| Asset Class | Min. | Max. |
|---|---|---|
| Cash & Short-Term Assets | 0% | 25% |
| Fixed Income Assets | 20% | 70% |
| Equity Assets | 30% | 70% |

## Portfolio Managers' Commentary

The world economy showed improvement in the third quarter, thanks to unprecedented levels of monetary and fiscal stimulus. Massive spending, in combination with lower interest rates was thrown at major economies as the price of a restart after forced shutdowns in the spring.

Q2 earnings came in better than anticipated, considering expectations had been dramatically lowered in the face of the pandemic. Equity prices continued to edge higher in Q3, reflecting the improvement in economic activity. Heavy deficit spending resulted in bonds eking out just a fractional contribution to performance.

The Fund registered a 2.8% return in the quarter. The largest stock advances were recorded by UPS, North West Company, Park Lawn Corp. and Apple. For the nine months ending Sept 30, the Fund recorded a return of -2.1%, just a little below year-end levels.

North American Index returns this year have reflected the dramatic impact of technology companies which have benefitted from no-touch economics. In the U.S., the five largest companies in the capitalization weighted S&P 500 Index, have almost single-handedly driven that index higher. The S&P 500 Equal Weight Index, which measures the same 500 companies, registered a -4.8% return year to date, more reflective of an economy that has failed to recover to pre-COVID levels. In Canada, a similar large cap phenomenon existed, with shares of Shopify accounting for 438 basis points of the S&P/TSX Composite Index return as at September 30.

The world economy faces many uncertainties as we head into the fall season. The biggest unknown is of course the impact of COVID-19. Health authorities have been concerned about a second wave as the weather cools and people spend more time inside with a circulating virus. Cases are already on the rise in many parts of Europe and North America. The U.S. is negotiating a new stimulus bill, and the timing of potential benefits is still unclear. The Trudeau government has proposed additional support to see the country through a resurgence of the virus, but investors would prefer to see the economy on sustainably strong footing. That may not evolve until mid 2021.

The U.S. is facing a particularly divisive election on November 3, with partisans on both sides anxious to make their voices heard. With mail-in ballots, the count, and timing of the election result is likely to extend beyond voting day. Wrangling over the legitimacy of the election result may see investors choose to stay on the sidelines until there is a clear election outcome.

With that background, the Fund trimmed some of its stock holdings on price strength, particularly in the overbought/overvalued technology sector. That group's strong performance is reminiscent of prior tops of momentum-driven sectors. Proceeds from sales were invested in companies with traditional businesses that would generate sales as COVID-19 persists.

The Fund is maintaining a neutral to longer duration versus the FTSE Canada Universe Bond Index and is selectively overweight corporate credits. The equity holdings feature companies that are expected to show stronger relative performance in the year ahead. Emergence from the Coronavirus pandemic should be the catalyst for strong revenue and earnings rebound from 2020's depressed levels. Companies that have underperformed this year but are likely to deliver stronger year-over-year earnings comparisons in 2021, should perform better in the next 12 months.

## INVESTMENT TEAM


**Bob McKim**, CFA
CEO & Chief Investment Officer

**Don Wishart**, CFA
President

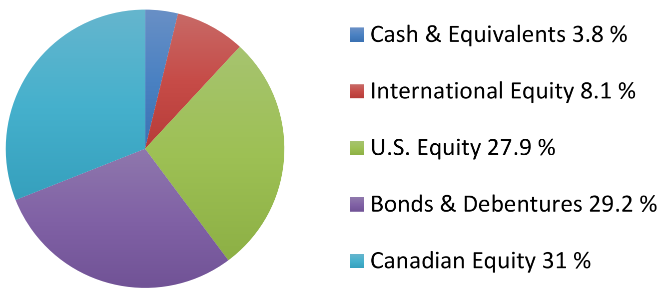
**George Loughery**, CFA
Chief Portfolio Manager

**Beste Alpargun**, CFA
VP Fixed Income, Portfolio Manager

## Port folio Activity

The Fund took advantage of the recovery in equity prices in the third quarter. With a strong potential for a resurgence of Coronavirus cases in the months ahead, positions in APTIV PLC and Canadian Western Bank were sold as share prices recovered. Several positions were trimmed on price strength including Albemarle, United Rentals and UPS. Holdings in Apple, and SAP were reduced on price strength as valuations of technology shares rose to concerning new heights. New positions were established in traditional companies with businesses with COVID-related aspects, including medical equipment company Beckton Dickinson (rapid test kits and syringes) and Service Corporation International (cemeteries and funeral services). At the end of the quarter the Fund had a cash position of 3.8%, available to take advantage of market volatility that might unfold in the fourth quarter.

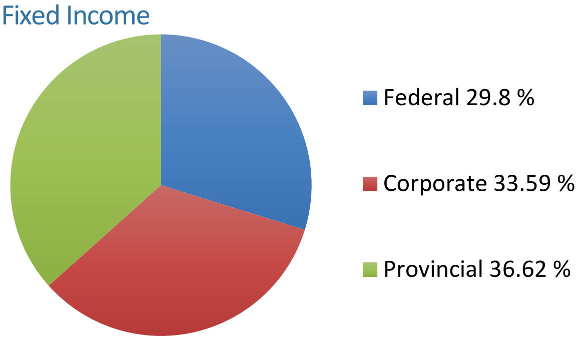
### Asset Mix




### Top Ten Equity Holdings (% of Fund)

| | |
|---|---|
| Apple Inc. | 2.5 |
| Alimentation Couche-Tard | 2.3 |
| Toronto Dominion Bank | 2.2 |
| Royal Bank | 2.3 |
| United Parcel Service | 2.3 |
| Alphabet Inc. | 2.2 |
| Bank of Nova Scotia | 2.2 |
| Canadian National Railway | 2.1 |
| KLA Corp. | 2.0 |
| CCL Industries | 2.0 |

### Fixed Income




### Fixed Income Duration

| | |
|---|---|
| Duration | 7.8 years |
| Term | 9.4 years |
| Yield | 1.3 % |

## Calendar Year Performance (%)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PORTFOLIO (CAD$) | 15.5 | 6.5 | -1.3 | 11.1 | 16.6 | 13.4 | 5.3 | 8.3 | 4.3 | -4.2 | 15.2 |
| BENCHMARK* (CAD$) | 14.9 | 10.1 | 0.6 | 7.2 | 11.8 | 10.7 | 3.9 | 7.8 | 7.4 | -1.4 | 15.3 |

*5% FTSE 91-Day T-Bill Index, 40% FTSE Canada Universe Bond Index, 27% S&P/TSX Composite Index, 20% S&P 500 Index, and 8% Morningstar Developed Markets excluding North America GR Index.

## Performance Information (%)

September 30, 2020

| | QTR | YTD | 1 Yr | 2 Yrs | 3 Yrs | 4 Yrs | 5 Yrs | 6 Yrs | 7 Yrs | 8 Yrs | 9 Yrs | 10 Yrs | Since Inception |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PORTFOLIO (CAD$) | 2.8 | -2.1 | 1.4 | 3.4 | 3.6 | 3.7 | 5.0 | 4.8 | 6.6 | 7.3 | 7.8 | 6.8 | 6.8 |
| BENCHMARK* (CAD$) | 3.1 | 4.2 | 6.7 | 7.1 | 7.0 | 6.4 | 7.0 | 6.4 | 7.5 | 7.5 | 7.7 | 7.1 | 6.2 |

* 5% FTSE 91-Day T-Bill Index, 40% FTSE Canada Universe Bond Index, 27% S&P/TSX Composite Index, 20% S&P 500 Index, and 8% Morningstar Developed Markets excluding North America GR Index.

Fund Inception date: June 30, 1997

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SEAMARK ASSET MANAGEMENT LTD.

Performance data is calculated on an actual basis for periods of less than one year, and on an annualized basis for periods of one or more years. Performance data assumes the reinvestment of all distributions and does not take into account management fees or income taxed (except for withholding tax, if any, on foreign income) payable by any unitholder that would have reduced returns. Past performance is not necessarily indicative of future returns.