

## SEAMARK POOLED TOTAL EQUITY FUND

## Our Philosophy and Strategy

SEAMARK's bottom-up, fundamental approach to equity investing seeks to identify companies with superior long-term investment merit based on proven management, competitive position, and strong balance sheets. Preference is given to companies with durable growth prospects.

Our focus is on individual companies, rather than on the stock market. This focus on "buying the company" is consistent with the objective of owning the company for the long-term. SEAMARK seeks to invest in companies when their current market price represents value relative to their long-term potential and maintains an investment so long as it continues to offer attractive return potential. This results in low turnover rates, and tax efficiency for the investor.

These company specific tenets have been integral to SEAMARK's Total Equity mandate, which had its genesis at the founding of the company, 30 years ago. The Canadian marketplace is predominantly cyclical in nature, resulting in high volatility inherent in the TSX. In order to avoid these extremes, and to practice as long-term investors, SEAMARK considerably expands the investible universe for its Total Equity mandate. Portfolio construction begins with leading companies in Canada, which are complimented with world class companies in the USA, typically in industries that are shallow or deficient within Canada. The portfolio is completed by the addition of exceptional international companies through the use of ADRs. Leading companies in many attractive industries across the world are then held to provide proper portfolio diversification.

The equity research effort behind Total Equity is carried out along industry lines, not country of domicile. This allows for a full-on comparison of companies in an effort to discover the best operators. The result is an integrated portfolio of our best ideas, versus a mere sum of the parts portfolio construction. Total Equity provides a properly diversified portfolio, constructed efficiently to deliver attractive returns and risk management to the investor.

The investment portfolio of the Total Equity Fund will consist primarily of large-cap companies. A portion of the investment portfolio of the Fund may be invested in medium-cap or small-cap companies as valuations warrant. The weight of a specific core holding at any time will reflect SEAMARK's confidence in the stability and durability of the idea, but will not exceed 5% of the book value of the Fund.

## Portfolio Manager's Commentary

World bourses recorded widespread losses in 2018, with various markets each experiencing their own domestic troubles. Notwithstanding that the world economy registered positive GDP growth, many stock markets suffered declines of more than 10%.

Continued strength in the U.S. dollar continued to play havoc with emerging market economies in 2018. Many countries borrow in U.S. currency, and as the greenback rises, it increases the debt burden on already struggling economies. Emerging markets declined by about 15%.

Along with slowing worldwide growth, the protracted Brexit negotiations caused a decline in consumer confidence and business investment in Britain and Europe. Britain in particular is divided, politically and emotionally as to how best resolve its exit from the European Union. Meanwhile, China trade tensions with the U.S. have taken a serious toll on the Chinese economy. International markets, as represented by the Morningstar Developed Markets ex North America NR Index declined by 14.2% in 2018. The Shanghai Composite Index was off 24.6%.

Canadian share prices declined in response to lower world prices for oil and a steep discount for Canadian crude relative to its West Texas counterpart. The S&P/TSX Composite Index posted a decline of 11.6% in 2018. U.S. markets started the year with a bang as January witnessed the blow off of the stretch-for-growth phenomenon of 2017. But share prices ended the year with a thud as investors recalibrated their expectations for 2019 and questioned many of President Trump's "gut instincts". Buoyed by a very strong January at the start of the year, the S&P 500 Index dropped 6.2% in 2018 (but by 11.2% since January).

For Canadian investors, negative foreign returns were somewhat offset by an 8.0% decline in the Canadian dollar versus its U.S. counterpart. After taking dividends into consideration and the benefit of currency conversion, the Fund registered a loss of 6.2% in 2018. Significantly, in the last quarter when equity markets performed their worst, the Fund performed better than the S&P/TSX Composite Index and the S&P 500 Index.

The U.S. has been the engine of economic growth of the world since the recession of 2008/9. As we enter 2019, expectations for a slowdown of growth are well founded, but a recession for the U.S. economy in 2019 is unlikely. That should bode well for U.S. corporate earnings. Admittedly, expectations for U.S. earning gains of 5-8% may have to be tempered, if trade tensions persist past the negotiating period with China.

Here at home, Canadian investors would be well served by government if it were to produce a solution that would result in getting more Alberta oil to market.

More broadly, a step-back from world trade tensions would go a long way to reinvigorating world economies and repairing business and investor psychology. Many of the concerns of investors are man made, or self-inflicted. We expect cooler heads to prevail in these situations. Meanwhile, the market's correction has created attractive investment opportunities that would deliver strong returns to investors upon resolution of trade tensions.

## INVESTMENT TEAM



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



**Don Wishart, CFA**  
President



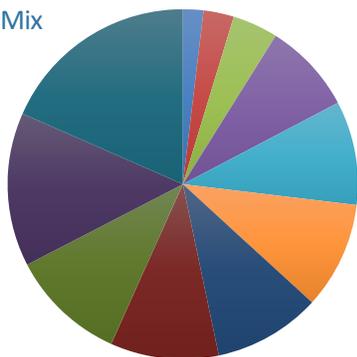
**George Loughery, CFA**  
Chief Portfolio Manager

## Portfolio Activity

Volatility in the fourth quarter offered opportunities to trim or sell shares of several companies and reinvest proceeds into other portfolio holdings that were depressed in price. Shares of Great West Life were sold in favour of Manulife and Industrial Alliance, two insurers with better growth prospects. Holdings of Schlumberger, United Technologies and AGT Ltd were eliminated. AGT had been the subject of a takeover offer.

Shares of Fluor, a leading engineering and construction company, were added to the portfolio as a potential beneficiary of any infrastructure spend in the U.S. A new position was established in shares of Loblaw Cos at an attractive price. After Loblaw spun-out its interest in Choice REIT, the residual shares traded at a deep discount to other grocer store valuations. Shares of Loblaw advanced markedly during the fourth quarter, even in the face of a 10% decline in the S&P/TSX.

### Asset Mix



■ Cash & Equivalents 1.9 %	■ Discretionary Goods 2.8 %
■ Utility Services 4.2 %	■ Metals & Minerals 8.4 %
■ Pharma & Health Care 9.6 %	■ Communication Services 9.9 %
■ Commercial & Industrial 9.9 %	■ Technology Products & Services 10 %
■ Oil & Gas 10.7 %	■ Staples Goods 14.2 %
■ Financial Services 18.4 %	

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

Franco Nevada .....	2.3	Manulife Financial .....	1.9
Royal Bank of Canada .....	2.1	Merck & Co. Inc. ....	1.9
Toronto Dominion Bank .....	2.1	Canadian Natural Resources .....	1.8
Industrial Alliance .....	2.1	Pfizer Inc. ....	1.8
Bank of Nova Scotia .....	2.1	Novartis .....	1.8

### Calendar Year Performance (%)

	2014	2015	2016	2017	2018
TOTAL PORTFOLIO (CAD\$)	15.8	4.3	12.1	5.2	-6.2
BENCHMARK* (CAD\$)	14.2	5.3	13.2	12.1	-4.0

\*50 % S&P/TSX Composite Index, 35% S&P 500 Index, 15% Morningstar Developed Markets ex North America NR Index

### Performance Information (%)

December 31, 2018

	QTD	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\$)	-7.6	-6.2	-6.2	-0.6	3.4	3.6	6.0	N/A	N/A	N/A	N/A	N/A	6.0
BENCHMARK* (CAD\$)	-9.4	-4.0	-4.0	3.7	6.8	6.4	7.9	N/A	N/A	N/A	N/A	N/A	7.9

\*50 % S&P/TSX Composite Index, 35% S&P 500 Index, 15% Morningstar Developed Markets ex North America NR Index

Fund Inception date: December 31, 2013

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