SEAMARK

December 31, 2019

# SEAMARK POOLED CANADIAN 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.

SEAMARK's 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.

The Canadian marketplace is predominantly cyclical in nature. To help reduce the volatility inherent in the TSX, and allow us to practice as long-term investors, SEAMARK maintains a 'benchmark agnostic' posture. Leading companies in many attractive industries are held to provide proper portfolio diversification.

Large capitalization companies will generally account for approximately 70% of the total portfolio. 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 10% of the total portfolio weight. SEAMARK's exposure to medium cap stocks will be no more than 30%. Small cap stocks may, from time to time as valuations warrant, represent up to 10% of the portfolio.

## Portfolio Manager's Commentary

The Fund achieved a 3.5% rate of return during the fourth quarter, bringing its annual return to 19.1%. The Fund exceeded its industry benchmark in each of the last three quarters, after falling behind in Q1.

A year like 2019 needs to be viewed in context.  Just over a year ago, the Canadian market as measured by the S&P/TSX Composite Index, had declined by 10.9% in the fourth quarter of 2018.  So, markets were coming from a low base to begin the year. Indeed, Q1 2019 recovered dramatically, regaining all that had been lost at the end of 2018.  The strongest sector returns within the S&P TSX Index for 2019 came from the narrowly based IT and Gold sectors. Health care (including marijuana stocks) declined, and the heavyweight energy sector lagged.

Interest rate yield curves in North America inverted early in 2019, but three successive 25 basis point cuts in the U.S. allowed investors to brush off fears of a recession.  Inverted curves usually portend a recession some 12- 18 months later. Canadians did not enjoy even one cut by the Bank of Canada in 2019, and our curve remains slightly inverted. Economic growth in 2020 is likely to come in below capacity in the U.S. and Canada. That sets the stage for a benign interest rate environment for the year ahead.  There may even be room for a single interest rate cut on either side of the border.  So, interest rates should not produce any headwinds for stocks in 2020.

Pending trade deals should be a positive for the economy.  The USMCA deal should be signed into law early in the year, along with Phase One of the U.S./China deal.  Any resolution of trade and tariff issues will lift a cloud that has curtailed capital spending by corporations across the globe.

We expect the economy to continue to grow, perhaps at about 2%, even though the economic expansion is now in its 10th year. Corporate earnings should edge higher, but investor psychology will likely be the wildcard in 2020.  Canadian markets will not be immune from investor sentiment in the U.S.  Tensions with U.S. adversaries like Iran and North Korea could escalate, as we have already seen early in the year. Unrest in the Middle East always raises the price of oil, a major consideration for the Canadian market. But the U.S. election outcome will be the biggest unknown. Markets have been strong under Trump's tenure, setting a positive tone for the Canadian market. His denial of climate change has set a better tone for Canada's energy industry.

The Fund remained fully invested at the outset of 2020.  Investors on both sides of the border may lose enthusiasm as election rhetoric becomes more heated.  A progressive Democrat challenger to Trump would be a worry for investors.  As the year progresses, we will likely see opportunities to take some profits in the portfolio.

## INVESTMENT TEAM

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

**Don** Wishart, CFA
President

**George Loughery**, CFA
Chief Portfolio Manager

## Portfolio Activity

Full equity positions were established in New Flyer Industries, Nutrien, and Rogers Communications. New Flyer is consolidating the bus business and should benefit when municipalities ramp-up their use of electric busses. Nutrien is the leading producer of potash in the Western World. Fertilizer prices should show some price recovery as farm production normalizes following a poor crop year, and after a successful US/China trade deal. Rogers had fallen to an attractive level on an earnings disappointment, as more people subscribed to all you can eat wireless data plans.

Starter positions were initiated in shares of Stella Jones Inc., Newmont Goldcorp and Major Drilling Group. Stella Jones is the leading North American producer of wooden telephone poles and pressure-treated decking. Steady demand for telephone poles gives the company some economic resiliency. Newmont is benefitting from a higher price of gold, while it cuts costs and strengthens its balance sheet following its purchase of Goldcorp. Major Drilling, the largest contract gold drilling company in North America, is already seeing increased demand, thanks to the rising price of gold. Holdings of BCE, Cenovus, Industrial Alliance, Manulife and CGI were all trimmed on price strength.

### Asset Mix


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

| | | | |
|---|---|---|---|
| Manulife Financial | 4.3 | IA Financial Corp. Inc. | 3.7 |
| Bank of Nova Scotia | 4.3 | Suncor Energy INc. | 3.7 |
| Toronto Dominion Bank | 4.3 | Alimentation Couche-Tard | 3.4 |
| Royal Bank | 4.2 | TC Energy Corp. | 3.2 |
| Canadian Natural Resources | 4.2 | Franco Nevada | 3.1 |

## Calendar Year Performance (%)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PORTFOLIO (CAD$) | 13.3 | -9.9 | 5.5 | 20.1 | 12.2 | -7.9 | 19.5 | 4.8 | -12.8 | 19.1 |
| S&P/TSX Composite Index (CAD$) | 17.6 | -8.7 | 7.2 | 13.0 | 10.5 | -8.3 | 21.1 | 9.1 | -8.9 | 22.9 |

## Performance Information (%)

December 31, 2019

| | 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$) | 3.5 | 19.1 | 19.1 | 1.9 | 2.9 | 6.8 | 3.7 | 5.0 | 7.1 | 6.9 | 4.9 | 5.7 | 7.8 |
| S&P/TSX Composite Index (CAD$) | 3.2 | 22.9 | 22.9 | 5.8 | 6.9 | 10.3 | 6.3 | 7.0 | 7.8 | 7.7 | 5.8 | 6.9 | 6.7 |

Fund Inception date: June 30, 1997

## Take advantage of Capital Gains Deferrals

Our suite of Pooled Funds is in a unique position of offering the possibility to taxable investors to defer capital gains. Total amount available for the Canadian Equity Fund's capital gain deferrals: $4,955,751 (Audited Financial Statements, as at December 31, 2018).

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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.