SEAMARK

December 31, 2019

# SEAMARK POOLED U.S. 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.

The U.S. Equity Fund seeks to preserve and enhance capital through a selection of companies offering current dividend income and good potential for long-term capital gains.

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.

SEAMARK's U.S. equity investment philosophy is founded on the recognition that superior investment opportunities exist in U.S. growth companies. While leading companies in many attractive industries are held to provide diversification, there is a preference to focus on U.S. companies growing faster than the overall average.

Investments in U.S.-based multi-national companies also provide a geographically diversified base of earnings, and a low-risk participation in the growth of emerging economies.

## Portfolio Manager's Commentary

The Fund achieved an 8.9% rate of return during the fourth quarter (in Canadian funds), bringing its annual return to 17.3%. The Fund exceeded its industry benchmark in the second half of the year, after lagging in the first half. Once again, the strongest performing sector within the S&P 500 Index for 2019 was Information Technology. The energy sector was the biggest laggard of the year.

A year like 2019 needs to be viewed in context. Just over a year ago, the U.S. market had declined by 14% in the fourth quarter. So, markets were coming from a low base to begin the year. Indeed, Q1 of 2019 recovered dramatically, regaining nearly all that had been lost at the end of 2018. Corporate earnings rose in 2019, but not at the rate of stock price appreciation. This means that P/E ratios expanded (the price of stocks for each dollar of earnings per share). Stocks became more expensive as prices advanced throughout the year, jumping the forward P/E from 14, up to 18.

The U.S. interest rate yield curve inverted early in 2019, but three successive 25 basis point cuts by the U.S. Federal Reserve allowed investors to brush off fears of a recession. Inverted curves usually portend a recession some 12- 18 months later. Economic growth in 2020 is likely to come in below capacity in the U.S., but that will set the stage for a benign interest rate environment for the year ahead. There may even be room for a single interest rate cut if some signs of economic weakness happen to persist. So, interest rates should not produce any headwinds for stocks in 2020.

Pending trade deals should be a positive for the U.S. 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 in the U.S. across the globe.

We expect the economy to continue to grow, perhaps at about 2%, even though economic expansion is now in its 10th year. Corporate earnings should edge higher, but investor psychology will likely be the wildcard in 2020. 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 input cost to manufacturing and transportation interests.

The U.S. election outcome will be the biggest unknown facing investors. Markets have been strong under Trump's tenure. Concern is likely to rise as election rhetoric becomes more heated. A progressive Democrat challenger would be a particularly worrisome development for investors.

With all of that as background, we will likely see opportunities to take some profits as the year progresses. Proceeds from sales will build a cash position for reinvestment, when prices are more attractive.

## INVESTMENT TEAM

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

**Don Wishart**, CFA
President

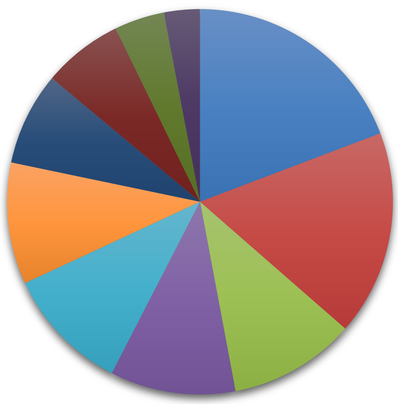
**George Loughery**, CFA
Chief Portfolio Manager

## Portfolio Activity

During the quarter, the holding in Qualcomm was reduced to a half position on price strength in the shares. Other positions that were trimmed on strength included KLA Tencorp, and a number of health care companies in advance of the U.S. election season - Abbvie, Johnson & Johnson and Merck.

Newmont Goldcorp, Cisco and United Rentals were all increased on price dips. Newmont is benefitting from the rising price of gold at the same time it disposes of marginal properties to drive its costs down and strengthen its balance sheet following the purchase of Goldcorp. Cisco reported a soft quarter, providing an opportunity to add to the position at an attractive price. We also added opportunistically to United Rentals on share price weakness, increasing the size of its position in the portfolio.

### Asset Mix



- Technology Products & Services 19.2 %
- Financial Services 17.2 %
- Commercial & Industrial 10.6 %
- Telecom 10.5 %
- Pharma & Health Care 10.5 %
- Staples Goods 10.2 %
- Metals & Minerals 7.8 %
- Oil & Gas 6.7 %
- Cash & Equivalents 4.2 %
- Discretionary Goods 3 %

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

| | |
|---|---|
| JPMorgan Chase & Co. | 4.8 |
| State Street Corp. | 4.6 |
| Applied Materials | 4.4 |
| Northern Trust | 4.3 |
| Bank of America | 4.3 |
| Apples Inc. | 4.2 |
| KLA Corp. | 4.1 |
| Walt Disney Co. | 3.9 |
| Alphabet Inc. | 3.8 |
| Chevron Corp. | 3.8 |

## Calendar Year Performance (%)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PORTFOLIO (CAD$) | 20.3 | 5.6 | -0.4 | 16.5 | 34.9 | 18.7 | 13.8 | 13.6 | 3.3 | 1.9 | 17.3 |
| S&P 500 Index (CAD$) | 8.1 | 9.4 | 4.4 | 13.5 | 41.5 | 24.0 | 21.0 | 8.6 | 13.8 | 4.0 | 25.2 |

## 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$) | 8.9 | 17.3 | 17.3 | 9.3 | 7.3 | 8.8 | 9.8 | 11.2 | 14.4 | 14.6 | 12.8 | 12.1 | 7.7 |
| S&P 500 Index (CAD$) | 7.0 | 25.2 | 25.2 | 14.1 | 14.0 | 12.6 | 14.3 | 15.8 | 19.2 | 18.5 | 16.8 | 16.0 | 7.3 |

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 US Equity Fund's capital gain deferrals: $21,704,974 (Audited Financial Statements, as at December 31, 2018).

## Stay in Touch!

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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.