SEAMARK

THE LATEST

INSIDE

CIO Commentary

Timing Isn't Always Everything

What's Old, is New Again?

Pooled Fund Tax-Deferrals

Performance Update

Q2 2022 Pooled Fund Profiles

INVESTMENT TEAM

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30 Years at SEAMARK
42 Years in Industry

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CIO Commentary

June 30, 2022

Investment markets in the second quarter fell prey to the persistent and runaway inflation numbers evident across the globe. Strong economic demand, driven by a robust rebound from the ravages of the pandemic, occurred just as supply chain and labour disruptions played havoc with the supply side of the economy. Demand and supply cost pressures were further exacerbated by the Russian invasion of Ukraine. Energy and food disruptions have driven prices higher for goods and services across the board. With no immediate end in site to the Ukrainian conflict, it is becoming evident that the inflation problem is likely to persist longer than anyone would like. Inflation numbers, well above the 2% prescribed by Central Banks, are resulting in a much tighter stance from monetary authorities. As such, administered interest rates are beginning a march upward from the emergency low-rate environment witnessed during the worst of the Covid pandemic. Market rates of interest are also in the process of returning to more normal levels, especially in light of the need to attract investors during a period of the highest inflation rates in forty years.

Against this background investment asset values have given ground. Bond prices have fallen, reflecting higher levels of interest rates. Share prices of equities have also corrected, with the most recent decline reflecting fears that a ratcheting up of interest rates will result in an economic hard landing, perhaps even a recession. Values of some of the more esoteric investments have plummeted as monetary conditions have tightened.

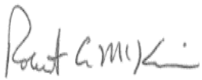
In the second quarter, equity markets declined worldwide. Canada's benchmark, the S&P/TSX Composite Index (TSX), performed better than its U.S. counterpart, recording a decline of 13.8%. When dividends are included, the TSX registered a -13.2% total return. As measured by the S&P 500 Index, stocks fell by 16.5% in the U.S. (-16.1% return including dividends). Adjusting for a 3% decline in the value of the Canadian dollar, the S&P 500 logged a -13.5% total return for Canadian investors. The tech heavy NASDAQ Composite Index fell by 22.4% in the quarter. European markets, represented by Morningstar Developed Markets exNorth America PR Index, fell by 15.8%, but when adjusted for dividends and the lower Canadian dollar, it recorded a -11.9% return. Looking over the twelve-month period, the TSX performed better than other world stock indexes, recording a total return of -3.9%. The total return in Canadian dollar terms for the S&P 500 was -7.1%, and -14.9% for Morningstar Developed Markets exNorth America GR Index. Bonds failed to provide a safe haven for investors. The FTSE Canada Universe Bond Index registered a return of -5.7% in Q2, and a -11.4% return over 12 months.

The U.S. stock market reached its peak in early January 2022. But by mid June, the S&P 500 had slid into bear market territory, i.e., a measured decline of 20% from the top. Any drawdown of 20% has already removed a lot of the excess that had taken share prices to peak valuations. Interestingly, one recent study of market returns concluded that equity investors have seen strong double digit positive returns in the 12 months after the bear market has been 'called'. On average, investors have enjoyed a 22% gain in the ensuing one-year period. This is not too surprising. Stock markets always look 6-9 months forward. A year from now, the market will be assessing the state of the economy as it enters 2024. Between now and then, today's economic malaise should be looking much improved.

SEAMARK portfolios have performed very well versus the broad equity and fixed income market averages. Conservatively valued, high-quality companies have fared better, as the air has really come out of the overvalued growth stocks. Further, cash from equity trims or sales has been accumulating in SEAMARK portfolios, given the turbulent market backdrop. And with the increases we have seen in interest rates, Treasury bills are once again providing a positive return for portfolios that have accumulated cash in recent months.

Looking ahead, we expect to see attractive opportunities to add to existing bond and stock holdings. Interest rates are rising, creating a better yield for new fixed income investments. Lower equity valuations and higher dividend yields are also creating opportunities to add to existing equity holdings, or to purchase new holdings for long term gain. We expect to be eying more purchase opportunities in the next few months than sales. Long term investors should benefit from this disciplined and proven approach.

Sincerely,



Robert G. McKim, CFA
Chief Investment Officer

Timing Isn't Always Everything

You may have heard the old adage: "It's not about timing the market, but about time in the market." History would suggest that those who stay invested over the long run in a well-diversified portfolio, will generally do better than those who try to profit from picking turning points in the market.

With this in mind, an investment entity called Market Watch recently published an interesting article which we'd like to share. Its writer, Mark Hulbert, indicated that if, in every bear market since World War II, an investor purchased stocks on the day the S&P 500 Index closed below the 20% loss threshold, the market would have averaged a total return of 22.7% over the ensuing twelve months. He points out that in 10 of the 12 cases since World War II an investor would be "sitting on a profit in a year's time". He also notes, "Those aren't terrible odds."

Perhaps we are on the verge of another of those times. Led by the significant decline in technology stocks, the S&P 500 breached the -20% mark in mid-June, suffering a price decline of 20.6% from Dec 31 to June 30. The comfortable tendency for people, is to see this as a time to avoid the stock market, citing the potential for it to decline further. Many decide to wait until the economy exhibits some recovery, before investing.

The problem with the wait and see approach is the tendency for markets to rebound long before the economy confirms the end of the bear market. And stocks, always forward looking, often rebound significantly in a short period of time. If one is not invested at that moment, the potential return is often much less than that of the market itself.

SEAMARK portfolios have performed very well relative to equity markets in these trying times. At a recent institutional client meeting for which we manage a balanced portfolio, SEAMARK outperformed that entity's benchmark by 9.8 percentage points (980 basis points) over one year. The extent to which a manager's performance differs from the market's performance during negative market periods is called the Down-Market Capture Ratio. It is a good indicator of how capable a manager is at protecting capital under adverse market conditions.

Studies of the psychological profile of investors consistently demonstrate that the majority realize more anxiety when a portfolio goes down by 10%, than they experience satisfaction when it goes up by the same amount. Arithmetically, and psychologically, it is evident, that it is better to begin a bull market having retained more capital in the down market.

One reason SEAMARK has had solid long-term results is that the portfolio management team maintains a valuation for each company we follow. This view of the investing landscape, that it is a market of stocks, allows for a disciplined investment approach, regardless of forecasts for the market. Our work reflects what we believe a given company is worth. The market is just

where we go to find the price of the company at any given time. We can use this valuation effort to effectively give rise to contrarian investment behavior: selling when others continue to stretch for the last dollar of investment gain and buying when others are too fearful to act.

Investing is not a simple vocation. But it is made a lot easier when discipline can be used to tip the odds in your favour!

-- Don Wishart FCPA, FCMA, CFA

What's Old, is New Again?

A series of ads by another investment manager participant have caught my attention.

Apparently, the very principles that SEAMARK was founded upon 40 years ago are still new to some. Well, even if not new, the high points are worth reviewing.

- The ad professes that the featured manager doesn't just look for hot stocks, but meticulously builds diversified portfolios for its clients: **SEAMARK, check.** We call it managing risk.
- The featured manager doesn't sell high commission products: **SEAMARK, check.** We call it fair dealing.
- And the featured manager acts in a fiduciary capacity: **SEAMARK, check.** Always protect your interests by dealing with a fiduciary!
- The featured manager "…does better when the client does better": **SEAMARK, check**.

The latter point is referring to the fee arrangement between manager and client, where a fixed fee rate is applied to the value of the client's comingled account(s). As asset values go up, so does the amount paid to the manager. But when values decline, the manager collects a lower fee, thereby providing a strong incentive to protect the value of clients' portfolios. This arrangement is the norm for the investment counsellor industry. But can you get too much of a good thing? YES! Investment management fee schedules that pay incentive fees for outsized returns should be avoided by investors. SEAMARK has always resisted such arrangements because it changes the equation between manager and client. There is more than enough risk inherent in investment markets. A client Investment Policy Statement (IPS) should define the risk that is suitable and acceptable. The manager shouldn't expose the client's capital to additional risk, in the hopes of reaping higher fee income.

One more important principal to highlight. The SEAMARK business model does not underwrite the issuance of securities via IPOs (Initial Public Offerings). This eliminates a potential conflict of interest between manager and client. All of the SEAMARK research effort is purely for the benefit of client portfolios.

A perfect alignment of client and money manager interests should never get old!

-- Robert G. McKim, CFA, CFO

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2021 Pooled Fund Capital Gains Tax Deferrals

	Tax Loss Carry Forwards*
SEAMARK Pooled U.S. Equity Fund	$ 21,285,761
SEAMARK Pooled Total Equity Fund	$ 17,509,892
SEAMARK Pooled Low Volatility Equity Fund	$ 2,600,769
SEAMARK Pooled Canadian Equity Fund	$ 4,875,982

*Audited Financial Statements, as at December 31, 2021

Some of these tax loss deferrals are significant compared to the assets in the respective Pools.

Please contact Ann-Marie Slawter for more information:
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Composite Performance Update

Calendar Year Performance

	Q2 2022	2021	2020	2019	2018	2017	2016	Since Inception	Inception Date
SEAMARK Balanced Composite (%)	**-7.6**	**18.3**	**5.8**	**14.6**	**-5.2**	**4.9**	**8.8**	**7.2**	12/31/2009
Balanced Benchmark* (%)	-9.5	11.6	9.3	15.3	-1.4	7.4	7.8	6.3	
SEAMARK Low Volatility Equity Composite (%)	**-6.0**	**24.2**	**0.3**	**15.5**	**-2.4**	**6.7**	**12.4**	**9.5**	12/31/2010
S&P/TSX Composite Index (%)	-13.2	25.1	5.6	22.9	-8.9	9.1	21.1	6.1	
SEAMARK Canadian Equity Composite (%)	**-9.2**	**25.8**	**-2.3**	**19.5**	**-12.7**	**5.2**	**19.8**	**6.8**	01/31/2011
S&P/TSX Composite Index (%)	-13.2	25.1	5.6	22.9	-8.9	9.1	21.1	6.0	
SEAMARK Total Equity Composite (%)	**-9.6**	**28.6**	**4.6**	**19.1**	**-6.0**	**5.9**	**12.2**	**11.0**	09/30/2011
Total Equity Benchmark** (%)	-13.1	23.9	9.6	22.8	-4.0	12.1	13.2	11.0	
SEAMARK Fixed Income Composite (%)	**-4.7**	**-3.0**	**8.1**	**5.6**	**1.6**	**2.6**	**1.8**	**1.7**	04/30/2012
FTSE Canada Universe Bond Index (%)	-5.7	-2.5	8.7	6.9	1.4	2.5	1.7	1.9	
SEAMARK U.S. Equity Composite (%)	**-13.5**	**31.7**	**11.3**	**17.5**	**2.4**	**3.4**	**13.9**	**15.5**	04/30/2012
S&P 500 Index (CAD) (%)	-8.8	28.2	16.1	25.2	4.0	13.8	8.6	13.6	

*Effective 30 Sep 2018, the SEAMARK Balanced Composite Benchmark is 5% FTSE Canada 91 Day TBill Index, 40% FTSE Canada Universe Bond Index, 27% S&P/TSX Composite Index, 20% S&P 500 Index, 8% Morningstar Developed Markets ex North America GR Index
**50% S&P/TSX Composite Index, 35% S&P 500 Index, 15% Morningstar Developed Markets ex North America GR Index

Links to Q2 2022 Pooled Fund Profiles

Balanced Canadian Equity Low Volatility Equity Canadian Bond U.S. Equity Total Equity

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SEAMARK ASSET MANAGEMENT LTD.

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