SEAMARK

THE LATEST

INSIDE

INVESTMENT TEAM

Robert McKim
CFA
CEO & Chief Investment Officer

28 Years at SEAMARK
40 Years in Industry

Donald Wishart
CPA, CMA, CFA
President

13 Years at SEAMARK
22 Years in Industry

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Chief Portfolio Manager

18 Years at SEAMARK
26 Years in Industry

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VP Fixed Income, CCO & Portfolio Manager

9 Years at SEAMARK
28 Years in Industry

CIO Commentary / Q2 2019

The second quarter was a topsy-turvy period, with share prices advancing at the outset before slumping for six weeks mid-period, and then coming back to close stronger by the end of June. Over 12 months, share prices in the U.S. led the world with the S&P 500 Index advancing 8.2% in USD. Canada, as measured by the S&P/TSX Composite Index barely eked out a gain of 0.6%. The rest of the world didn't fare as well. The Morningstar Developed Markets excluding North America Index fell 2.7% (USD).

Unlike many of the previous periods, three month returns for U.S. dollar denominated assets were reduced by 2.1%, as the Canadian dollar rose from 74.83 to 76.41 during the period. For the year ending June 30, Canadian investors gave up 0.6% on their U.S. denominated assets.

Over the last 12 months, the market witnessed a more balanced combination of contributors. For the 18 months leading up to mid-year 2018, the market's advance had been dominated mainly by a few large tech names. But in the last 12 months these particular companies have not been leading the market. Valuation levels, and concerns surrounding the business practices of social media companies have come to investors' attention. A heavy new issue calendar this year has also taken some of the attention away from the tech sector. In short, risk-off (value) investments improved their relative performance, but still lagged the growth sector. Very recently, the market was driven to new highs, not by the usual momentum stories, but rather, by several of the lower volatility names. Consistent with lower interest rates for marketable securities, dividend yielding stocks have performed well.

The tone of the U.S. Federal Reserve has changed quite dramatically since their last rate hike in December. There is more of a willingness now, to be open to a rate cut, or cuts, before year-end. That said, the Fed would still like their actions to be data driven, rather than by President Trump's public badgering. The economy is showing some signs of slow-down, determined largely by the uncertainty surrounding trade talks with China. It has been estimated that tariffs now in place would cut about 50 basis points from U.S. GDP this year, leaving current growth estimates at 2.5%.

The hesitancy by the Fed to cut short term rates hasn't stopped market rates from falling dramatically. Ten-year Treasuries that yielded 2.68 at year-end, yielded only 2.01% at June 30.

Canadian rates have declined in sympathy with U.S. market rates. Government of Canada 10-year bonds yielded 1.46% at mid-year, versus 1.96% at the end of 2018. A fall election in Canada doesn't seem to portend any significant change in policy, or for the economy. Therefore, we expect that the rate environment will continue to be benign in Canada as the economy continues to plug along at a rate of about 1.4% in 2019, and 1.8% the following year.

Continued on next page…

...CIO Commentary continued

Notwithstanding the recent push to new highs for U.S. and Canadian stock markets, investors are quite nervous about President Trump's love of tariffs. He has even shown a willingness to invoke tariffs as a means of bargaining for other things on his wish list, as recently demonstrated by his threat to impose tariffs as high as 25% on Mexican goods, to force Mexico to provide more border security.

The huge rally in the bond market over the last 12 months creates another question mark for equity investors. Lower rates have helped dividend yielding equities, but perhaps portend lower growth for the economy, maybe even a recession. Ten years into this business cycle leads investors to wonder if the expansion may simply die of exhaustion.

We remain cautiously optimistic for the forecast period but expect that there may be bumps along the way. Undoubtedly the President will express his angst if Jay Powell at the Fed doesn't deliver an interest rate cut, and there could be last minute theatrics over the U.S. Government debt ceiling needing to be raised in September. But generally, leading up to a 2020 election, it would be unlikely for the U.S. economy to dip into recession. We would consider any short-term weakness as an opportunity to judiciously invest cash that has built up in portfolios.

Sincerely,

Robert G. McKim, CFA
Chief Investment Officer

Resolving paradox of choice – SEAMARK Group RRSP

We are very pleased to advise that SEAMARK has created a novel approach to the management of Group RRSPs, an offering we believe to be superior in the marketplace.

Today's retirement funding landscape is largely comprised of defined contribution pension plans and RRSP's, the latter being the predominant choice of small business. In these types of plans, the employee is placed in a position of having to choose both the asset mix of investments, and the individual products in which to invest. The process can be daunting, particularly for employees that are not at the top of the organization; those that typically have limited investment experience and less access to financial resources. Most people are so busy with their regular jobs, far away from the investment world, that they are ill equipped to make financial decisions. Moreover, there is a paradox of choice, in that there are so many products to choose from, that an optimum plan is rarely executed.

SEAMARK's innovation combines the technological efficiency of online on-boarding, with the Fiduciary Duty that SEAMARK assumes on behalf of each of its high net worth and institutional clients. Introducing the role of a fiduciary into the investment affairs of the individual GRRSP member is a huge step forward in the delivery of productive investment outcomes for employees.

A fiduciary has a duty to do what is in the best interest of the client. In the investment industry, a registered Portfolio Manager has that duty. SEAMARK's new online Group RRSP product matches each employee with a Portfolio Manager. After answering a series of questions about one's needs and objectives, financial circumstances, investment experience and risk tolerance, the employee is presented with a best-fit of SEAMARK Funds meeting his or her unique needs, with signoff by the SEAMARK Portfolio Manager. The Manager must then manage the capital to meet the employee's objectives; and check in with the employee routinely to ensure that these objectives are updated.

Employers frequently seek to support their employees with retirement funding but wish to avoid the administrative burden and potential liability of a pension plan. The SEAMARK Group RRSP fits that bill precisely. The employer designs the desired benefit, and we do the rest.

As a one-stop provider of this end-to-end service, SEAMARK can deliver its solution at a cost advantage to today's GRRSP offerings. And because of the efficiency of our program, it conveniently lends itself to extending SEAMARK's investment offerings to the group member's personal RRSP investments too. In short, SEAMARK has innovated a means whereby the everyday investor can avail themselves of the same investment management solutions as the institutional investor.

--- Don Wishart, CMA, CPA, CFA

For additional information on SEAMARK's Group RRSP product please contact Don Wishart at dwishart@seamark.ca

Are new issue investors being taken for a ride?

If you know what the ride-hailing business is, you may be ahead of the average investor. Maybe it's easier to recognize the two leading rivals in this business: Uber and LYFT, the app-based alternative taxi service companies. Uber was founded in 2009 and operates in many cities worldwide. LYFT is relatively younger, spawned from a company providing safe carpooling services in 2012. It is focused on its U.S. and Canadian businesses. One thing these two rivals have in common? Disappointment following their IPO's, especially from a public investor's point of view.

Uber filed paperwork for its IPO on the same day as LYFT, Dec. 6, 2018. Not a surprising move, considering that they are such close competitors. But before that date, both companies had over 10 private financing rounds, raising billions of dollars, in the pre-market. The early investors, who took the risk of the ownership of an illiquid asset, had invested their funds for an expectation of a future pay-day. The initial public offering simply set the stage for a fat payoff for those initial investors, as they had a hyped-up market into which they could sell their shares. This exit strategy puts the average investor, the one who plans to be among the first public investors, at a likely disadvantage.

LYFT, first out of the gate, had an IPO price of $72. For those investors that couldn't get an allocation of new issue stock from their broker, they would have participated in the first market trade at $87.24. But after the euphoria of the first day of trading, LYFT's stock traded to as low as $47, within just two months.

With the disappointing launch of LYFT shares, Uber was forced to reduce its expectations as to its new issue price. Nonetheless, it raised $8.1 billion in its IPO early May of this year, achieving an initial market cap of roughly $70 billion, at the low end of the expected valuation. Even at its reduced initial offering, Uber's share price failed to appreciate on its first day of trading, opening below its $45 IPO price. It hit $36 on just its second day of trading. Yet, many venture capitalists/private equity companies who provided early stage financing for the company had multiplied their money, possibly realizing some profits on the IPO.

Taking risk when nobody else does should offer a potential reward. Early investors will always have a better return for their foresight, determination and patience against uncertainty. However, with so many rounds of private financing ahead of a public issue, it seems like the deck is stacked against the unwitting initial public investor who might be facilitating the exit strategy of the venture capitalists.

--- Beste Alpargun, MBA, CFA

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2018 Pooled Fund Capital Gains Tax Deferrals

	Tax Loss Carry Forwards*
SEAMARK Pooled U.S. Equity Fund	$ 21,704,974
SEAMARK Pooled Total Equity Fund	$ 17,648,414
SEAMARK Pooled Low Volatility Equity Fund	$ 4,178,160
SEAMARK Pooled Canadian Equity Fund	$ 4,955,751

*Audited Financial Statements, as at December 31, 2018

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

Annual Periods as at June 30, 2019

	Q2 2019	2018	2017	2016	2015	2014	2013	Since Inception	Inception Date
SEAMARK Balanced Composite (%)	**2.2**	**-5.2**	**4.9**	**8.8**	**6.0**	**12.8**	**16.4**	**7.3**	12/31/2009
Balanced Benchmark* (%)	2.3	-1.4	7.4	7.8	3.9	10.7	11.7	7.1	
SEAMARK Low Volatility Equity Composite (%)	**1.5**	**-2.4**	**6.7**	**12.4**	**7.0**	**15.1**	**23.5**	**10.0**	12/31/2010
S&P/TSX Composite Index (%)	2.6	-8.9	9.1	21.1	-8.3	10.6	13.0	5.3	
SEAMARK Canadian Equity Composite (%)	**3.1**	**-12.7**	**5.2**	**19.8**	**-6.3**	**13.8**	**17.4**	**6.0**	01/31/2011
S&P/TSX Composite Index (%)	2.6	-8.9	9.1	21.1	-8.3	10.6	13.0	5.2	
SEAMARK Total Equity Composite (%)	**2.3**	**-6.0**	**5.9**	**12.2**	**6.7**	**16.0**	**26.6**	**11.2**	09/30/2011
Total Equity Benchmark** (%)	2.3	-4.0	12.1	13.2	5.3	14.2	25.3	12.3	
SEAMARK Fixed Income Composite (%)	**2.1**	**1.6**	**2.6**	**1.8**	**3.8**	**8.4**	**-2.1**	**3.2**	04/30/2012
FTSE Canada Universe Bond Index (%)	2.5	1.4	2.5	1.7	3.5	8.8	-1.2	3.5	
SEAMARK U.S. Equity Composite (%)	**-0.5**	**2.4**	**3.4**	**13.9**	**14.1**	**18.5**	**35.5**	**14.0**	04/30/2012
S&P 500 Index (CAD) (%)	2.1	4.0	13.8	8.6	21.0	24.0	41.5	18.2	

*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 2019 Pooled Fund Profiles

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

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