Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Update On Your Discretionary Portfolio
Current Thoughts – June 2020

Dear Clients,

The last time we communicated about your discretionary portfolio was in late April, as the markets had bounced back about halfway from the initial drop earlier this year. As we stand several weeks later: the market recovery has continued through May and early June, and is getting closer to recovering the previous losses. However, what we need to make clear about this recovery is that there have been clear winners and losers depending on the sector the business happens to operate in. This market recovery has not occurred equally for all, and we continue to expect that the sectors previously leading the way back (technology, health care, certain industrials) will continue to be where we find the best companies to own going forward.

We remain somewhat cautious on the overall markets in the short term, and expect that we are not done with some of the volatility that appeared earlier in 2020. This is not to say that we are bearish by any means, as there are plenty of companies we own in the model that we expect to perform well regardless of the economic climate. We saw this in particular with companies such as DocuSign, CargoJet, Netflix, PayPal, Amazon, Microsoft, Apple, Activision Blizzard, Kinaxis, United Health, and Thermo Fisher, among those in your portfolio hitting their new highs recently.

Our decision making during this pandemic and market downturn has led to very strong outperformance in your portfolio vs. the overall market. We are extremely proud to be able to report this to you at this time.

The previous note we sent out in April mentioned some changes we made; such as adding Paypal, Lockheed Martin and Activision Blizzard to the US portfolio, and also topping up Canadian positions we thought were in a favourable position to rebound relative to the market (including WSP Global, Royal Bank, Granite REIT and Telus). Those have all worked out nicely. We have also seen continued positive results on the fixed income side from our increase in corporate bond exposure while spreads were near their widest.

Since then, we have made other changes to the model to continue to add to quality, and attempt to remove risk in companies that can be affected more by this current health crisis.

On the Canadian equity side, we made the following changes to our model in May: using some of our excess cash to add positions in GFL Environmental (GFL) and Kinaxis (KXS). We also made a switch in the financial sector by selling Bank of Montreal and replacing with National Bank (NA). This occurred prior to earnings season, as we feel the risk in BMO's loan profile to the oil and gas sector could lead to more downside risk. We also made tactical changes to trim gains in WSP Global (WSP) and Restaurant Brands (QSR). We also increased our exposure to existing positions Brookfield Asset Management (BAM'A) and Alimentation Couche-Tard (ATD'B), while slightly reducing our real estate exposure of First Capital Realty (FCR.UN) and Allied Properties (AP.UN).

On the US side, we made the decision to sell Walt Disney (DIS) and use the proceeds to add to our existing positions in Zoetis (ZTS) and PayPal (PYPL). The risks to Disney's overall business remain high, and there are too many unknowns at this time to remain confident they will get through this unscathed. Meanwhile, the animal health market (ZTS) and e-payments sector (PYPL) remain very attractive. We also added a position in Costco (COST) last month. The defensiveness of their business, along with their proven ability to grow makes it a great company to own in this environment. We trimmed positions within the same consumer sector (Coca-Cola and Constellation Brands) to add this position of Costco.

In early July, we will be setting up our semi-annual rebalancing trades within the portfolio. This process will entail bringing companies back to their desired weightings, and also ensuring fixed income vs. equity allocations are in line. We remain a big proponent of consistent rebalancing as part of our investment discipline. This year is a prime example of why rebalancing is important. Along with the January rebalance near market highs which reduced equity exposure, we also made a tactical decision to rebalance the US equity portfolio near the bottom of the market. This allowed for our best ideas to have the proper weighting at an important time before the bulk of the recovery had occurred.

We remain focused on any signs of weakness in the market, and are prepared to act accordingly. As mentioned, volatility could return during the next couple months, but we do not expect to get anywhere near the lows from earlier this year due in major part to the unprecedented amount of financial backing from central banks. However, there are impacts to the overall economy that may not currently be reflected in market prices, and could potentially lead to a correction off of the massive bounce the markets have seen the last 2+ months. We remain confident that the portfolio of companies in our model will continue to outperform the broader market even if a downturn occurs.

Thank you as always for your trust in us to manage your wealth. We take that privilege very seriously, and are working our hardest to provide the most value we can to you.

The ultimate compliment would be to provide us an opportunity to speak with any family and friends that are concerned about their own investment needs, as we are more than willing to help those close to you fulfill their long-term goals.

Please feel free to contact us directly if you have any questions.