Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Update On Your Discretionary Portfolio

Current Thoughts – July 2020

Dear Clients,

In our previous communication about your discretionary portfolio in June, we had noted that the market's recovery was not occurring in an equal fashion, and that we expected certain sectors to continue to lead the way forward during this recovery (health care and technology being the sectors we had the highest conviction in). Fast forward a few weeks, and this has continued to be largely the case. With the exception of a few days recently, the tech-heavy NASDAQ has been on a continued roll and reaching several new highs in July, while the Dow Jones Industrial Average has been lackluster, trending lower since our last update on June 10th. In our view, attempting to time a rotation into more cyclical stocks that have been hit harder during the

pandemic would be extremely risky. While many of these types of companies may appear undervalued, there are still plenty of reasons to expect that the worst is not yet over for those businesses in sectors such as energy; travel & leisure; financials; or even real estate. We remain of the opinion that owning well-run companies that are on the right side of current societal trends will be the best place to invest your money going forward. Your discretionary portfolio reflects that opinion.

We have maintained a slight underweight to the equity allocation in your portfolio (roughly 2% less than your long-term target allocation). In addition, we currently have some extra cash in our Canadian Equity Model, awaiting a better opportunity to put that cash to work. We are keeping our fairly cautious outlook toward the overall markets, while staying invested in companies that we have full confidence in (Amazon; Thermo Fisher; Zoetis; DocuSign; Microsoft; PayPal; Alphabet (Google); and CargoJet have all hit recent all-time highs, among others in the portfolio). A potential pullback could provide an opportunity to put more money in equities, but we are happy to have some extra cash on the sidelines at the moment.

We continue to strongly outperform the overall market based on individual stock and sector selection, and proper asset allocation. We are very proud of this fact, and thank you once again for making the decision to join our discretionary program so we can provide you with our best possible management.

On this same note, we completed the semi-annual portfolio rebalance earlier this month. This process has the effect of 1) re-allocating your portfolio to the desired asset allocation mix between equities and fixed income/cash (and alternatives if applicable); 2) trimming and locking in some gains on positions that have run up significantly within the past few months, while re-allocating that cash to companies that have lagged. As we have written about before, this process is key to managing risk in a portfolio, while providing additional outperformance over the long-term. Volatile markets are absolutely the most important time to have this process ingrained in portfolio management, and this has the effect of creating an automatic "sell high/buy low" discipline for part of the portfolio.

Recent Model Changes:

Since June, we have continued to make changes to reflect our previously stated opinion that certain sectors and companies are going to struggle to get back to "business as usual", while there are opportunities for others. The following changes we have made in the model since June were made with that in mind:

In our Canadian Equity model, we trimmed the allocation to our three banks in June (Royal, TD, National). We expect the financial sector to have a tougher time due to extremely low interest rates and potential loan losses caused by this crisis, and have increased the underweight in this sector. We also sold our entire position in First Capital Realty (FCR.UN) in early July. While this is a well-run company, the retail real estate sector has some glaring issues at the moment, and we

wanted to remove that risk from the portfolio. During the rebalancing process, we also increased our position size in GFL Environmental (GFL – waste management), Kinaxis Inc (KXS – cloud-based supply chain management) and Algonquin Power (AQN – power generation, focused on renewables).

On the US side: we purchased Dropbox (DBX – digital content collaboration) in early June, while slightly trimming our position sizes in Crown Castle (CCI); Merck (MRK) and Medtronic (MDT) to make room. We really like the valuation of Dropbox compared to some of the other well-known technology names (coincidentally, this stock finished up 10% today, so that's good news). Shortly after our rebalance in July, we made the decision to sell our last existing US bank holding in JPMorgan (JPM), and also sold Coca-Cola (KO). With the proceeds, we purchased two health care companies in AbbVie (ABBV – biopharmaceuticals) and Teladoc (TDOC – largest provider of virtual healthcare services), while increasing our stake in Costco (COST). We are overweight health care, and we feel that both ABBV and TDOC give us exposure to important trends within the sector. Costco is a "defensive growth" stock that keeps on churning out strong earnings, while we are less confident on the direction of Coca-Cola.

We also made some changes within our fixed income model as well. We had purchased some individual Canadian government bonds back in mid-2019 when they were trading at discounts to par. This was at a time when interest rates were still higher, and there was some value to be found in these bonds. As of this month, the bonds are

trading at decent-sized premiums, and there was very little value left to be had in holding these bonds until maturity. We sold 2 of the 3 individual Canadian bonds we held (about 15% of our main fixed income model), and re-allocated to two of our global government bond managers (Capital Group World Bond – 10% and RBC Global Bond – 5%). There are still some active opportunities in the fixed income market, and both of these managers have done quite well for us in the portfolio, up several percent each this year.

Thank you for your continued trust in us to be your partners in managing your wealth. We think this year has shown the value that professional investment management can have on the long-term performance of a portfolio, especially during a significant downturn. It is during the volatile times that it is imperative to keep a cool head and focus on what really matters in investing, which we strive to do every day.

Should you know of any family or friends that are currently looking at alternatives to their current advisor relationship, or just want a second opinion, it would be our privilege to connect with them on your behalf. We know this year has been tough for many people (in more ways than one), but we are here to help relieve the stress of investing. We are confident in our ability to also help those closest to you if given the opportunity.

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

Stay safe, and we hope you enjoy the summer!

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen