

ODLUM BROWN REPORT

11 2020



ODLUM BROWN
Investing for Generations®

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Upside-Down Dinner

In the Leith household, we sometimes turn dinner on its head and start with dessert. You might think it's my boys driving that bus, but it was actually initiated by their sweets-loving father.

Our tradition of “not saving the best for last” came to mind when thinking about the 2021 Odium Brown Annual Address. The live Q&A period at the end of the presentation is always my favourite part, but sadly that won't be possible this February. Because of COVID-19, the event will be virtual. We toyed with the idea of fielding questions via chat during a live-streamed event, but that's a bit like trying to enjoy a salted-caramel ice cream cone without actually eating it. I've participated in enough large-group webinars to know that typed-in questions are a far cry from the connection and energy that exists when people are together in the same room.

Hence, we are building this year's event by asking for “dessert” first. We'd like to get your thoughts and questions in advance and ask that you share what's on your mind with your Odium Brown Investment Advisor or Portfolio Manager. We will look for common themes and will do our best to provide useful insights. Thank you for entertaining this approach, and we look forward to when we can again meet face-to-face.

Odium Brown Model Portfolio – Investing Cash

A little more than a year ago, we sold a number of stocks and raised the cash weighting in our Odium Brown Model Portfolio¹ to 13.5%. We didn't make this unprecedented move because we were worried about the near-term outlook. At the time, we expected the economy to strengthen and for stocks to do well. Rather, we were cautious regarding the medium term and the limited or complicated policy options available during the next inevitable recession. We were also less enthusiastic about the risk and return attributes of the stocks in our investment universe, and our ability to effectively reduce risk through diversification. The same considerations subsequently motivated us to invest nearly half of the newly raised cash in gold.

Having cash and gold in the Model cushioned the financial pain in the early days of the pandemic, but the cash has been a drag on performance during the robust recovery. We are reinvesting the cash in the portfolio because the economic outlook has changed and relative valuations in the equity market have improved. Our cash weighting is now 3%.

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A year ago, we worried about how central banks, and governments in particular, would react during the next recession. With interest rates already ultra-low, and negative in Japan and much of Europe, we felt monetary policy would be much less effective at jumpstarting economies. Instead, the world would need governments to get the economy going with stimulative fiscal policies. We fretted that this could be a problem, given the divided nature of politics.



Against the improved economic backdrop, we increasingly feel there are opportunities to hedge portfolio risks by diversifying with stocks that have relatively attractive risk and returns characteristics. As such, we added five new names to the Model over the last three months: Fiserv, Granite Real Estate Investment Trust (REIT), Stryker, Algonquin Power and Utilities, and CCL Industries.



The pandemic and the authorities' response to it have altered our thinking regarding the need for cash in an equity portfolio. We are no longer worried about a recession and are instead focused on the pace and magnitude of the recovery. Governments and central banks reacted to the crisis with unprecedented speed and force. On the monetary front, the interest rate relief and the scale of the liquidity injected into capital markets have been well beyond our imagination. Bipartisanship within governments was solid in the early months of the crisis, with politicians of all persuasions embracing a "whatever it takes" attitude to beat the virus and save the economy. Although the political squabbling over the evolution of policy has intensified recently, especially in the U.S., the odds remain good that governments will keep the fiscal pumps primed. While the politics around the U.S. election have slowed progress toward their next round of stimulus, there is sure to be another dose of meaningful aid soon.

The U.S. Federal Reserve is committed to keeping interest rates low for an extended period and letting the economy run hot, with inflation above the targeted 2%, rather than risk an economic relapse. Not only are the extremely low levels of interest rates helping important interest-rate-sensitive parts of the economy like housing, but they also have a positive influence on the value of risk assets.

Against the improved economic backdrop, we increasingly feel there are opportunities to hedge portfolio risks by diversifying with stocks that have relatively attractive risk and returns characteristics. As such, we added five new names to the Model over the last three months: Fiserv, Granite Real Estate Investment Trust (REIT), Stryker, Algonquin Power and Utilities, and CCL Industries.

Fiserv is a leading technology provider for banks and credit unions, with services like account processing, bill payments, digital banking and many other core banking functions. It also processes card and electronic payments for merchants worldwide. The company generates very attractive profit margins and free cash flow, thanks to its scale and discipline. Nonetheless, the stock has lagged the S&P 500 Index in 2020 due to investor concerns about the business's economic

sensitivity. We see this as an opportunity and believe Fiserv's competitive position and growth potential are solid, especially given their clients' ongoing need to adapt to a more digital world.

Granite REIT is a logistics-focused industrial REIT, with over 44 million square feet of leasable area at 90 properties, in nine countries. Approximately 40% of rent comes from its single-largest tenant, Magna, under long-term leases. Importantly, Granite continues to diversify its tenant base with other companies like Amazon, Wayfair and Walmart. It is among the most conservatively financed real estate companies in Canada, and its global portfolio enables it to focus on acquisitions in the U.S. and Europe, where opportunities are more compelling. Moreover, the REIT is committed to returning capital to unitholders through dividend increases, special dividends and share repurchases.

Stryker is one of the leading makers of orthopedic products, such as hip and knee-joint implants. It is also a major supplier of endoscopes, emergency medical equipment, intensive care disposable products and patient handling beds. The company has an impressive corporate culture and an enviable record of growth and profitability. Key competitive advantages include: a trusted brand that reinforces strong and lasting relationships with surgeons, a top-notch sales force and significant market share. The pandemic created an opportunity to buy this great business at a discount, as the shares sold off because elective surgeries were curtailed. These surgeries are necessary for patients and are a critical driver of a hospital's financial health. As hospitals bring elective surgeries back and demand for Stryker's products returns to normal, the stock should resume its growth path.

Algonquin Power and Utilities owns premier utilities and renewable power generation, mostly in North America. The company has aggressively invested in its asset base over the last decade, which has steadily improved the quality of its business. This has supported a nearly threefold increase in the annual dividend, which we expect to continue to grow. While safe and secure utilities remain the core business, renewable power should grow as demand for green alternatives accelerates. The company is well positioned for this because of its expertise in building wind and solar facilities and its strong relationships with companies like Facebook and Chevron who wish to reduce their environmental footprint.

CCL Industries is a global leader in specialty labels and security and packaging solutions, with 180 facilities in 42 countries. We believe it can grow earnings at an above-average rate due to market share gains and value-accretive acquisitions. The global label market is highly fragmented, and CCL's size is an advantage versus smaller, regional competitors. With a substantial geographic footprint, multi-national customers are able to leverage the company's network and consolidate their supply chain. Management has also proven adept at allocating capital and creating shareholder value.



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¹ The Odium Brown Model Portfolio is an all-equity portfolio that was established by the Odium Brown Equity Research Department on December 15, 1994, with a hypothetical investment of \$250,000. It showcases how we believe individual security recommendations may be used within the context of a client portfolio. The Model also provides a basis with which to measure the quality of our advice and the effectiveness of our disciplined investment strategy. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

If It Can Happen to Me...

The decision to buy insurance can be hindered by bias when weighing probabilities. While we may accept that some things happen, we tend to believe they will happen to someone else, not to us. But the fact is, life-changing events could happen to you or to me.



June 2, 2007, started as a beautiful day for me in Vancouver. With the weekend expected to remain just as nice, my family decided to organize a big barbeque. My spouse, Tony, and I are avid boaters, and our extended family always appreciates the fresh seafood we contribute. To ensure we would catch enough Dungeness crab for everyone at the barbeque, Tony decided we needed another crab trap, so off he went to our local bait and tackle shop.

I was a first-time mother with our three-month-old daughter, Brooklyn. Everyone told me to sleep when the baby sleeps, so I began having an afternoon nap with her.

About 20 minutes into my nap, my cell phone was ringing and ringing. I answered to hear some strange man's voice telling me Tony was in a serious motor vehicle accident. An ambulance was there, and Tony asked to be taken to Royal Columbian Hospital. You can imagine how fast I bundled up Brooklyn. I drove straight to the hospital and was there just before the ambulance arrived, where my sister met me to look after our baby. I was able to see Tony for a short time in the emergency room before I signed a stack of forms for multiple surgeries. The wonderful staff took me into a room so I could have some privacy. A short time passed, and a priest came to talk to me. They thought Tony wasn't going to make it; however, they had never met Tony before!

Tony was an avid squash player, always exercising, and loved competition, but he had certainly met his match. Seven surgeries and two years of rehabilitation followed, while Tony learned to walk again. Not only did he relearn to walk, but he went back to playing squash. He won the top division championship at his club before his accident, and again after. We also welcomed another child, a boy who we named Boston after our Boston Whaler boat.

So, why am I telling you my personal story? I am sharing this with you because my family would have been in an extremely unfortunate financial position as a result of those two years if Tony hadn't had disability insurance. If my story can help other people recognize their risk exposure to an interruption in their ability to work, then I am happy to share it.

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St. Paul's Foundation –
Lights of Hope
Community Celebration
Thursday, November 19

As with many aspects of our lives, the annual Lights of Hope has been reimagined this year, and Odlum Brown is proud to be a part of the first-ever virtual community celebration. As a corporate sponsor for almost 20 years, Odlum Brown has supported the life-saving work being done at St. Paul's and other Providence Health Care sites throughout British Columbia.

The celebration will include an online livestream of St. Paul's lighting display and digital projection, as well as appearances by Santa and Mrs. Claus, and a choir performance. Odlum Brown is pleased to be a part of this time-honoured holiday tradition, adjusted so that we can celebrate together, while apart.

For more information on how you can participate, visit lightsofhope.com.

Who should purchase disability insurance?

If you are self-employed, single or have a family who depends on your income, this could be the most important coverage you get. If someone asked you, "What's your most valuable asset?" you might think of your home. But have you considered that it is likely to be your ability to earn a living? Over a 30 or 40-year career, your accumulated income is likely to be far more valuable than any other asset you'll own.

What is disability insurance?

Disability insurance is designed to pay a monthly income to help pay for ongoing expenses if you suffer an accident, disease or illness that prevents you from working. Disability benefits typically replace 60-70% of your regular income and may even be non-taxable. You can receive disability benefits from more than one source, but plans are usually coordinated to make sure that all the benefits you receive are not greater than your normal income.

Are you covered by a "group insurance" policy?

Many people are covered by group insurance policies offered through their employers, unions, or professional or alumni associations. Each policy contains specific information about coverage, including the definition of "disability," the amount of the monthly benefit and any limitations to coverage, among other things. It is important that you read through your policy to understand how you are protected. Insurance needs can vary widely from person to person, and you may need to purchase your own individual insurance to fill gaps in your group coverage, or fill gaps if you leave that workplace.

What you should consider?

- **Lifestyle:** What does your current standard of living cost, and how would you feel about having to cut back?
- **Family Responsibilities:** How many people depend on your income? Are you a single parent or a non-custodial parent with financial responsibilities? Do you have parents or other family members who depend on your income?
- **Employment Flexibility:** Would you be willing and able to change jobs?
- **Debt:** How would you make your mortgage and car loan payments? How long would your savings last?
- **Financial Resources:** How dependent are you on your salary? Do you have savings or investments to cover your lifestyle? How long would they sustain you?
- **Dreams:** What would happen to your plans for your business, family or retirement if your disability lasted long enough to deplete your savings?

Did you know?

- More than three-quarters of active disability claims involve musculoskeletal injuries (such as fractures, falls, dislocations and sprains), nervous disorders (like depression and anxiety) and cancer.
- 1 in 3 Canadians will become disabled for more than 90 days before they're 65.
- 5.75 years is the average length of a disability, if it lasts longer than 90 days.
- Canadians may have limited government protection for sickness or disability. For example, WorkSafeBC may cover a job-related accident or injury, but not situations like Tony's. Canada Pension Plan disability benefits exclude short-term or less severe disabilities. Employment Insurance and Canada Recovery benefits offer just two weeks of sickness protection capped at \$573 weekly.

Protect your income. Disability insurance works when you cannot.

Odlum Brown Financial Services Limited is in the business of caring for your financial well-being, and insurance can be an important component to protect your plans. If you would like more information regarding living benefits or other insurance topics, please contact us through your Odlum Brown Investment Advisor or Portfolio Manager.



DEBBIE STUART, CLU, CHS
Estate and Insurance Planner
Odlum Brown Financial Services Limited

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