

# Quarterly Market Update



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## The Seventh Inning Stretch

Similar to the seventh inning stretch, which marks the 80 per cent point of a baseball game, we believe several economic and market indicators suggest today that most of this economic cycle is behind us. This is perhaps why a majority of strategists and economists are suggesting a recession will begin at some point in 2023. While we are in agreement that a recession is likely ahead for several advanced economies including in Canada and the U.S. in 2023 or possibly in early 2024, we believe it will come down to the bottom of the ninth in terms of the black swan event that will eventually push the global economy into a slowdown – the length and severity of which will depend on several factors.

### Key Points:

- **In the Seventh Inning, but Feels like the Bottom of the Ninth!** All said, we expect global growth to be considerably weaker in 2023, with the risks of a recession over the next 12 months rising to ~65 per cent for both the U.S. and Canadian economies. While we are not there yet, North American economies are slowing quickly. Strong labour markets and cooling inflation remain the silver lining heading into 2023, which could prevent a more severe downside scenario.
- **Focus on Getting on Base Rather than Trying to Knock it Out of the Park!** We continue to suggest investors remain selective with a defensive posture, as the Fed-led rate hikes are likely to peak sometime in 2023.
- **Adding to the Roster in the Off-season.** We advise clients to consider adding duration (through longer maturities) to their portfolios to capture higher yields in the current environment.

**Bottom Line:** Unfortunately, we continue to expect another challenging year ahead for investors in 2023. But rather than trying to anticipate and/or avoid all the curve balls, we suggest investors position portfolios longer-term to withstand the unexpected.

*\*\*Please note that the commentary within this newsletter is related to the Langill & McHenry Investment Advisors Private Investment Management Group (PIMG) discretionary portfolios.*

## Key Takeaways:

### Stocks

- North American stock markets ended Q4 of 2022 on a very strong note, in the face of ongoing high inflation and an increasingly hawkish central banks both in Canada and the United States. (Q4 2022: Canada +6.0 per cent and the U.S. +7.6 per cent). However, the U.S. greenback (-2.0 per cent in Q4 2022) decreased U.S. stock returns held by Canadian investors on a currency-adjusted basis to +5.4 per cent.
- Canadian equities have handily outperformed U.S. equities by +12.3 per cent, in 2022. Canadian stocks are benefitting from a larger exposure to commodities (i.e., oil and gas), while the lack of technology stocks in Canada, which was a headwind in 2021, has been a source of strength for the Canadian market versus our southern neighbours. In fact, looking out over a three-year timeframe, returns between the two markets are very similar (Canada = +7.5 per cent, U.S. = +7.7 per cent), in local currency.
- Due to inflation concerns, stimulus measures are rapidly being withdrawn by monetary authorities, which were put in place due to the depth of the Covid-19 contraction. Despite the increase in policy interest rates and reduced stimulus by monetary authorities, corporate and household balance sheets are in excellent condition and should support the economy through a possible slowdown or recession in 2023/2024.

### Bonds and Preferred Shares

- With historically high inflation rates, it was a challenging environment for Canadian bonds in Q4 2022, which returned +0.1 per cent, and fell by -11.7 per cent in 2022. Supply chain bottlenecks and stimulus measures put in place due to the Covid-19 economic shutdowns have created historically high inflation that has resulted in rising interest rates. Rising interest rates are a negative for conventional bond prices.
- After a long period of strong performance, Canadian preferred shares have struggled in 2022, as rising interest rates and economic slowdown concerns impacted performance. Preferred shares fell by -3.2 per cent in Q4 2022 and -18.1 per cent in 2022. Previous to 2022, preferred shares were benefiting

from the expectation of improved economic conditions and the introduction of limited recourse capital notes (LRCNs), which has inspired a supply imbalance in the preferred share market in favour of higher preferred share prices.

## Our Models

- Our all-equity stock portfolios, Dividend Growth (DG), and Yield & Growth (Y&G), rose +10.1 per cent and +9.0 per cent for Q4 2022 and -5.0 per cent and +2.7 per cent in 2022, relative to our benchmark at +6.0 per cent and -9.7 per cent, respectively.
- Our capital preservation bond portfolios, DG and Y&G versions, declined -0.5 per cent and -1.0 per cent for Q4 2022 and struggled in 2022 with rapidly rising interest rates, falling -7.1 per cent and -10.3 per cent, relative to our benchmark at +0.5 per cent and -11.7 per cent, respectively.
- For our Completion and Small Completion ("Balanced Growth") portfolios, in Q4 2022 they rose +5.7 per cent and +4.8 per cent, while over 2022 they declined -11.0 per cent and -12.0 per cent so far, relative to our benchmark at +4.1 per cent and -10.4 per cent, respectively.
- Top performers in our stock portfolios for Q4 2022 were Broadcom Inc. (AVGO-US) up +27.0 per cent in our DG portfolio, while Gilead Sciences (GILD-US) rose +40.3 per cent to lead performance in our Y&G portfolio. Laggards in our portfolios for Q4 2022 were Richelieu Hardware Ltd. (RCH-CAN) falling -5.2 per cent in our DG portfolio, while Telus (T-CAN) fell -3.6 per cent in our Y&G portfolio.
- We made some changes in our models in Q4 2022, regarding specific securities held in portfolios:
  - No changes were made to our model asset allocation.
  - On the stock side of the portfolios, in the DG models, we sold our position in Algonquin Power & Utilities Corp. (AQN-CAN) and purchased Richelieu Hardware Ltd. (RCH-CAN). While in our Y&G models, no changes were made to existing holdings in Q4 2022.
  - Within our Completion portfolios, no changes were made within Q4 2022. However, there was a reorganization of our holding in Brookfield Asset Management (BAM.A-CAN), which is now called Brookfield Corp (BN-CAN) and continues to be held in Completion portfolios. The spinoff position from the reorganization (BAM-CAN) was sold.
  - On the fixed income side of the portfolio, in the DG and Y&G portfolios, we sold both portfolios BMO Step Up Bonds and replaced each with longer duration Province of Ontario bonds. Additionally, in the Y&G portfolio, the Brookfield preferred shares were sold for year-end tax loss selling purposes and replaced with another series of longer maturity Brookfield preferred shares, with more attractive terms.

**Langill & McHenry Investment Advisors of Raymond James**  
**PIMG Model Portfolio Performance**  
**As of 31DEC2022**

Mandate	1-week	1-month	3-mos	6-mos	Year to Date	1-year	2021	Last 2 Years (Ann)
Capital Preservation DG Model	-0.5%	-0.7%	-0.5%	-0.3%	-7.1%	-7.1%	-0.7%	-3.9%
Capital Preservation Y&G Model	-0.4%	-1.0%	-1.0%	-3.2%	-10.3%	-10.3%	0.2%	-5.2%
Completion Capital Preservation Model	-0.2%	-0.4%	0.1%	-2.0%	-9.6%	-9.6%	1.1%	-4.4%
Small Completion Capital Preservation Model	-0.5%	-0.6%	1.3%	0.9%	-9.0%	-9.0%	-1.7%	-5.4%
<b>Capital Preservation Benchmark</b>	<b>-0.9%</b>	<b>-1.5%</b>	<b>0.5%</b>	<b>0.8%</b>	<b>-11.7%</b>	<b>-11.7%</b>	<b>-2.8%</b>	<b>-7.3%</b>
Balanced Growth DG Model	0.0%	0.2%	7.0%	6.2%	-5.04%	-5.04%	15.2%	4.6%
Balanced Growth Y&G Model	-0.6%	-1.6%	6.1%	3.2%	-0.5%	-0.5%	15.6%	7.2%
Completion Balanced Growth Model	0.2%	-3.3%	5.7%	3.5%	-11.0%	-11.0%	18.2%	2.6%
Small Completion Balanced Growth Model	-0.5%	-2.1%	4.8%	3.9%	-12.0%	-12.0%	10.2%	-1.5%
<b>Balanced Growth Benchmark</b>	<b>-0.6%</b>	<b>-4.0%</b>	<b>4.1%</b>	<b>4.3%</b>	<b>-10.4%</b>	<b>-10.4%</b>	<b>16.3%</b>	<b>2.1%</b>
All Equity DG Model	0.3%	0.3%	10.1%	8.8%	-5.0%	-5.01%	21.6%	7.5%
All Equity Y&G Model	-0.6%	-2.0%	9.0%	5.6%	2.7%	2.7%	22.9%	12.3%
Completion All Equity Model	0.4%	-4.9%	7.6%	5.2%	-13.0%	-13.0%	25.5%	4.5%
Small Completion All Equity Model	-0.2%	-3.2%	6.2%	4.6%	-14.6%	-14.6%	13.9%	-1.4%
<b>All Equity Benchmark</b>	<b>-0.4%</b>	<b>-5.4%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>-9.7%</b>	<b>-9.7%</b>	<b>26.6%</b>	<b>7.0%</b>

\*\*\*\*Note: All Equity Benchmark is 60% iShares Core S&P500 ETF (IVV) & 40% iShares Core S&P/TSX Capped Composite Index ETF (XIC), Capital Preservation Benchmark is 100% iShares Core Canadian Universe Bond Index ETF (XBB), Balanced Growth Benchmark is 35% XBB, 26% XIC and 39% IVV.

\*\*\*Note: Net Returns in CAD\$. Periods over one year are annualized. Time-weighted rates of return reported.

\*\*Note: PIMG fees are withdrawn from accounts monthly on the second last week of the month.

\*Source: FactSet and Croesus Composites

**Langill & McHenry Investment Advisors of Raymond James**  
**PIMG Model Portfolio Performance**  
**As of 31DEC2022**

Mandate	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Last 2 Years (Ann)
Capital Preservation DG Model	-0.5%	0.0%	-2.6%	-4.0%	-0.3%	0.2%	0.8%	-3.9%
Capital Preservation Y&G Model	-1.0%	-2.5%	-3.5%	-3.9%	-0.3%	0.2%	0.9%	-5.2%
Completion Capital Preservation Model	0.1%	-2.6%	-4.3%	-3.6%	-0.3%	0.5%	1.6%	-4.4%
Small Completion Capital Preservation Model	1.3%	-1.1%	-4.5%	-5.5%	0.0%	0.1%	1.0%	-5.4%
<b>Capital Preservation Benchmark</b>	<b>0.5%</b>	<b>0.4%</b>	<b>-5.5%</b>	<b>-7.1%</b>	<b>1.3%</b>	<b>-0.7%</b>	<b>1.4%</b>	<b>-7.3%</b>
Balanced Growth DG Model	7.0%	-0.6%	-7.7%	-3.3%	6.3%	0.2%	3.1%	4.6%
Balanced Growth Y&G Model	6.1%	-2.9%	-5.5%	1.6%	4.9%	1.0%	3.8%	7.2%
Completion Balanced Growth Model	5.7%	-2.2%	-9.9%	-4.4%	8.4%	1.7%	4.6%	2.6%
Small Completion Balanced Growth Model	4.8%	-0.6%	-10.0%	-6.4%	4.1%	0.8%	3.8%	-1.5%
<b>Balanced Growth Benchmark</b>	<b>4.1%</b>	<b>-0.2%</b>	<b>-10.8%</b>	<b>-3.6%</b>	<b>5.7%</b>	<b>0.7%</b>	<b>4.5%</b>	<b>2.1%</b>
All Equity DG Model	10.1%	-0.9%	-10.2%	-3.1%	8.9%	-0.4%	3.4%	7.5%
All Equity Y&G Model	9.0%	-3.2%	-7.8%	4.8%	6.7%	2.2%	3.9%	12.3%
Completion All Equity Model	7.6%	-1.8%	-17.4%	-4.2%	11.8%	0.5%	5.0%	4.5%
Small Completion All Equity Model	6.2%	-0.7%	-13.5%	-6.4%	5.1%	-0.7%	3.1%	-1.4%
<b>All Equity Benchmark</b>	<b>6.0%</b>	<b>-0.6%</b>	<b>-13.6%</b>	<b>-1.8%</b>	<b>8.0%</b>	<b>1.4%</b>	<b>6.1%</b>	<b>7.0%</b>

\*\*\*\*Note: All Equity Benchmark is 60% iShares Core S&P500 ETF (IVV) & 40% iShares Core S&P/TSX Capped Composite Index ETF (XIC), Capital Preservation Benchmark is 100% iShares Core Canadian Universe Bond Index ETF (XBB), Balanced Growth Benchmark is 35% XBB, 26% XIC and 39% IVV.

\*\*\*Note: Net Returns in CAD\$. Periods over one year are annualized. Time-weighted rates of return reported.

\*Source: FactSet and Croesus Composites

## "Dividend Growth (DG)" Stocks We Own:

### Dividend Growth (DG) All Equity Portfolio (2022-12-31)

Issue Name	Portfolio Weight	Last Quarter Total Return %	Dividend Yield	Price/Earnings	Price/Book	5 Yr EPS Growth
<b>Equity</b>						
Lennar Corporation Class A	4.9%	22.0%	1.5%	10.2	nmf	30.4
Magna Intl	4.9%	16.9%	2.8%	14.1	1.7	- 4.7
Tractor Supply Company	4.9%	21.5%	1.7%	22.2	12.0	27.1
Empire Co. Ltd. Class A	4.9%	4.3%	1.8%	12.9	1.9	47.8
Intact Financial Corporation	4.9%	0.2%	2.0%	16.9	2.4	21.2
Manulife Financial Corporation	4.9%	13.0%	5.2%	8.3	1.0	37.9
Morgan Stanley	4.9%	8.6%	3.2%	13.3	1.8	6.8
Jamieson Wellness, Inc.	4.9%	5.3%	1.9%	23.2	4.2	nmf
UnitedHealth Group Incorporated	4.9%	5.3%	1.3%	19.6	nmf	14.8
Watsco Inc Cl A	4.9%	-2.2%	3.6%	19.6	6.4	16.7
Xylem Inc.	4.9%	26.9%	1.2%	36.7	5.6	6.5
Scotts Miracle-Gro Company Class A	4.9%	15.0%	4.1%	17.2	24.0	nmf
Stella-Jones Inc.	4.9%	25.6%	1.7%	12.3	2.1	9.6
Wheaton Precious Metals Corp	4.9%	18.7%	1.3%	37.7	3.4	87.7
Activision Blizzard, Inc.	4.9%	3.0%	0.6%	24.7	3.3	75.9
Broadcom Inc.	4.9%	27.0%	3.2%	14.3	10.7	- 2.5
Enghouse Systems Limited	4.9%	24.8%	1.9%	25.6	4.3	12.5
Comcast Corporation Class A	4.9%	20.3%	2.7%	11.2	1.9	- 10.5
Quebecor Inc. Class B	4.9%	19.9%	3.9%	11.7	5.9	11.2
Richelieu Hardware Ltd.	4.9%	-5.2%	1.6%	15.6	2.6	26.5
<b>Cash &amp; Equivalents</b>						
Cash (CAD\$)	2.0%	1.1%	2.3%	NA	NA	NA
<b>Langill &amp; McHenry All Equity DG Portfolio</b>	<b>100.0%</b>	<b>10.1%</b>	<b>2.3%</b>	<b>18.0</b>	<b>4.7</b>	<b>20.3%</b>

\*Note: For illustration purposes only.

\*\*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

\*Note: Returns are in Local Currency..

Source: FactSet and Croesus Composites.

## "Dividend Growth (DG)" Bonds and Preferred Shares We Own:

### Capital Preservation Portfolio Dividend Growth (DG) (2022-12-31)

Issue Name	Price - Close	Portfolio Weight %	Rating	Yield %	Effective Duration (years)
<b>Bonds</b>					
Walt Disney Company 3.057% 30MAR2027	94.8	8.0%	BBB+	4.4%	3.8
Tourmaline Oil Corp. 2.529% 12FEB2029	89.1	8.0%	NA	4.6%	5.4
Choice Properties Real Estate Investment Trust 2.848% 21MAY2027	92.9	8.0%	BBB	4.7%	3.9
Manulife Financial Corporation 3.317% 09MAY2028	99.4	8.0%	A-	4.0%	0.3
Fairfax Financial Holdings Limited 3.95% 03MAR2031	90.4	8.0%	BBB	5.4%	6.6
Province of Alberta 2.2% 01JUN2026	96.2	8.0%	A+	3.4%	3.2
Canada Housing Trust No.1 2.1% 15SEP2029	93.7	8.0%	AAA	3.2%	6.1
PROVINCE OF ONT 2.05% 02JUN30	91.0	7.1%	A+	3.4%	6.7
Canada Housing Trust No.1 3.55% 15SEP2032	102.2	8.5%	AAA	3.3%	8.1
<b>Preferred Shares</b>					
Enbridge Inc Cum Red Pref Registered Shs Series 1 USD\$ 01JUN2023	22.2	7.6%	BBB-	4.5%	0.5
Capital Power Corp Cum Conv Red Pref Registered Shs Series -11- 30JUN2024	25.1	7.6%	BB	5.7%	1.5
<b>Convertible Debentures</b>					
NFI Group 5% 15JAN2027 Conv Debs	86.5	6.6%	NA	5.8%	3.6
<b>Cash &amp; Equivalents</b>					
Cash or Cash Equivalent	1.0	6.0%		2.3%	-
<b>Langill &amp; McHenry Capital Preservation DG Portfolio</b>		<b>100%</b>	<b>BBB</b>	<b>4.2%</b>	<b>4.2</b>

Note: For illustration purposes only.

\*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

Source: FactSet, Croesus & RJ PCS.

## "Yield & Growth (Y&G)" Stocks We Own:

### Yield & Growth (Y&G) All Equity Portfolio (2022-12-31)

Issue Name	Portfolio Weight	Last Quarter Total Return %	Dividend Yield	Price/Earnings	Price/Book	5 Yr EPS Growth
<b>Equity</b>						
J.M. Smucker Company	4.9%	16.1%	2.7%	17.2	1.9	- 16.1
North West Company Inc.	4.9%	12.4%	4.3%	14.1	3.0	23.5
Restaurant Brands Intl	4.9%	20.2%	3.3%	21.1	9.8	12.1
Enbridge Inc.	4.9%	5.0%	6.3%	19.4	2.1	14.7
Bank of Nova Scotia	4.9%	2.6%	5.9%	8.4	1.3	4.0
CT Real Estate Investment Trust	4.9%	5.3%	5.2%	13.8	1.1	32.3
Royal Bank of Canada	4.9%	3.4%	3.9%	11.4	1.9	7.2
Sun Life Financial Inc.	4.9%	15.8%	4.4%	10.7	1.6	17.6
AbbVie, Inc.	4.9%	21.6%	4.0%	10.8	17.1	18.3
Bristol-Myers Squibb Company	4.9%	2.0%	3.1%	9.7	4.5	50.4
Gilead Sciences, Inc.	4.9%	40.3%	3.5%	11.8	5.0	8.9
Medtronic PLC	4.9%	-2.9%	3.3%	15.6	2.1	13.2
Newmont Corporation	4.9%	11.4%	4.2%	28.1	2.0	nmf
Rio Tinto ADR	4.9%	29.3%	8.7%	9.0	2.5	27.7
Cisco Systems Inc.	4.9%	20.2%	3.2%	13.4	4.9	nmf
IBM Corporation	4.9%	20.0%	4.6%	15.6	6.8	0.9
Texas Instruments Inc.	4.9%	7.6%	2.8%	19.0	12.2	23.0
BCE Inc.	4.9%	4.2%	5.9%	18.4	3.0	- 1.7
Telus Corporation	4.9%	-3.6%	4.9%	23.0	2.6	- 1.7
Fortis Inc.	4.9%	4.3%	4.0%	20.3	1.5	3.0
<b>Cash &amp; Equivalents</b>						
Cash (CAD\$)	2.0%	1.1%	2.3%	NA	NA	NA
<b>Langill &amp; McHenry Y&amp;G All Equity Portfolio</b>	<b>100.0%</b>	<b>9.0%</b>	<b>4.3%</b>	<b>15.2</b>	<b>3.3</b>	<b>10.1%</b>

Note: For illustration purposes only.

\*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

Source: FactSet & Croesus Composites.



## "Yield & Growth (Y&G)" & "Yield (Y)" Bonds and Preferred Shares We Own:

### Capital Preservation Portfolio Yield & Growth (Y&G) & Yield (Y) (2022-12-31)

Issue Name	Price - Close	Portfolio Weight %	Rating	Yield %	Effective Duration (years)
<b>Bonds</b>					
Equitable Bank 3.362% 02MAR2026	94.4	11.0%	NA	5.3%	2.9
Canadian Western Bank 1.57% 14SEP2023	97.6	11.0%	A-	5.3%	0.6
Crombie Real Estate Investment Trust 3.133% 12AUG2031	84.3	11.0%	BBB-	5.4%	7.1
Telus Corporation 2.75% 08JUL2026	94.9	11.0%	BBB+	4.4%	3.2
Government of Canada 1.0% 01JUN2027	92.4	11.0%	AAA	2.8%	4.2
PROVINCE OF ONT 2.7% 02JUN2029	96.2	11.0%	A+	3.4%	5.0
<b>Preferred Shares</b>					
Pembina Pipeline Corp Cum Conv Red Perp Pfd Registered Shs A Series -21- 01MAR2023	23.4	7.1%	BB+	5.2%	0.1
Fairfax Financial Holdings Limited Cum Pfd Shs Series M 31MAR2025	22.1	7.1%	BB+	5.7%	2.5
Brookfield Corp Pfd S46 31MAR2027	22.9	7.1%	BBB	5.9%	4.1
<b>Convertible Debentures</b>					
Morguard REIT 5.25% 31DEC2026	93.1	7.1%	BB+	5.6%	4.1
<b>Cash &amp; Equivalents</b>					
Cash or Cash Equivalents	1.0	5.5%	na	2.3%	-
<b>Langill &amp; McHenry Capital Preservation Y&amp;G Portfolio</b>		<b>100.0%</b>	<b>BBB</b>	<b>4.7%</b>	<b>3.3</b>

Note: For illustration purposes only.

\*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

Source: FactSet, Croesus & RJ PCS.

## “Yield (Y)” Stocks We Own:

### Yield All Equity Portfolio (2022-12-31)

Issue Name	Portfolio Weight	Last Quarter Total Return %	Dividend Yield	Price/Earnings	Price/Book	5 Yr EPS Growth
<b>Equity</b>						
Verizon Communications	4.9%	5.6%	6.5%	7.8	2.1	- 7.8
AT&T	4.9%	22.2%	5.7%	7.4	0.8	- 12.8
Philip Morris Intl	4.9%	23.5%	5.0%	17.9	- 15.6	10.7
Suncor Energy	4.9%	11.7%	4.6%	5.2	1.8	0.8
TC Energy	4.9%	-1.4%	6.2%	13.6	1.9	- 14.2
Pembina Pipeline Corp	4.9%	11.1%	5.4%	9.7	2.2	1.6
Capital Power	4.9%	0.0%	5.0%	12.9	2.6	- 22.2
Emera	4.9%	-6.1%	5.1%	18.2	1.6	12.3
3M	4.9%	9.8%	4.8%	12.1	4.7	6.3
CIBC	4.9%	-8.0%	5.7%	8.5	1.2	3.5
Power Corp of Canada	4.9%	3.9%	5.6%	11.1	1.0	11.7
Hanesbrands	4.9%	-6.5%	7.4%	8.3	4.0	6.9
V.F. Corp	4.9%	-6.0%	6.8%	14.4	3.3	8.8
Newell Brands	4.9%	-4.1%	5.7%	10.3	1.7	- 30.2
Simon Property Group	4.9%	32.9%	5.8%	19.7	12.3	0.0
Choice Properties REIT	4.9%	18.8%	4.7%	6.6	3.4	- 57.5
Chartwell Retirement REIT	4.9%	-7.5%	6.3%	nmf	2.7	- 8.5
Intel Corp	4.9%	3.9%	4.9%	15.3	1.3	25.0
International Paper Co.	4.9%	10.6%	4.9%	10.2	1.6	- 13.6
Dow Inc.	4.9%	16.3%	4.8%	9.1	2.3	nmf
<b>Cash &amp; Equivalents</b>						
Cash (CAD\$)	2.0%	1.1%	2.3%	NA	NA	NA
<b>Langill &amp; McHenry Yield All Equity Portfolio</b>	<b>100.0%</b>	<b>na</b>	<b>5.4%</b>	<b>10.7</b>	<b>2.2</b>	<b>-5.3%</b>

Note: For illustration purposes only.

\*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

Source: FactSet & Croesus Composites.

## Completion Models:

If you have an account within your portfolio with < \$100,000, you may also be invested in a portfolio of investments that are outside the Dividend Growth and Yield & Growth models. We call these investments either “completion models” or “satellite holdings.” The completion and satellite portfolios help to customize all of your accounts for your unique risk tolerance, tax circumstances, and liquidity needs. For a sense of the securities we own in the completion and satellite portfolios, we have listed our two completion models below:

### PIMG Completion Models as of 2022-12-31, CAD

#### Completion & Small Completion Model Holdings:

Issue Name	Ticker	Currency \$	Q4 2022 %	Last 12 Months %
iShares Canadian Corporate Bond Index ETF	XCB-CAN	CAD \$	1.4%	-9.8%
iShares MSCI World Index ETF	XWD-CAN	CAD \$	7.6%	-11.6%
iShares MSCI Emerging Markets Index ETF	XEM-CAN	CAD \$	7.8%	-15.8%
First Trust Nasdaq 100 Equal Weight ETF	QQEW	USD \$	6.3%	-24.6%
iShares Russell 2000 ETF	IWM	USD \$	6.2%	-20.5%
Fidelity Canadian Short-Term Bond ETF (FCSB)	VSC-CAN	CAD \$	1.4%	-4.2%
PIMCO Monthly Income (CAN) ETF Series	PMIF-CAN	CAD \$	3.8%	-6.3%
Horizons Active Preferred Share ETF	HPR-CAN	CAD \$	-3.2%	-19.6%
Berkshire Hathaway Ord Shs Class B	BRK.B	USD \$	15.7%	3.3%
Graham Holdings Company Ord Shs Class B	GHC	USD \$	12.6%	-3.0%
Fairfax Financial Holdings Sub Voting Ord Shs	FFH-CAN	CAD \$	27.1%	31.5%
Onex Ord Shs	ONEX-CAN	CAD \$	3.2%	-33.9%
KKR and Co Ord Shs	KKR	USD \$	8.3%	-37.0%
Brookfield Corp	BN-CAN	CAD \$	-6.5%	-30.3%
Cymbria Corporation Class A	CYB-CAN	CAD \$	7.0%	-10.3%

Note: For illustration purposes only. Holding period returns captured, if "na" that signals that position was not held over that timeframe.

\*Note: Returns are in Local Currency..

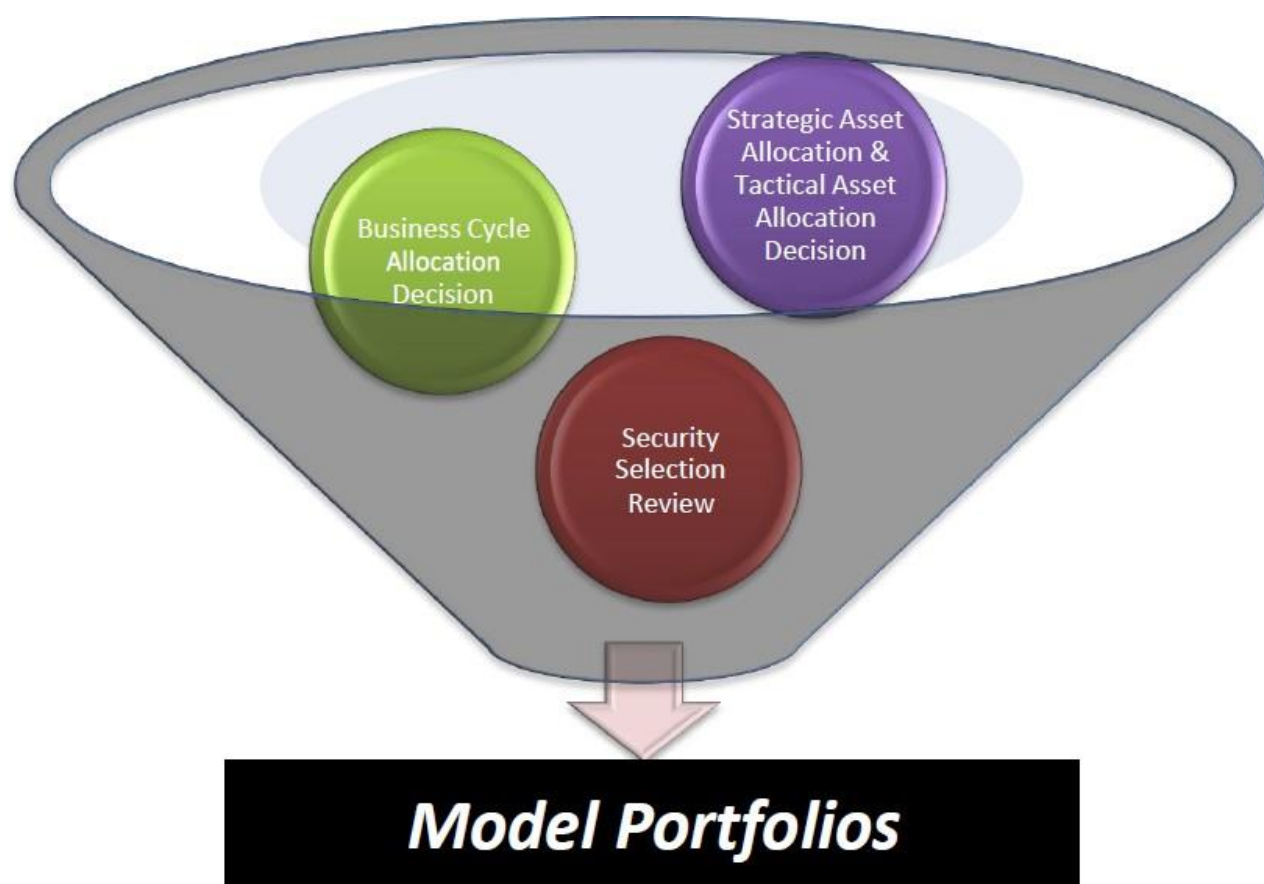
Source: FactSet.

## Model Portfolio Process

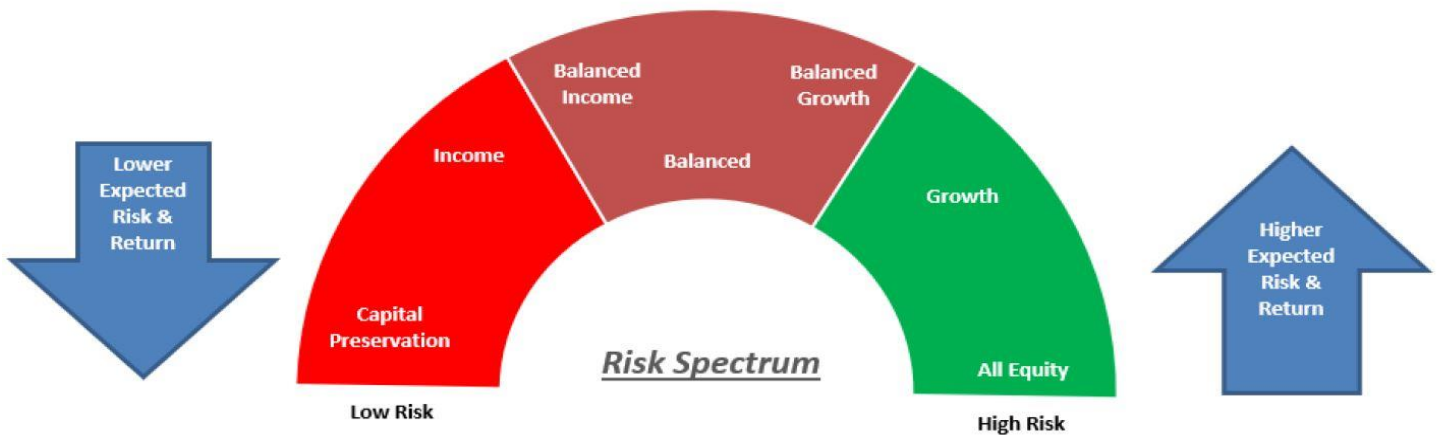
When we select investment securities for our model portfolios, we follow a disciplined three-step process:

1. Examine our asset mix vs. our expectations for long-term returns. This review helps guide our model portfolios allocation to cash and equivalents, fixed income (bonds and preferred shares), and equity (stocks).
2. Review our business cycle allocation vs. our expectations for broad market. We then allocate to sectors of the market and security factors that are expected to perform well.
3. Assess securities for inclusion in the portfolio based on: (i) Dividend growth, (ii) Leverage, (iii) Valuation and (iv) Market structure. Securities reflecting these features are typically of higher quality than average.

After the third step is complete, we include a portfolio of investment securities in our model portfolios, reflecting our expectations for the market going forward.



## Our Investor Profiles and Asset Allocations:



### LANGILL & MCHENRY MODEL ASSET ALLOCATION

Asset Allocation	Cash %	Fixed Income %	Equity %
<b>Capital Preservation</b>	<b>5.50%</b>	<b>94.50%</b>	<b>0.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>75-100%</i>	<i>0-25%</i>
<b>Benchmark Capital Preservation</b>	<b>0.00%</b>	<b>100.00%</b>	<b>0.00%</b>
<b>Income</b>	<b>2.00%</b>	<b>67.00%</b>	<b>31.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>55-100%</i>	<i>20-45%</i>
<b>Benchmark Income</b>	<b>0.00%</b>	<b>80.00%</b>	<b>20.00%</b>
<b>Balanced Income</b>	<b>2.00%</b>	<b>51.00%</b>	<b>47.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>35-85%</i>	<i>15-65%</i>
<b>Benchmark Balanced Income</b>	<b>0.00%</b>	<b>60.00%</b>	<b>40.00%</b>
<b>Balanced</b>	<b>2.00%</b>	<b>41.00%</b>	<b>57.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>25-75%</i>	<i>25-75%</i>
<b>Benchmark Balanced</b>	<b>0.00%</b>	<b>50.00%</b>	<b>50.00%</b>
<b>Balanced Growth</b>	<b>2.00%</b>	<b>30.00%</b>	<b>68.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>10-60%</i>	<i>40-90%</i>
<b>Benchmark Balanced Growth</b>	<b>0.00%</b>	<b>35.00%</b>	<b>65.00%</b>
<b>Growth</b>	<b>2.00%</b>	<b>15.00%</b>	<b>83.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>0-45%</i>	<i>55-100%</i>
<b>Benchmark Growth</b>	<b>0.00%</b>	<b>20.00%</b>	<b>80.00%</b>
<b>All Equity</b>	<b>2.00%</b>	<b>0.00%</b>	<b>98.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>0-25%</i>	<i>75-100%</i>
<b>Benchmark All Equity</b>	<b>0.00%</b>	<b>0.00%</b>	<b>100.00%</b>

\*Note: Benchmark comprised of proportions Exchange Traded Funds (ETFs) XBB, XIC and IVV.

## **Model Portfolio Management Philosophy**

### **Model Portfolio Objectives for Dividend Growth and Yield & Growth:**

- We designed both of the model portfolios with a conservative investment approach. The portfolios may not participate as much in gains when markets are rising. However, they are expected to be more resilient in falling markets to protect capital. As a result, the portfolios will tend to be less volatile and capital will be given more opportunity to compound over a long period of time.

### **Dividend Growth (DG):**

- Equity allocation = ~20 stocks (~10 Canada, ~10 U.S.), dividend growth target +6 per cent/yr, dividend yield target +0 per cent

### **Yield & Growth (Y&G):**

- Equity allocation = ~20 stocks (~10 Canada, ~10 US), dividend growth target +0 per cent/yr, dividend yield target +2.5%

### **Yield (Y): (\*NEW\*)**

- Equity allocation = ~20 stocks (~10 Canada, ~10 U.S.), dividend growth target at least 0 per cent/yr, dividend yield target +5.0 per cent

### **Other Portfolio Parameters (both DG and Y&G):**

- ~18 models with different asset allocation based on risk and return objectives including: Capital Preservation, Income, Balanced Income, Balanced Growth, Growth and All Equity
- Negligible embedded cost
- Fixed Income allocation = ~4-9 bonds, ~2-4 preferred shares, investment grade credit, short and laddered duration (<7 years)
- Diversify by geography, sector and style
- Large capitalization (“blue chip”)



## LANGILL & MCHENRY INVESTMENT ADVISORS

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