

# Quarterly Market Update



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## Olympic Edition

We all experienced a lot of change during the pandemic, including events planned for 2020 (like the Olympic Games) being postponed until 2021. The yearlong wait for the Olympic Games in Tokyo is almost over, but the delay has increased the hosting price tag by about US\$5.8 billion. Similarly, investors have seen quite a bit of change in the markets; however, with vaccination efforts picking up momentum, there is light at the end of the tunnel.

### Outlook for the Olympics and Markets:

- Not all countries are at the same starting line, but more and more countries are entering the race - *global economic growth is strong and accelerating.*
- In terms of vaccinations, Canada started slow but has not only caught up to the pack but also begun to pace the race - *Canadian stocks are setup to continue their strong performance.*
- To be one of the top countries at the Olympics, a deep and talented team is necessary – *remain overweight equities.*
- In any race, be it on water, the track or bike, sometimes it comes down to positioning – the right lane, making the pass at the right time or getting a tailwind when needed most – *remain underweight fixed income.*

**Bottom Line:** We are still bullish on equity markets as we continue to see strong relative risk/reward characteristics across the asset class, which we believe is broadly supported by strong consumer and corporate fundamentals, the reopening of the global economy, and a still very accommodative policy environment.

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

## **Key Takeaways:**

### **Stocks**

- The stock market rose again in Q2 2021 both by +8.5% in Canada and the U.S, respectively. However, the strong Canadian Loonie (+2.8% in Q2 2021) somewhat muted U.S. stock returns on a currency-adjusted basis to +7.1%.
- Stocks have rebounded from March 2020, Coronavirus lows, with both Canadian and US equities posting positive strong returns over a one year period. Over the last 12 months, US stocks performed better than Canadian stocks rising 40.8%, while Canadian stocks posted an increase of 33.9%, in local currency.
- Stimulus measures have created a strong base for a robust recovery and, given the depth of the contraction, these measures will remain in place well into the future. Don't fight the Fed!

### **Bonds & Preferred Shares**

- Bonds rallied late in Q2 2021 resulting in an increase of +0.5%. Central banks continue to provide accommodation to financial markets to combat liquidity and credit concerns surrounding COVID-19 economic shutdowns. These stimulus actions have stoked fears of stronger inflation and resulted in rising interest rates, which is negative for bond prices.
- Canadian preferred shares continued their strong performance from the first three months of 2021 by rising +5% in Q2 2021. Preferred shares are 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 preferred share prices.

***\*\*For information on model returns please email Adam McHenry at  
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## Our Models

- Our stock portfolios ("All Equity"), Dividend Growth (DG) and Yield & Growth (Y&G), advanced +4.4% & +6.2% for Q2 2021 and +29.1% & +29.5% over the last twelve months, relative to our benchmark at +7.6% and +30.4%, respectively.
- Our bond portfolios ("Capital Preservation"), DG and Y&G versions, returned +1.6% & +1.8% for Q2 2021 and +4.1% & +5.2% over the last twelve months, relative to our benchmark at +1.6% and -2.2%, respectively.
- Top performers in our stock portfolios for Q2 2021 were Imperial Oil (IMO) up 24.9% in our Dividend Growth portfolio, while Power Corp of Canada (POW) rose 20.0% to lead performance in our Yield & Growth portfolio. Laggards in our portfolios for Q2 2021 were Manulife Financial (MFC) falling 8.7% in our Dividend Growth portfolio, while Kimberly Clark (KMB) fell 4.4% in our Yield & Growth portfolio.
- We made some changes in our models, in regard to both asset allocation and specific securities in Q2 2021:
  - With respect to asset allocation, we did not change any of the asset class weightings in our models.
  - On the stock side of the portfolios, in the DG models, we did not make any position changes in Q2 2021. In the Y&G models, we sold our position in Emerson Electric (EMR) and replaced it with North West Co (NWC); we also sold Restaurant Brands Intl (QSR), Johnson & Johnson (JNJ) and Organon & Co (OGN, spinoff from Merck & Co (MRK)) and purchased Pepsico Inc (PEP) and Abbvie Inc (ABBV).
  - On the fixed income side of the portfolio, we made a preferred share relative value swap in both our DG and Y&G models, by selling premium priced preferred shares and buying lower priced closer to par priced preferred shares.

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

Dividend Growth (DG) All Equity Portfolio (2021-06-30)

Issue Name	Portfolio Weight	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
<b>Equity</b>					
Air Products and Chemicals Ord Shs	4.2%	2.1	10.4%	27.4	0.4
Medtronic Ord Shs	4.5%	1.9	8.8%	21.5	1.5
Bank of New York Mellon Ord Shs	3.6%	2.5	12.8%	11.2	
Morgan Stanley Ord Shs	6.4%	1.5	20.5%	13.1	
Northrop Grumman Ord Shs	4.3%	1.7	12.8%	14.5	1.7
Tractor Supply Ord Shs	4.6%	1.1	14.6%	24.7	
Tyson Foods Ord Shs Class A	2.0%	2.5	33.2%	11.3	2.1
Union Pacific Ord Shs	4.5%	1.9	7.5%	21.0	2.1
UnitedHealth Group Ord Shs	6.2%	1.4	20.8%	20.8	0.9
Algonquin Power Utilities Ord Shs	4.2%	4.5	14.3%	19.7	5.2
Empire Ord Shs Class A	6.5%	1.5	5.4%	14.2	2.8
Imperial Oil Ord Shs	5.2%	3.1	10.7%	9.3	0.7
Manulife Financial Ord Shs	6.0%	4.6	10.0%	7.2	
Magna International Ord Shs	4.3%	2.0	12.7%		0.1
Quebecor Ord Shs Class B	3.8%	3.3	65.2%	12.1	2.9
Toronto Dominion Ord Shs	4.9%	3.7	9.2%	11.2	
TC Energy Ord Shs	4.7%	5.6	14.4%	14.2	5.0
Comcast Ord Shs Class A	6.6%	1.7	13.0%	17.2	2.6
Intact Financial Ord Shs	5.3%	2.0	9.4%	16.4	
Broadcom Ord Shs	6.1%	3.0	53.0%	16.3	1.8
<b>Cash &amp; Equivalents</b>					
Cash (CAD\$)	2.1%	0.0			
<b>Langill &amp; McHenry All Equity DG Portfolio</b>	<b>100.0%</b>	<b>2.5</b>	<b>17.4%</b>	<b>14.2</b>	<b>2.1</b>

Note: For illustration purposes only.

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

Source: Refinitiv Eikon R&A

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

### Capital Preservation Portfolio Dividend Growth (DG) (2021-06-30)

Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
<b>Bonds</b>				
ALBTA 2.200 06/01/26 Bond ReOpened	7.8%	104.99	2026-06-01	1.2
PPLX 2.990 01/22/24 '23 MTN ReOpened	7.8%	105.37	2024-01-22	1.3
CMHT 2.350 06/15/27 Bond ReOpened	7.9%	106.36	2027-06-15	1.3
MFC 3.317 05/09/28 '23 FRN Sub Deb	7.8%	104.71	2023-05-09	1.0
CMHT 2.100 09/15/29 Bond ReOpened	7.8%	105.16	2029-09-15	1.5
CHP 2.848 05/21/27 '27 Sr Deb	7.8%	104.43	2027-05-21	2.1
FFH 3.950 03/03/31 '30 Sr Note	7.9%	106.48	2031-03-03	3.3
BMO 1.600 03/19/29 Cpn step 2.750 on 03/19/28	7.4%	99.69	2029-03-19	2.2
<b>Preferred Shares</b>				
TC Energy Cumulative redeemable min rate first Pref Shs Series 15	7.2%	25.48	2022-05-31	4.8
Element Fleet Management 5.75 Cum Pref Shs Series I	7.1%	25.55	2022-06-30	5.6
Capital Power Cumulative Rate Reset Pref Shs Series 11	7.4%	26.45	2024-07-01	5.4
Emera Cum Prf Shs Series J	7.5%	27.05	2026-05-15	4.3
<b>Cash &amp; Equivalents</b>				
Cash (CAD\$)	8.6%	1.00	-	0.0
<b>Langill &amp; McHenry Capital Preservation DG Portfolio</b>	<b>100.00%</b>	<b>-</b>	<b>5.2 years</b>	<b>3.2</b>

Note: For illustration purposes only.

weightings.

Source: Refinitiv Eikon R&A

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

Yield & Growth (Y&G) All Equity Portfolio (2021-06-30)

Issue Name	Portfolio Weight	Dividend Yield %	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
<b>Equity</b>					
Cisco Systems Ord Shs	5.9%	2.8	12.6%	15.8	
Gilead Sciences Ord Shs	4.2%	4.2	16.1%	10.0	2.0
International Business Machines Ord Shs	4.7%	4.7	5.4%	12.1	2.4
Kimberly Clark Ord Shs	4.1%	3.3	4.0%	17.8	2.0
3M Ord Shs	5.1%	2.9	7.5%	19.8	1.3
Pepsico Ord Shs	4.9%	2.8	7.8%	23.9	2.4
Pfizer Ord Shs	5.1%	3.9	6.3%	11.3	1.2
Rio Tinto ADR Reptg One Ord Shs	4.4%	7.2	11.8%	6.9	0.0
Telus Ord Shs	2.8%	4.5	7.3%	23.5	2.8
BCE Ord Shs	4.7%	5.6	5.1%	18.8	2.6
Bank of Nova Scotia Ord Shs	3.5%	4.5	5.8%	10.1	
Canadian Natural Resources Ord Shs	8.2%	4.4	13.1%	10.0	1.5
Enbridge Ord Shs	4.8%	6.8	11.7%	17.1	4.6
Fortis Ord Shs	4.8%	3.6	6.8%	19.6	5.7
North West Company Ord Shs	4.4%	4.1		13.8	1.3
Power Corporation of Canada Ord Shs	6.9%	4.6	7.4%	10.0	1.9
Royal Bank of Canada Ord Shs	6.3%	3.3	7.1%	12.0	
Merck & Co Ord Shs	4.1%	3.3	6.6%	12.8	1.2
AbbVie Ord Shs	4.6%	4.4	18.5%	8.7	2.5
CT REIT Units	4.7%	4.9	3.6%	15.2	6.8
<b>Cash &amp; Equivalents</b>					
Cash (CAD\$)	1.9%	0.0			
<b>Langill &amp; McHenry Y&amp;G All Equity Portfolio</b>	<b>100.0%</b>	<b>4.2</b>	<b>8.8%</b>	<b>12.7</b>	<b>2.4</b>

Note: For illustration purposes only.

some stocks, but at different weightings.

Source: Refinitiv Eikon R&A

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

Capital Preservation Portfolio Yield & Growth (Y&G) (2021-06-30)

Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
<b>Bonds</b>				
CAGV 1.000 06/01/27 Bond ReOpened	10.8%	100.24	2027-06-01	1.0
PEELR 2.300 11/02/26 Debenture	10.7%	105.71	2026-11-02	1.3
TZ 2.750 07/08/26 '26 Sr Note	10.6%	104.26	2026-07-08	1.8
LX 2.284 05/07/30 '30 Sr Note	10.9%	100.11	2030-05-07	2.3
CWB 1.570 09/14/23 Sr Note	10.7%	101.45	2023-09-14	1.1
BMO 1.400 03/15/28 Cpn step 2.250 on 03/15/27	10.8%	98.81	2028-03-15	2.0
<b>Preferred Shares</b>				
Fairfax Financial Holdings Cumulative 5 Year Rate Reset Pref Shs Series M	9.0%	25.07	2020-03-31	5.0
Enbridge Cumulative Redeemable Minimum Rate Reset Pref Shs Series 17	9.0%	25.26	2022-03-01	5.1
Pembina Pipeline Cumulative Redeemable Minimum Rate Reset Class A Pref Shs Series 21	9.1%	25.54	2023-03-01	4.8
<b>Cash &amp; Equivalents</b>				
Cash (CAD\$)	8.5%	1.00	0	0.0
<b>Langill &amp; McHenry Capital Preservation Y&amp;G Portfolio</b>	<b>100.00%</b>	<b>-</b>	<b>5.2 years</b>	<b>3.1</b>

Note: For illustration purposes only.

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

Source: Refinitiv Eikon R&A

## 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 2021-06-30, CAD

#### Completion & Small Completion Model Holdings:

Issue Name	Ticker	Currency \$	Q2 2021 %	Last 12 Months %
iShares Canadian Corporate Bond Index ETF	XCB	CAD \$	1.7	-2.5
iShares MSCI World Index ETF	XWD	CAD \$	6.0	25.6
Vanguard Canadian Short-Term Corporate Bd Idx ETF	VSC	CAD \$	0.2	2.1
PIMCO Monthly Income (CAN) ETF Series	PMIF	CAD \$	1.4	8.0
Horizons Active Preferred Share ETF	HPR	CAD\$	6.7	7.4
Berkshire Hathaway Ord Shs Class B	BRK.B	USD\$	7.2	41.5
Graham Holdings Company Ord Shs Class B	FFH	USD\$	11.3	5.0
Fairfax Financial Holdings Sub Voting Ord Shs	CYB	CAD \$	-0.9	33.1
Onex Ord Shs	GHC	CAD \$	3.1	3.1
KKR and Co Ord Shs	ONEX	USD \$	9.6	9.6
Blackstone Group Ord Shs	BX	USD \$	13.5	13.5
Cymbria Corporation Class A	KKR	CAD \$	12.0	43.7

Source: Refinitiv Eikon R&A

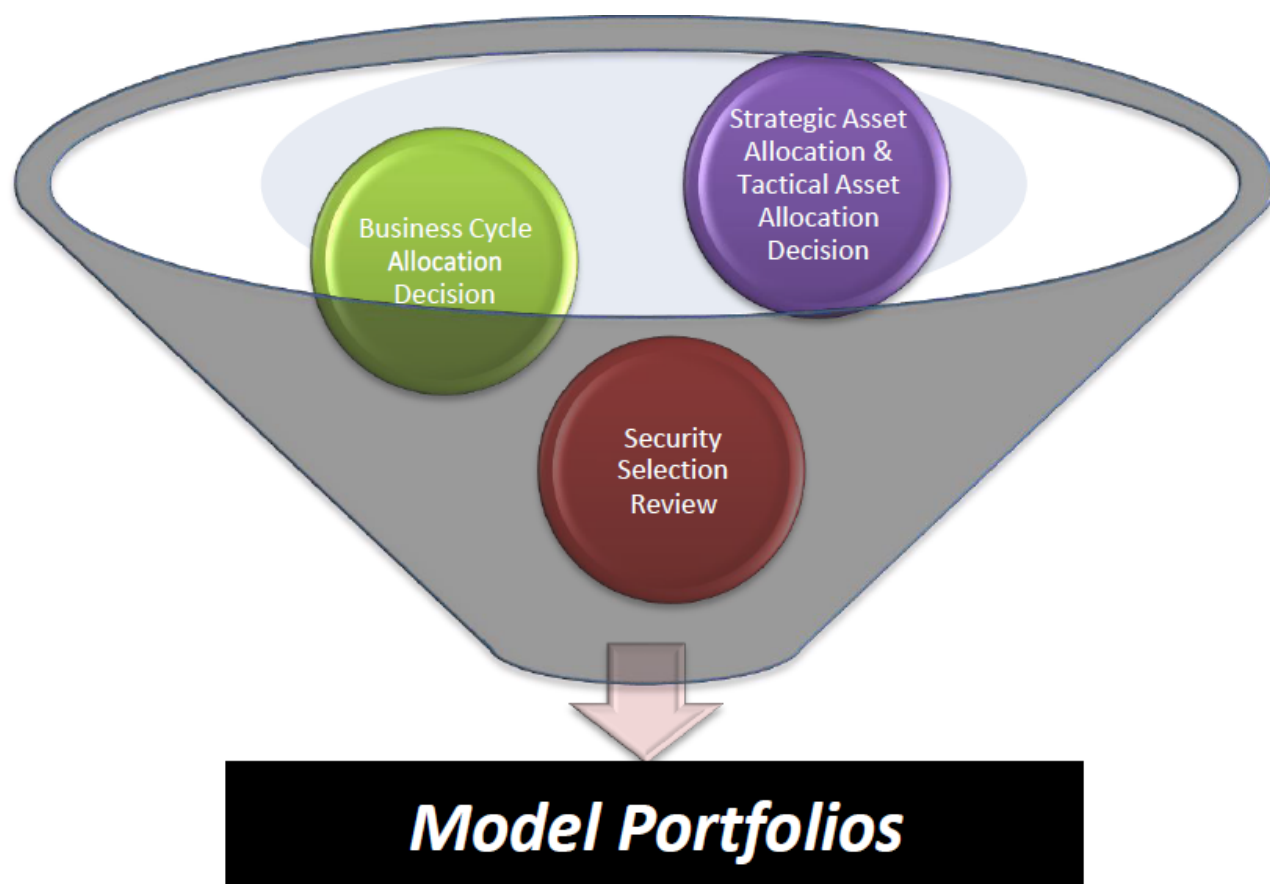
Note: For illustration purposes only.

## 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 & equivalents, fixed income (bonds & 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 & Asset Allocations:

Asset Allocation	Cash %	Fixed Income %	Equity %
<b>Capital Preservation</b>	<b>8.50%</b>	<b>91.50%</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>68.00%</b>	<b>30.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>55-100%</i>	<i>0-25%</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>52.00%</b>	<b>46.00%</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>42.00%</b>	<b>56.00%</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>33.00%</b>	<b>65.00%</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>16.00%</b>	<b>82.00%</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: Active weights % are determined based on their deviation from the neutral weight % indicated

\*\*Note: model ranges legend = TAA low% to TAA high %

\*Benchmark comprised of proportions of 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 = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +6%/yr, dividend yield target +0%

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

- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +0%/yr, dividend yield target +2.5%

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

- 14 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 (<10 years)
- Diversify by geography, sector and style
- Large capitalization ("blue chip")



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