

2019 Year End Summary:

Key Equity Positions for 2019 and Outlook for 2020

The US economy wavered in 2019 after growth revved up in 2018 to a 13-year high. The second half of 2019 featured a change in direction with US Federal Reserve policy, heightened tensions related to US-China trade issues, and a weakening economic picture in Canada without any significant action from the Bank of Canada. Despite the first step in the China-US trade deal being signed in early Jan 2020, there are ongoing trade tensions with China that have hurt U.S. manufacturing and investment. The softening in the US economy led to the US Federal Reserve, beginning in August, to end its tightening stance from 2018 with three interest rate cuts largely in the second half of the year, partly reversing four rate increases in the previous year. For the year the S&P/TSX Composite returned 19%, which was the best performance for the CDN market since 2009. For the S&P 500, performance for 2019 reached 28.9%, with 10 of 11 sectors generating positive returns

Aided by a more accommodative US Federal Reserve, U.S. GDP came in at a 2.1% over the summer. In addition, durable goods orders rebounded in October from a decrease the month before, while initial claims for state unemployment benefits declined. The pace of growth in the U.S. economy was left at 2.1% in the third quarter, as strong consumer spending was offset by weaker business investment in inventories. The US Federal Reserve has

helped fuel the “goldilocks” economic backdrop, not too much inflation, not too much growth and interest rates just right to keep the economy moving forward.

US – China trade dispute; during much of 2019, there were threats of increased barriers to trade between the two largest economies in the world. However, more important than merely the trade dispute was China’s stance with respect to US technology and how over the years, it had misused proprietary US technology. Over the years it was as if US companies and various US Administrations had turned a blind eye to the practice. The current President wanted to change the practice as part of his American jobs and America First initiatives. The combining of trade issues and technology sharing have spilled over to create an uneasy trade negotiation. As the second half of the year progressed market reaction was that a deal was in the works. However as we write, only minor trade agreements have been reached. We believe that sabre rattling by either side in this dispute could lead once again to rallying in the gold price.

Despite the changing interest rate environment in the US, the Bank of Canada held off on changing its interest rate stance, resisting pressure from market analysts who have been worried over a weakening economic picture. In August, the CD Howe Institute’s Monetary

Policy Council, in an independent assessment of the strength of the economy suggested the BOC should lower the benchmark rate to 1.25% from 1.75%. Despite stronger jobs reports late in the year, the CD Howe Institute still feels that a reduction in the benchmark would be beneficial to assist in sustaining economic growth.

The employment picture was uncertain as the year ended. Canada's gross domestic product, which tracks broad activity in goods and services in the economy, declined 0.1% in October from the previous month to a seasonally adjusted 1.975 trillion Canadian dollars (\$1.5 trillion). October's month-over-month decrease was the first in eight months. On a year-over-year basis, the Canadian economy grew 1.2%. The October GDP report was the latest in a string of disappointing indicators for the Canadian economy, which outside of housing is demonstrating tepid strength.

The Portfolio Team's strategy involves a diversified approach to North American equities maintaining exposure in many, but not all, of the sub-sectors within the S&P/TSX and S&P 500. Our focus is to provide a portfolio solution to investors interested in a lower volatility portfolio while addressing the need for income. Bond yields are too low and equities are increasingly volatile. While we cannot ignore the political headlines around the world that will surely generate ample volatility in global equities and currencies, we will continue

to focus on holding a diversified, but focused portfolio of leading companies, many of which generate stable and growing distributions. Criteria we look for are sound business models, long term steady demand for products or services, growing positive cash flow, disciplined need for debt or need to raise significant amounts of capital as well as having a lower dividend payout ratio. Core positions such as, Prologis Inc., Waste Connections Inc., Brookfield Asset Management, COSTCO Warehouse, Brookfield Infrastructure, InterRent REIT, and Canadian Apartment Properties REIT., meet these criteria and are expected to continue to make up a healthy weighting in the portfolio going forward.

A core holding that has done very well and is one of the largest owners and operators of critical infrastructure assets globally, spanning four major segments in 15 countries on five continents is Brookfield Infrastructure Partners. Brookfield's assets include sea ports, railroads, toll roads, cell towers, electric transmission systems, natural gas pipelines, and natural gas storage facilities. We like BIP as a core holding due to its scale, quality portfolio, stable and resilient regulated/contracted cash flows from its operating businesses, sponsorship from Brookfield Asset Management and it's ability to complete complex deals and source new investments where competition is more manageable. Brookfield is currently in a very active period, with many opportunities for new investment and to recycle capital and we are confident they will continue to manage

leverage levels while generating returns on investments that are expected of them. Brookfield Infrastructure was up +44% for the year ended December 31, 2019 and we expect another good year of results from them.

During the first half of 2019, we added a position in Americold Realty Trust. Americold, which debuted in the capital markets in 2018, is the world's largest and only publicly-traded owner/operator of temperature-controlled warehouses. Cold storage fundamentals are strong, historically predictable, and the services offered are mission critical to worldwide food distribution. We consider the refrigerated storage industry to possess attractive fundamentals, with demand increasing at a healthy pace, thanks to population growth urbanization trends and an ongoing shift towards fresh foods, coupled with modest supply growth. Americold has an industry leading 20% market share in the United States and approximately 4% market share internationally. Americold was up +41% since we initiated our position and we would not hesitate adding to our existing position.

A new position we introduced during the second half of the year was Brookfield Asset Management Inc. BAM is a global alternative asset manager focused on asset management, global real estate, renewable power, infrastructure and private equity. It's asset management platform should continue attracting capital and generate recurring fee revenues, and with institutional investor's appetite for real assets increasing we feel

comfortable investing alongside BAM with their abilities to rotate capital and earn less volatile and more diversified risk adjusted returns. Despite the risk for an economic downturn the environment for investing capital into alternative assets continues to be very favorable. Global interest rates appear likely to stay low for a longer period of time causing investors to allocate larger amounts of their capital to alternative mandates. And with total assets under management over \$500 billion we expect fundraising success and deployment into existing and additional operating businesses to continue to fund growth. Brookfield was up +46% since we first invested. We would not hesitate adding to our portfolios.

Another company we like and continue to see attractive organic growth is VISA as it continues to post impressive revenue growth and benefits immensely from the move away from cash based purchases to credit based settlement. While a recession would impact both consumer transaction volumes as well as dollar value of consumer purchases VISA, along with MasterCard, has done a phenomenal job shifting resources and attention to E-commerce and emerging markets. Both E-commerce volumes and growth in disposable income in emerging markets are set to rise materially over the next decade and VISA stands to benefit from this shift. VISA maintains a leading position in credit based settlement and has proven over the long term that it can successfully navigate

in all economic environments. VISA returned +43% during the year ended December 31, 2019. We continue to be long term holders.

Our portfolio team continues to see positive contributions from residential REIT's in Canada due to strong population growth, economic strength and declining housing affordability. On the supply side, the expansion of rent controls in Ontario along with a lack of land supply and rising development costs continue to discourage the construction of affordable rentals. We maintain key holdings in Canadian Apartment Properties REIT ("CAP REIT"), and InterRent REIT (InterRent). CAP REIT is the largest apartment landlord in Canada with a strong presence in Ontario and Quebec. It currently manages approximately 45,500 suites and approximately 7,700 manufactured home community lease sites ("MHC"). MHC is a desirable asset class for CAP REIT as it provides for steady, stable and growing long-term cash flows with minimal capital expenditures. Going forward, CAP REIT is focused on modernizing and strengthening the quality of the portfolio and strength of its financial position via developments and presence in the MHC sector. InterRent operates in select eastern Canadian markets featuring the Greater Toronto Area, Montreal and Ottawa and is focused on buying properties that are re-positioned creating growth and sustainable distributions for investors. It currently manages approximately 10,000 suites with approximately 35% of its rental portfolio undergoing a range of value-

enhancing initiatives. These improvements are expected to provide upside through increased average occupancy levels, rising rents for occupied suites, and improving net operating margins. InterRent management estimates that current in-place rents for its apartment portfolio may be 25% or more below estimated market rents. InterRent was up +22% and CAP REIT was up +23% respectively for the year ended December 31, 2019. We continue to hold our positions enthusiastically.

We have growing exposure to industrial real estate that continues to perform well with rising rents and lower capitalization rates driving returns. In the US, income growth is benefiting from the roll up of expiring leases to higher market rents. On average, quality industrial product remains in high demand. Prologis provides efficient logistics real estate solutions to the world and continues to be a top performer in the space. Granite REIT's portfolio currently includes 79 income producing properties and 4 development properties operating in 9 countries in North America and Europe. Prologis was up +56% and Granite REIT was up +30% for the year ended December 31, 2019.

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