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Second Quarter Commentary:

January 2020 started the year off with great enthusiasm as markets rallied at the beginning of the year and into February. But as we moved into March, the global spread of the coronavirus inserted a new level of risk that few anticipated would become a cause to shut down the global economy. The medical establishment, and governments around the world began to suggest shutting down economies and asked citizens to shelter in place, wear masks and gloves and socially distance yourself from others. The world now works from home, schools went virtual and consumers shopped online. Shelter-in-place (SIP), work-from-home (WFH) and remote-learning (RL) policies dominated 2Q20. The death rate related to COVID-19 spiked and caused fear across North America. The death-rate is horrible and painful and the economic impact is devastating. In February there were 6 million unemployed people in the US. In May, there were 21 million unemployed, and to get the employment-to-population ratio back to where it was at its peak in 2000 the US needs to create 30 million jobs, according to Deutsche Bank's Torsten Slok. The jobs report in May noted the unemployment rate was 23% and making the situation more complicated was the realization that 42% of layoffs caused by the pandemic are likely not coming back. At present, unemployment levels are so severe there is no precedence.

The global governmental response to the COVID crisis has been unprecedented. In both Canada and the US, federal stimulus programs were enacted in April, providing initial support to the unemployed, to industries hardest hit as well as to recovery plans aiding the re-opening. It must be stated that although there were mistakes, the speed with which federal governments responded to the pandemic was unprecedented. If we consider the many months that governments took to figure out responses to the Financial Crisis of 2008-09, the current situation was met with efficiency and size. To the point, the amount of stimulus provided in the US alone amounts to $6 trillion including funds from the Congress, Treasury and the US Federal Reserve. Put another way, during the period of March to August Treasury and US Federal Reserve will have borrowed and printed at least 4 years of tax receipts and rising.

Within these efforts, Central Banks around the world have stepped up support to levels not seen before. US Federal Reserve Chair Jerome Powell has stated that the Fed is prepared to do "whatever it takes" to assist in the revitalization of the US economy, including the maintenance of a low interest rate policy that will keep rates near zero until at least 2022. It is these bold actions though that have long term and potentially unintentional consequences. Chairman Powell has stated that the Fed will not only support Treasury issuance but will also support the corporate bond market. This has wide ranging and concerning implications. If the US Fed balance sheet is used to set the price of assets such as the S&P500, investment grade and high yield credit, the Fed ends up controlling all asset prices. As a result, pricing in stock markets and bond markets no longer reflect true equity or default risk. This potentially increases the likelihood of consequences down the road for the currencies and governments as we know from recent history that countries that have monetized their debt have had consequences for government bond interest rates as well as for equity and borrowing. At this point it looks like investors don't care about the consequences,

however it appears that there will be consequences. The question is "who pays the price?" What the Fed has been doing is supporting asset prices. The concern is in 2008 asset prices fell for close to 2 years before QE was introduced whereas in 2020 asset prices fell for 2 weeks. We are closely monitoring whether the market is trading at fair value or an artificial level.

As the first half of the year ended, it appears that the initial strength of the re-opening began to show signs of weakening. One of the tailwinds that assisted the economy was initial government response and stimulus that began in mid-April. However that three month project has lost support as initial jobs reports led Congress to believe they had done enough. Clearly the weakness still persists, joblessness is still a factor and now the US Congress is mired in finger pointing as the November elections appear on the horizon.

We also see weaknesses growing as State re-openings suffer. Some states have re-opened too fast, some have not mandated masks to be worn, and as a result by the end of the second quarter, re-opening plans are being curtailed. Spikes in coronavirus cases continue to show record spikes in states, some of which had originally managed the early outbreak well. Our view is that the impact of the virus is a challenge that will be present for the next few quarters until such time as effective medications are developed, testing is accomplished effectively and people take the spread of the virus more seriously.

The real economy and capital markets continue to move in opposite directions. The S&P 500 has massively outperformed the real economy. The economic reality is that labour markets are deteriorating, consumption capacity is falling, and corporate earnings risk is rising relative to buoyant wall street expectations. The Federal Reserve has modelled some seriously adverse scenarios for financial assets, going as far as forbidding share buybacks by banks. The ECB is asking EU banks to pause returning capital to shareholders, including dividends and share buybacks, until at least 2021, and to ensure there is restraint when it comes to bonuses for this year. They all see downside risk to their economies going forward and they are restricting bank's use of capital so we should take that seriously. Fundamental drivers seem to shift, surrounding the FED and ECB and BofJ, surrounding a vaccine, and surrounding dollar devaluation. The buyer of last resort or the appeal that it's the Fed's role to be the buyer of last resort continues to dominate momentum. Most recently we have the Chinese Communist Party encouraging its citizens in the press to buy stocks stating that a bull market is healthy for expansion. We have witnessed some of the largest global stimulus packages in history, both from governments and central banks. In the last decade it worked. As current policy support deadlines approach in the US we are going to have another round of helicopter stimulus money coming down from the sky that may have the effect of supporting exaggerated equity market values in the near term.

On the corporate side, deteriorating earnings and cash flow and elevated leverage levels remain a drag on growth. We believe what hasn't sunk in yet (with some investors) is the potential escalation in bankruptcy announcements. The Fed's liquidity is a short term solution for a longer term solvency problem. A lot of companies were running on razor thin margins with over-levered balance sheets. We are likely going to witness a negative corporate cash flow cycle which could take longer than anticipated to turn positive after a shock to capacity utilization of this magnitude.

While markets can sustain momentum over the short term, if there is a major shift in economic fortunes, the ability of the markets to resist that shift dissipates and downside risks rise in probability. If there was in fact a V-shaped recovery we would expect to see the large and regional banks, traditional levered plays on domestic economies, participate in the price appreciation and not be negative performers for the year. The credit quality in the corporate space is simply evaporating. We will continue to monitor the banks in North America and judge their loan loss provision adequacy if worsening economic fundamentals continue. We will agree the banks are in better capital positions than in past crisis, ample liquidity offers comfort but the intermediate term remains fraught with uncertainty. On the state of credit we expect charge offs to increase accompanied by a lower reserve build out as with all estimates. Such an outlook is entirely dependent on the duration of the recession and path of the recovery. In the meantime, we continue to risk manage our portfolios.

On the unemployment front an instructive way to analyze the magnitude of the US labour market deterioration is to look at continuing unemployment claims. As of late July continuing claims were 16 million, currently 2.5x the previous high of 6.6 million set during the financial crisis of 2008-09. The traditional cure for a weak economy has generally been a reliance on the consumer to bail out the North American economy. Some combination of low interest rates, relaxed mortgage terms, a wealth effect from rising stock and bond markets and access to credit card debt has generally been enough to get the consumer spending. In this instance, the consumer is generally under-employed over levered and over extended. Businesses are delaying investment in plant and equipment as long as the consumer remains unhealthy and as we have already stated, the unemployment picture is strained. This is why we are sticking with our disciplined proven approach.

Our strategy continues to focus on consumer needs relative to wants; and movement of goods and services over unsustainable fads. We believe that companies that exhibit core strengths in providing goods and services will prove beneficial in this environment and after this period. While we cannot ignore the headlines around the world that will surely generate continued 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 focusing on cash flow generation; long term steady demand for their products or services; growing cash flow; disciplined in its need to raise capital; as well as having a lower dividend payout ratio. Core positions we highlight in this report include Americold Realty Trust, Cargojet and VISA. The noted companies meet our criteria and are expected to continue to make up a healthy weighting in our portfolio going forward.

A key player in the food supply chain and the only publicly listed owner / operator of temperature-controlled warehouses is Americold Realty Trust. Cold storage fundamentals are strong, historically predictable, and the services offered are mission critical to worldwide food distribution. The refrigerated storage industry possesses attractive fundamentals, with demand increasing at a healthy pace, thanks to population growth, urbanization, and a shift towards fresh foods. Americold has an industry leading 27% market share in the United States and approximately 5% global market share. Its customers include such leading food producers such as Conagra, McCain and Danone and retailers such as Safeway, Kroger and Grocery

Outlet. Based on our “needs” theme, food consumption is vital, and during the pandemic we are also witnessing a shift from food away from home to food at home with Americold operations benefitting. Americold is a company we currently own and has benefited immensely during this pandemic, and we remain enthusiastic about the company’s long-term secular growth story.

Cargojet, a global brand, is Canada’s number 1 time-sensitive overnight air cargo consolidator representing over 90% of the domestic overnight air cargo lift available in Canada. CJT focusses on the middle mile, working with large manufacturers and distributors, moving shipments to the last mile delivery service companies. Approximately 75% of domestic revenues are under long-term contracts have guaranteed volume minimums and CPI-based automatic annual price increases. We are attracted to Cargojet’s near-monopolistic position in the Canadian air cargo market, long-term contracts, significant barriers to entry, long term pilot contracts containing a non-strike clauses in addition to the tailwinds from e-commerce and its recent Amazon partnership helping it shrug off the impact from global trade reductions. We are anticipating e-commerce channels to remain strong as consumers look to alternate channels as work from home and social distancing measures continue. Longer term, Amazon continues to report volume increases and we view this as positive to its carriers that benefit from Amazon’s push for faster deliveries. We are long term holders of Cargojet.

Another company we like benefiting from the e-commerce shift and buyer behaviour and continues to see attractive organic growth is VISA. 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, has done a great 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. We continue to be long term holders.

We keep making lower highs on the S&P and on reduced volumes alongside elevated volatility. This tells us there is little conviction, typical of a market getting exhausted on the upside. The current opportunity which exists, given the current volatility levels, is to use our option strategy to allocate capital to equities. Current volatility levels are offering us a rare opportunity to earn additional returns on otherwise cash that would not be invested. Prior to this year, volatility was at record lows allowing an investor to simply buy portfolio insurance at a low cost and ride this current uncertainty out until it fades away. This is not available today. Fear gauge is at extreme levels making protection buying very expensive. Instead we can use the volatility to our advantage and for as long as it is elevated we can sell options, generating significant option income, and on a stock by stock basis consider buying options on companies that may offer us a levered return to the upside when markets return to more normal consumption patterns. Our downside is limited to the net premium paid. Investing with defined downside and upside we consider to be a very good form of risk management.

We are convinced with the durable nature of the critical infrastructure assets and necessity based goods and services of our investment portfolios. Inevitably, market volatility creates opportunities and this time may be no different. It is precisely when investors who maintain a long term view, balancing risk and opportunity, can position themselves to be rewarded. We will stay invested, look for opportunities in the options market, make decisions based on our risk tolerance and return expectations. Our mindset is the current period of above average anxiety will be followed by a period of slow and gradual recovery as countries cautiously re-open borders and populations return back to more appropriate consumption patterns. This situation will only become normalized after people feel no fear of contracting COVID-19

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Sincerely,

The Portfolio Management Team

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