barometer

YOUR WEALTH MANAGED

A Disciplined Approach to Investing

December 2017

Introduction

Barometer Capital Management manages discretionary investment portfolios for private investors, foundations and endowment funds. Our stated purpose is to earn consistent, absolute returns while preserving capital. In an industry that measures success by relative performance to the market, Barometer is unique for its commitment to, and history of, producing consistent absolute returns.

Investment Philosophy — The Disciplined Leadership Approach™

The Barometer Team concerns itself with both sides of the investment process, buying and selling. To capture opportunity, it's not only necessary to identify what to buy but also when to buy. In addition, knowing when to sell — to preserve capital — is equally important. Barometer's commitment to capital preservation has always been a key component of The Disciplined Leadership Approach™ — it stems from our roots in managing portfolios for families more interested in absolute rather than relative returns.

The Disciplined Leadership Approach™ is an active, style agnostic process designed to both reveal the current market environment and help signal imminent change. It's built to identify positive trends in the marketplace so portfolio investments can be concentrated in those areas for as long as the trends prevail. This approach also places particular emphasis on protection of capital. By monitoring for change, applying a disciplined selling strategy and making tactical use of cash, we protect portfolios from staying invested in unproductive assets or pervasive market weakness.

We manage each of our portfolios in a consistent manner: by applying our clearly defined investment process, we place equal emphasis on protecting capital and capturing opportunity.

Capturing Opportunity

We believe that performance in a portfolio is influenced by three key factors: market impact, industry group, and underlying business exposure. We consequently base our decision-making models on identifying key market and sector trends. Then, applying specific fundamental and quantitative criteria we identify leading companies appropriate for the current investment environment. Investment styles cycle into and out of favour as markets change. From our perspective, it is important to have a process that recognizes those changes and allows for the orderly transition of portfolios as change occurs.

Identifying opportunities with the potential for superior performance requires constant vigilance. The Barometer Team runs detailed, daily analysis of the portfolios to help ensure that each holding continues to meet our tests while comparing favourably to new opportunities as they arise.

Managing Risk

Protecting your money is of primary importance to us. We seek to protect capital by using our carefully defined monitoring and selling strategies along with our constant assessment of market and sector specific risks. Each investment position has a predetermined selling price, set below the entry price. It triggers a sale in the event that the market price falls below an acceptable level. If our Barometer Market Risk Model™ indicates elevated risk, or there are no clear market leaders, your proceeds will remain in cash or short term interest bearing notes until risk returns to acceptable levels and new market leadership emerges.

This tactical use of cash and stop loss alerts help us to protect capital during periods of volatility or when opportunities do not meet our expectations.

Core Investment Beliefs

Tactical Management

Barometer acknowledges the difference between strategic and tactical investment mandates. It's more than semantics. Tactical management means altering asset class and sector weightings based on changing market conditions. This is opposed to the adoption of static long-term asset mix policies then rebalancing periodically to stay within preset guidelines. "Fully Invested" or "Buy & Hold" strategies can lead to large losses in extended bear markets. When there is clear market leadership, Barometer will actively overweight sectors or themes to generate return. In the absence of clear market leadership or, during periods of market volatility, the investment team will make tactical use of cash and short term deposits to limit downside risk.

Style Agnostic

Market leadership has a shelf life, and factors vary in importance from cycle to cycle. Barometer is style agnostic. This means that we won't limit ourselves to classic value, growth, GARP or sector specific strategies employed by institutionally focused investment management companies. Our objective is to participate through all cycles. We will not be handcuffed. We must be able to respond to the opportunities changing market leadership provides. Simply, it's about being able to take advantage, without bias, of new market strength when opportunities emerge.

Investment Process

Our Disciplined Leadership Approach™ is best described as the disciplined and unemotional application of a proven top-down market and sector risk assessment model combined with a bottom-up quantitative security selection process. Risk at the market, sector and security levels is continually reassessed to determine the degree of exposure — versus income securities, cash and short-term deposits — for each investment mandate. This clearly defined process allows the Barometer Team to manage toward our core objective, which is to consistently generate positive returns through changing market conditions.

Security Selection

The most significant increases in market value often occur as the market recognizes that a company has made the leap from good to great. Employing proprietary quantitative analytics, Barometer researches and ranks over 64,000 securities in more than 41 industry sectors. The single-minded purpose is to identify companies and securities exhibiting those combinations of characteristics found in companies undergoing a positive change. Our rigorous ranking criteria, used to screen for specific fundamental and technical factors, help us to narrow the broad universe of potential investments to a highly potent list of "possibles". Continuous and thorough due diligence then helps bring the list into sharper focus. Once investments are made, they are re-evaluated daily to measure them against recently unearthed candidates. This ensures they compare favourably and that they continue to meet our criteria.

Finally, using our market and sector risk assessment models we endeavour to weight portfolios to suit the current market environment in order to deliver on the promise of consistent absolute returns.

Portfolio Construction

Portfolio diversification is important. However, over-diversification can lead to market-like, highly correlated returns. As active managers, our goal is not to simply mimic an index, rather, to produce absolute returns. Whether an equity portfolio, or income or balanced portfolio, a portfolio that is focused provides diversification while allowing the most dynamic, best performing securities to make a difference.

We do not restrict holdings by market capitalization or sector; however, our strict liquidity requirements require that we must be able to exit our full position if sell limits are triggered.

Selling Strategy

"The most common investment mistakes have very little to do with what people buy, but almost everything to do with what they sell"

Barometer was built from the ground up on a disciplined commitment to capital preservation. We've proven that a clearly defined selling strategy is the most effective way to protect portfolios when reality doesn't live up to expectation. The simple fact is, over years, maybe generations, you have accumulated wealth. The responsible management of that wealth means placing an emphasis on preserving it. Knowing when to liquidate or sell assets to limit exposure to risks can help avoid costly drawdowns that are hard to, or in some cases, impossible to recover from.

The Barometer's selling strategy works like this:

- Clearly define an exit price—below purchase—that triggers a sale if the price is below an acceptable level.
- Regularly reset stop loss alerts not lower than before. If prices rise as expected, alerts are ratcheted higher.
- Consistently use and adhere to stop loss alerts.

This strategy is designed to eliminate rationalization and emotion from the sell decision. The point is to ensure small losses don't turn into big losses and to realize full value for the key positions that drive returns.

Our Services

We deliver our unique brand of investment management in various formats. Investment solutions are customized to client needs. Assets may be managed using separately managed accounts, private pooled portfolios or prospectus funds. In all cases, portfolios are managed using our Disciplined Leadership Approach™.

Separately Managed Portfolios

For both individual and institutional investors, separately managed accounts are for those who prefer to have their portfolio managed on an individual basis. Account sizes range, but the minimum portfolio size for this service is $10,000,000.

Private Pools

For individuals seeking a pooled solution or a compliment to other holdings in their existing portfolio, Barometer offers 5 private pools that can be used on their own or in various combinations. Each is designed and built to meet different investment goals and objectives:

- Barometer Equity Pool
- Barometer Tactical Balanced Pool
- Barometer Tactical Income Pool
- Barometer Long Short Pool
- Barometer Global Macro Pool

Details are available in our Offering Memorandum.

Building Customized Investment Solutions

This process begins by clearly understanding each client's financial needs and objectives taking into account lifestyle, goals, and expectations with regard to their investment portfolio. For every client, we develop an understanding of their return expectations, thoughts about risk, cash flow requirements, tax situation and time horizon. These specific financial objectives are translated into an asset mix strategy that is outlined in a written Investment Policy Statement. The mandate definition provides a framework for us to manage client portfolios to derive the maximum benefits from their long-term investment goals.

Typically, our mandate definitions include a combination of our income and equity strategies whose proportional mix is tactically managed to deal with the changing conditions in the financial markets.
Our clients derive benefit from the combined experience of the Barometer Team which has developed custom investment mandate definitions for the varying needs of our high-net-worth clients.

Ownership History and Structure

Barometer Capital Management was formed in 2001. The partners assembled a tightly integrated team with complementary skill sets which wrap around each of our valued clients. Today, Barometer is independent, 100% partner-owned, and manages approximately $2.0 billion dollars[1] for families, endowment funds & trusts throughout Canada and internationally.

[1] *Assets under management includes separately managed client accounts, Barometer Private Pools, the Barometer Group of Funds and investment advisory services to broker/dealers via an investment management platform as of December 31, 2017.*

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