MARCH 2019

Q1 report

With diminished likelihood of further interest rate hikes in the U.S. through 2019, some key uncertainties were removed from equity markets.

Equity markets have rallied throughout the first quarter of 2019 with U.S. markets leading the way after a deep correction in the fourth quarter of 2018. By the end of last year, market breadth models were deeply oversold leading us to position defensively to protect against any further downside. When the market began to rally late in December 2018, our portfolios remained defensively positioned until our models began to look more constructive to protect against a likely retest of the December lows. As the market continued to follow through, we increased exposure.

This equity market rally through the first quarter of 2019 was initiated by the Federal Reserve as they took a more accommodative stance.

With diminished likelihood of further interest rate hikes through 2019, and the probability that a deal would emerge from U.S.-China trade talks, equity markets received some needed confidence.

As a result of the accommodative Federal Reserve policy, bond yields came down over the course of the first quarter and the latter portion of March. Certain durations of the U.S. yield curve, 3-month and 10-year, inverted as a result of this, which to some could be a cause for concern creating worries about further growth in the economy. Not as widely discussed, however, was the fact that as these durations inverted, longer durations, 20-year and 30-year, steepened.

Given historical data trends, it is our view that this type of yield curve inversion is not cause for immediate concern, merely something to be monitored. Throughout history we have seen this type of inversion before in 1978, 1989, 1998 and 2006, and given a low 10-year yield, investors tend to reallocate to equities and equity multiples tend to expand. Furthermore, when the current earnings yield of the S&P 500 is more than 3% higher than the yield on 10-year U.S. treasury note, it is a positive for equities. The spread between the current earnings yield of the S&P 500 and the yield on 10-year U.S. treasury notes widened to this point in late March 2019.

The information technology sector

barometer

Barometer Capital Management Inc. | 1 University Avenue, Suite 1800 | Toronto, Ontario | M5J 2P1 Telephone: 416-601-6888 Fax: 416-601-9744

was the best performing sector of the U.S. market in Q1. As the sector demonstrated leadership through the first quarter rally, we built positions in information technology in our portfolios. There were a couple key themes that drove the performance of technology sector; the first was the continued strong growth and revaluation of cloud software names. These companies have strong secular growth runways in front of them and are being rewarded as a result. In this space, we own Microsoft Corp., ServiceNow Inc. and Shopify Inc., to name a few. Moreover, with the rollout of the 5G networks in the U.S., China and Korea, technology sector companies will benefit in anticipation of launch. There are a number of companies that we own amongst our portfolios, such as Cisco Systems Inc. and Keysight Technologies Inc., which have already benefited in anticipation of the launch of 5G networks.

Portfolio Updates

Barometer Tactical Income Pool

The Barometer Tactical Income Pool (the "Pool") entered the quarter with an approximately 60% allocation to a laddered mix of U.S. and Canadian Government bonds intended to reduce exposure to equity markets after the volatility experienced in the fourth quarter of 2018.

As our models began to turn positive and the market began to act more constructively, we sold down our positions in these bonds and began to build positions information technology, industrials, financials, energy and real estate. Initially, we purchased index ETFs as to not miss upside as we searched for sectors and companies exhibiting the leadership characteristics that we look for. These index ETFs contributed strongly to performance during the quarter but eventually were sold down and the proceeds invested into single stock positions.

On a sector basis, information technology exposure was the top contributor to performance, bolstered by outperformance by digital payments names like Visa Inc. and Mastercard Inc. The Pool ended the quarter with approximately 15% weighting in the information technology sector.

Exposure to the industrials sector also contributed positively, with names like Honeywell International Inc. and aircraft component manufacturer TransDigm Group Inc.

American Tower Corp. contributed positively to performance, benefitting from a more positive interest rate environment, which generally benefits REITs. The company also continues to benefit from increased spending by global telecommunications companies.

Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool (the "Pool") entered the first quarter of 2019 with approximately 50% allocation to fixed income securities.

Throughout the first quarter, exposure to Real Estate was increased from 9% to 14% as REITs, specifically Canadian REITs, have continued to perform well throughout the first quarter of 2019, as bond yields in the U.S. and

Barometer Capital Management Inc. | 1 University Avenue, Suite 1800 | Toronto, Ontario | M5J 2P1 Telephone: 416-601-6888 Fax: 416-601-9744

Canada have decreased. Granite REIT and Canadian Apartment Properties REIT have both been accretive to the Balanced Pool's performance during Q1. Canadian Apartment Properties REIT is less sensitive to changes in interest rates than most other REITs as the duration of their leases are about one year, whereupon they can raise rents.

The Pool increased exposure to the information technology sector from 8% to 14% throughout the first quarter as the sector outperformed the market. The Pool has held Visa Inc., a payment company within the technology sector, since the first quarter of 2017. Visa Inc. continues to add to the Pool's overall performance.

Alphabet Inc. and the New York Times Co. were added to the portfolio, which contributed positively to performance and boosted exposure to the communication services sector from 6% to 13%.

Over the course of the first quarter we reduced health care exposure in the Tactical Balanced Pool from 12% to 8%, as we see increased headline risk in the U.S. with respect to this sector as prominent Democrat presidential candidates take aim at drug pricing.

Barometer Equity Pool

The Barometer Equity Pool (the "Pool") began the quarter with a 3% position in the information technology sector which was increased to 35% by the end of the quarter. Capital was allocated to names such as Keysight Technologies Inc., ServiceNow Inc. and Coupa Software Inc. The sector benefitted from continued strong growth and revaluation of the cloud software industry. Also accretive to performance were companies such as PayPal Inc. and Shopify Inc., as digital payments companies continue to experience secular growth.

Exposure to the consumer discretionary sector was increased from 4.5% to 10% during the first quarter of 2019, as names like Planet Fitness Inc. and O'Reilly Automotive Inc. outperformed the market.

While Harvest Health & Recreation Inc. was the position that added the most to performance in Q1, some other names in the cannabis industry detracted from performance, namely ResMed Inc. and MJardin Group Inc.

At various points throughout the first quarter, base and precious metals rallied as the U.S. Dollar weakened. This helped companies like Hudbay Minerals Inc. and Kirkland Lake Gold Ltd contribute positively to the Pool's performance. Exposure to the Industrials sector helped as well, Thomson Reuters Corp. and Air Canada both had strong starts to the year and were positions that the Pool held throughout the quarter.

Barometer Global Macro Pool

The Barometer Global Macro Pool's (the "Pool") performance in the first quarter was primarily driven by exposure to U.S. equity markets. The Pool's overweight positions in themes such as semiconductors, cloud computing and cyber security all contributed positively. The Pool's position in the First Trust NYSE Arca Biotechnology ETF also contributed positively as biotechnology re-established leadership after selling off in the fourth quarter of 2018. The Pool held this position in biotechnology throughout the quarter and it proved to be a consistent winner.

Despite some weaker economic data being released during Q1exposure

barometer

to economically sensitive sectors like transports and home builders did perform well and added to the Pool's performance during the quarter.

The Pool also benefitted from exposure to emerging markets, specifically China, as these markets performed well against a backdrop of weakening U.S. dollar and trade talk progress. Emerging markets outperformed U.S. markets on relative basis through December 2018, so we entered the first quarter of 2019 with a 30% allocation to emerging markets that was gradually sold down to 20% by the end of the quarter.

Commodities exposure was increased throughout the first quarter of 2019 as both base and precious metals performed well.The Pool's short position in volatility added to performance as volatility that was seen in the U.S. equity markets in the fourth quarter of 2018 collapsed as markets rallied.

Barometer Long Short Pool

Exposure to the Information technology sector, specifically the software industry, contributed positively to the Barometer Long Short Pool's (the "Pool") performance during the first quarter. As previously noted, Keysight Technologies Inc. outperformed the broader market. In early March, the Pool participated in the Lightspeed POS Inc.'s initial public offering, which contributed positively to performance. Lightspeed POS Inc. is a Canadian cloud-based payments company and fits within this theme that we continue to favour.

Our holding in Harvest Health & Recreation Inc. was the position that contributed most positively to performance during the first quarter. It is a name that we continue to like because it is the largest multi-state operator in the U.S. cannabis industry by licences and has an attractive valuation relative to Canadian peers.

The Pool was briefly exposed to semiconductors during the first quarter and this exposure did contribute negatively to performance, the exception of Hudbay Minerals Inc. which was accretive to performance, exposure to the Materials sector largely detracted from performance as gold miners did not rally as much as gold itself.

As crude oil prices began to strengthen against a backdrop of decreased supply and a weakening U.S. dollar, we added exposure to some Energy names, with Valero Energy Corporation making a notable contribution to performance. Looking forward, we see a constructive environment for oil prices as sanctions on Venezuela are put on and concessions on Iran sanctions roll off.

Looking Ahead

As we look at our risk-models at the end of the first quarter, market breadth continues to be constructive. With an accommodative Federal Reserve and the current yield on the S&P 500 more than 3% higher than the yield on the U.S. 10-year treasury note, a positive backdrop is set up for equity markets. Growth concerns that fueled selling in the fourth quarter of 2018 have now begun to be abated by increased forward earnings estimates. We continue to closely monitor our models and should breadth contract, or trends weaken, we will position our portfolios accordingly.