JUNE 2019

Q2 report

After a strong April, U.S. equity markets pulled back in May, but resumed strength with a strong end to the quarter in June.

Barometer portfolios performed well through the May pullback, and generally finished the quarter in a positive position.

Within the S&P 500 Index, the financials sector was the strongest performer on the back of U.S. insurance companies which fell into favour with investors given their strong domestic presence and minimal international exposure. Gold rallied in June, breaking out of a 5five-year consolidation on the back of a weakening U.S. Dollar and its status as a haven asset given the spike in policy uncertainty seen during the month. As a result of the strength in gold, the materials sector enjoyed a quarter of strong performance. In April, crude oil continued the rally it began in December but experienced a difficult May due to geopolitical instability within OPEC. Bonds rallied throughout the quarter as globally, bond market investors demonstrated willingness to accept lower yields. Economic weakness in Europe bolstered demand for U.S. treasuries as fixed income managers struggle to navigate in a world with approximately $13 trillion in negative yielding sovereign debt. In such an environment, any amount of yield becomes attractive.

During the quarter, U.S. economic data was mixed. Strong GDP growth over the quarter led to a large inventory build which could produced a hangover-like effect into the second quarter. However, as the growth slows, the probability of interest rate cuts by the Federal Reserve increases, providing a catalyst to strengthening markets. As it stands, the futures market places the odds of a rate cut by the Fed in July at 100%, and nearly 95% for two rate cuts before the end of the year. It will be important to watch U.S. economic data to determine whether these rate cuts will occur, but S&P 500 performance following the first Fed rate cut in a non-recessionary environment is usually consistent with good forward performance over one- and two-year time horizons.

As mentioned, markets pulled back in May and as that began to happen our market breadth models turned negative as well. When our models turned down, we hedged out much of the equity market exposure from our portfolios by shorting index futures and trimming positions as they began to break down. The proceeds were generally kept in cash or government bonds while we waited for leadership groups to re-assert themselves. As our models began to turn positive towards the

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end of May, we increased equity market exposure, focusing on strong sectors preparing for June.

Within the portfolios, exposure to the information technology sector contributed most significantly to performance. Themes within this sector, such as payments processing and cloud software continue to perform well and remain themes that we favour. We also saw strong performance from the consumer discretionary sector, as companies levered to the health of the American consumer outperformed.

Portfolio Updates

Barometer Tactical Income Pool

Over the course of the quarter, the Barometer Tactical Income Pool increased exposure to the financials sector from approximately 12.5% to 20% of the portfolio, as we added some insurance names such as Travelers Companies Inc.(TRV:NYSE) and Allstate Corporation(ALL:NYSE). These names fell into favour as investors sought insulation from U.S.-China trade tensions and liked the strong domestic focus of insurance companies with minimal international exposure. The Pool also added exposure to the consumer staples sector, adding Estee Lauder Companies Inc.(EL:NYSE), Mondelez International Inc. (MDLZ:NASDAQ), and Proctor & Gamble Co. (PG:NYSE). These traditionally defensive names performed well during the quarter as the sector underwent multiple expansion on the back of investors seeking lower volatility securities during a period of heightened policy uncertainty. Despite some mixed economic data that was released during the quarter, the U.S. consumer remains robust. We held some names leveraged to the purchasing habits of the U.S. consumer, Starbucks Corp.(SBUX:NASDAQ) and McDonald's Corp.(MCD:NYSE), both contributed positively to performance. As tends to happen during corrections in a bull market, leadership names get impacted first and most severely. Analog Devices Inc. (ADI:NASDAQ) was a name that had exhibited relative strength through the first quarter and into April, but after we took a position in mid-April, the name sold off more than the market in May and we were stopped out.

Barometer Tactical Balanced Pool

Over the course of the quarter, exposure to the utilities sector increased from 3% to 6%. Within the sector, exposure to American Water Works Inc. bolstered the Pool's performance as the name underwent multiple expansion on the back of a steadily growing dividend and a business model with predictable cash flows.

Exposure to the information technology sector also contributed positively to performance with names like Visa Inc. (V:NYSE) and Microsoft Corp. (MSFT:NASDAQ) performing well throughout the quarter. Microsoft Corp. continues to benefit from strong growth in their cloud segment and the tailwinds associated with running a subscription-based software business.

The Pool's exposure to rReal eEstate iInvestment tTrusts (REIT) was taken from 14% to 7% over the course of the quarter as names within this sector generally failed to perform well within an environment of falling interest rates. Typically, real estate investment trusts REITsooutperform during periods of falling rates, as was seen during the second quarter, since their cost of debt becomes cheaper, so when they began to lag, we trimmed them out of the portfolio. Even so,

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exposure to real estate contributed negatively to performance during the quarter.

Within the consumer staples sector, exposure to Alimentation Couche-Tard Inc.(ATD.B:TSX) contributed positively to performance as the company continues to benefit from their exceptionally strong retail sales out of the U.S. The company, which owns Circle K gas stations and convenience stores has been successfully executing on their initiative to build out U.S. business and is a name we continue to favour.

Barometer Equity Pool

During the second quarter, the Barometer Equity Pool added exposure to gold miners as the commodity rallied in June, which brought materials sector exposure from 6.5% at the beginning of the quarter to 11% at the end of the quarter.

Exposure to the energy sector was taken down to zero over the course of the quarter. When crude oil began to sell off during May, we began to drastically reduce our holdings of energy names, getting stopped out of Crescent Point Energy Corp.(CPG:TSX) and Valero Energy Corp.(VLO:NYSE) While these positions contributed negatively to performance during the quarter, we made the prudent decision to sell them out of the portfolio and shift into groups exhibiting leadership.

Industrials sector exposure contributed positively to performance and was taken from approximately 8% of the portfolio to 19.5%. Within the industrials sector, we owned Air Canada(AC:TSX) throughout the whole quarter as we continue to favour the name as they undergo multiple expansion based on their target of achieving investment grade status by the end of the year and the launch of their in-house loyalty program.

The best performing security in the portfolio was Lightspeed POS Inc.(LSPD:TSX), a Canadian cloud-based commerce platform for retailers and restaurant operators that enables them to sell across channels, manage their operations, and accept payments. As a theme, digital payments is one that Barometer continues to favour and Lightspeed POS Inc is an exciting and fast-growing Canadian company within the space.

Barometer Global Macro Pool

Over the course of the quarter, the Barometer Global Macro Pool increased exposure to commodities from roughly 16% to 20%. This was done by gradually increasing exposure to gold and gold miners and trimming exposure to oil and base metals. The Pool's position in the VanEck Vectors Gold Miners ETF (GDX:NYSE)was especially accretive to performance as we held the position throughout the quarter.

The Pool's short positions in U.S. treasuries contributed most negatively to performance during the quarter as bond markets globally experienced a euphoric rally. U.S. treasuries looked increasingly attractive to European investors attempting to navigate a world with approximately $13 trillion in negative yielding sovereign debt.

Falling interest rates throughout the quarter proved to be a tailwind to the U.S. housing market. As a result of this, homebuilders benefitted. The Pool held positions in both the iShares U.S. Home Construction ETF(ITB:CBOE) and the SPDR S&P Homebuilders ETF(XHB:NYSE), both of which performed well and contributed positively to the Pool's performance.

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For the first two weeks of April the Pool had a short position in volatility which was then covered until the middle of May when it was put back on. Due to the subsequent collapse in volatility through the month of June, this position contributed positively to performance during the quarter.

Barometer Long Short Pool

The Barometer Long Short Pool increased materials sector exposure during the quarter from 4.5% to 11%, adding positions in both gold and copper miners. Within the sector, there was bifurcation in performance as gold continued to rally throughout the quarter while copper backed off. Kirkland Lake Gold Ltd.(KL:TSX) performed well as investors favour their high-quality gold assets and minimal exposure to geopolitical risk as their operations are in Canada and Australia. We were stopped out of Freeport-McMoRan(FCX:NYSE) on the back of weakness in copper, since the company derives 70% of revenue from the commodity.

The Pool entered the quarter with an 8.5% weight in the energy sector and finished the quarter net short. As crude oil began to break down the Pool was stopped out of all of its energy names, and then took a short position in Cimarex Energy Co.(XEC:NYSE).

Exposure to the health care sector also hurt performance as names like MJardin Group Inc(MJAR:CNSX) was stung by weakness in the cannabis space, and Harvest Health and Recreation Inc.(HARV:CNSX) backed off after a strong first quarter.

The Pool has owned Lightspeed POS Inc.(LSPD:TSX) since its initial public offering and benefitted accordingly from this exposure during the quarter as the name continues to be favoured by investors.

Looking Forward

As we enter July, our market breadth models remain positive. Moving forward, all eyes are on the Federal Reserve for indication of rate cuts, and indication as to whether they will continue to cut. As it stands, the futures market places the odds of a rate cut by the Fed in July at 100%, and nearly 95% for two rate cuts before the end of the year. The strength of the European economy must also be monitored, as its weakness is depressing yields in the U.S. Should we see the bond market back off, investors will be more inclined to increase equity exposure.

Market participants remain vigilant of global trade tensions, specifically between the U.S. and China. Should further indication be given that these tensions are increasingly likely to be settled in the near-term, we expect more investors to be willing to adopt a risk-on posture. Generally, investors are underexposed to equities and have sat on the sidelines through most of this move to new highs. Exposure levels and ETF inflows and outflows are data points we carefully measure as contrarian indicators to show when a trend may be overextended, or as is the case currently with U.S. equities, remain under-owned.

As was done successfully in May, we continue to monitor breadth models and will not hesitate to take a defensive stance should we see signs of deterioration.

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