

JUNE 2021

Q2 report

As the global economy has reopened macroeconomic data throughout the world has accelerated, propelling economically sensitive sectors like energy, industrials, and financials to new highs. Allocations into these sectors have replaced much of the technology weight seen across Barometer portfolios in Q1.

This past quarter was marked by significant shifts in market leadership that have led to notable changes to Barometer's portfolio sector allocations. Technology companies had been clear market leadership for much of the duration of the pandemic due to remote work and shifting consumption habits driven by social distancing efforts.

The energy sector was very strong during the quarter on the back of higher oil prices caused by rampant demand. The financials sector worked well during the quarter due to elevated interest rates and a steepening yield curve, as well as expectations for positive results to come out of the

Federal Reserve Comprehensive Capital Analysis and Review (CCAR) stress tests which occurred at the end of June.

This strong economic growth and consequent strong performance in equity markets have been underpinned by extremely supportive global central banks. The level of monetary and fiscal stimulus provided over the last 18 months is unsustainable, and as economic data firms and signs of inflation start to appear, investor concern turns to a potential reduction of stimulus efforts. This will remain a worry until we begin to see concrete plans for a tapering of central bank balance sheet expansion,

especially by the Federal Reserve in the U.S., but markets have broadly responded in a healthy manner when discussions of tapering have occurred during Fed meetings, so we expect the tapering process to proceed in an orderly manner, likely beginning sometime next year. The Federal Reserve has communicated quite clearly that the inflation they are seeing at the moment is transitory and is driven by some supply chain dislocations and supply and demand imbalances. With all this in mind, the Fed remains committed to providing substantial liquidity for as long as necessary.

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Barometer Tactical Income Pool

The Barometer Tactical Income Pool entered the quarter with an overweight bias towards energy, industrials, materials, and financials as these sectors continued to show strength on the back of a global economic recovery. Through the same period, the pool was underweight in information technology, healthcare, consumer discretionary, and communication services. Exposure to the energy sector was increased over the quarter as energy stocks performed strongly on the back of resilient crude oil prices. At current spot crude oil prices, energy companies are producing strong free cash flow with an emphasis on paying down debt and strengthening their balance sheets. The strong fundamentals, coupled with improving demand conditions for oil and gas have increased investor attention to the sector. With second-quarter earnings reporting season around the corner, energy

companies should show strong quarterly earnings and inflection in free cash flow. Exposure to materials and industrials sectors was reduced during the quarter as better investment opportunities were found in other sectors, such as energy. The materials sector experienced a sell-off in lumber and copper stocks after the underlying commodities significantly outperformed in the first half of the year. The price of copper moderated as rumors, that China, would release stockpiles from the country's strategic reserves to combat the strong move in the commodity. Over the course of the quarter, energy, financials, real estate, and consumer discretionary were the best performing sectors within the pool, while communication services, healthcare, and materials weighed on pool returns. Within the pool's energy holdings, the companies involved in natural gas production generated outsized returns with Topaz Energy Corp. (TPZ:TSX) and Keyera Corp. (KEY:TSX) appreciating 20.3% and 29.6%,

respectively. Warmer weather and increased demand expectations in an environment where supply continues to be constrained have resulted in strong performance within the group, with the largest detractors to the pool returns found in the materials group. Entering Q3 2021, the pool maintains an overweight bias to energy and financials, while being underweight in communication services, consumer discretionary, healthcare, industrials, information technology and materials.

Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight bias towards energy, financials, materials, and real estate while being underweight in communication services, consumer discretionary, consumer staples, healthcare, industrials, and information technology. During the quarter, exposure towards

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energy, communication services, consumer discretionary, consumer staples and real estate increased as these sectors continue to benefit from the reopening of economies. Meanwhile, exposure towards financials, healthcare, industrials, and materials were reduced. The pool benefitted from exposure to consumer discretionary, energy and real estate, as these sectors exhibited strong performance during the quarter. Within energy, the pool benefitted from exposure to Tourmaline Oil Corp. (TOU:TSX) and Topaz Energy Corp. (TPZ:TSX) as shares in the companies rallied by 48.9% and 20.3%, respectively. Strong oil and gas prices are providing a tailwind to the energy sector as we head into earnings season. The companies should be able to put up solid earnings results and specifically strong cash flow profiles in the current commodity backdrop. Meanwhile, the pool's exposure to healthcare, industrials and utilities weighed on returns. Entering Q3 2021, the pool maintains an

overweight bias to energy, financials, materials, utilities, and real estate, while being underweight in communication services, consumer discretionary, consumer staples, healthcare, industrials and technology sectors.

Barometer Equity Pool

The Barometer Equity Pool entered the quarter overweight in both the energy and financials sector. Energy sector exposure contributed most positively to the pool's performance during the quarter. As the quarter progressed, it became increasingly clear that crude oil prices would continue to move higher based on a favourable imbalance between supply and demand. Near-term oil supply remained roughly flat while demand increased as the global economy reopened. Increasingly, the ability of major oil producers to develop new projects and bring new supply online has come into question as activist shareholders push the majors

to allocate capital towards reduction of carbon emissions and away from exploration and production projects. This long-term headwind to oil supply moved the price of the commodity higher during the second quarter and may continue to do so for the rest of the year. All energy companies owned by the pool during the quarter made positive contributions to performance, but Paramount Resources Ltd. (POU:TSX), Birchcliff Energy Ltd. (BIR:TSX), and Arc Resources Ltd. (ARX:TSX) were the standout winners.

Exposure to the financials sector also made a notably positive contribution to pool performance. Higher rates and anticipation of U.S banks being allowed to increase capital return programs lifted shares in Morgan Stanley (MS:NYSE), CI Financial (CIX:TSX), and First Republic Bank (FRC:NYSE). Financials sector exposure was increased during April and May but trimmed slightly in June as rising yields took a pause and the technology sector began to act more favourably. Exposure to Newmont Corp.

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(NEM:NYSE) and Barrick Gold Corp. (ABX:TSX) contributed negatively to pool performance and was reduced accordingly throughout the quarter.

Barometer Long Short Pool

The Barometer Long Short Pool entered the second quarter with an overweight position in the energy sector, which was further increased throughout the quarter. Some of the best performing names were Crew Energy Inc. (CR:TSX), Birchcliff Energy Inc. (BIR:TSX), Advantage Energy Inc. (AAV:TSX) and Arc Resources Ltd. (ARX:TSX), which all delivered strong quarters as a result of materially higher oil prices.

Information technology sector exposure also made a positive impact to pool performance during the quarter. The pool entered the quarter with a very small allocation towards the sector, but late in the quarter as yields began to roll over technology exposure was increased. Two Canadian tech

companies contributed most positively within the sector, Converge Technology Solutions Corp. (CTS:TSX), the IT service provider, and Nuvei Corp. (NVEI:TSX), Canada's only pure-play online payment solutions company. Nuvei Corp. has the largest exposure of any online payment solutions company to online sports betting and iGaming, which was a great industry to have exposure to during the quarter as Canada passed legislation to legalize single-game sports betting.

Exposure to the materials sector contributed most negatively to the pool's performance during the quarter but remained less than 6% of the pool's AUM for the duration. The pool had a position in the ETFMG Prime Junior Silver Miners ETF for a short period as well, and this contributed negatively. Appreciation in the Canadian dollar benefitted the pool during the quarter as the majority of holdings were Canadian dollar denominated.

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Global Macro Pool

The Barometer Global Macro Pool entered the quarter with a large weight in commodities, which was increased throughout the quarter. The pool benefitted from a broad exposure to various commodities, most notably to base metals, uranium, and lithium, agricultural commodity exposure also worked well during the quarter. Energy exposure was increased, and positions in both the S&P Oil & Gas Exploration & Production ETF and the S&P Oil & Gas Equipment & Services ETF contributed positively. With notable weakness in the U.S. dollar seen during the quarter, the pool ramped up exposure to emerging markets. The broad emerging markets ETF exposure has worked well for the pool during the quarter. The pool entered the quarter with a position in the volatility ETF after choppy markets in March exhibited a compelling case to own the asset class. As

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markets stabilized in April this position hurt pool performance.

The pool carried some technology exposure in April which made a negative contribution to performance as that sector underperformed. For the remainder of the quarter, the pool had very little technology exposure. As yields rallied in both the U.S. and Canada, the pool took a large short position in fixed income, which had a flat contribution to performance during the quarter.

Economic activity increases with significant shifts in market leadership specifically with Barometer's portfolio sectors allocations. Strong economic growth and supportive global central banks continue to provide a strong environment for propelling a broader group of companies and industry

sectors. In addition, the Federal Reserve remains committed to providing substantial liquidity for as long as necessary. With changes in market leadership and various sectors of the economy benefiting as we go through this recovery, Barometer will continue to adjust portfolios.

Looking Forward

Strong economic growth and supportive global central banks continue to provide a strong environment for propelling a broader group of companies and industry sectors. In addition, the Federal Reserve remains committed to providing substantial liquidity for as long as necessary. With changes in market leadership and various sectors of the economy benefiting as we go through this recovery, Barometer will continue to adjust portfolios.

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