MARCH 2022

Q1 report

The quarter was marked most notably by Ukraine, which led to major changes in market leadership and in turn, Barometer's portfolio positioning. As the situation in Ukraine put further pressure on the global supply shock, the market decoupled, with growth stocks feeling the burden of economic pressures, while commodity-driven countries and sectors saw robust performance with this supply/demand imbalance.

With such a geo-political crisis, the sometimes-obvious allocation to protect portfolios is cash. We would agree that in the absence of any market leadership, cash is the correct option, and Barometer has historically made that decision. However, during this past quarter, market leadership, although extremely bifurcated, allowed us to protect returns and relatively outperform markets by moving allocation decisively to commodities and overweighting Canada with investments; most notably, in energy and materials while dramatically reducing technology and other growth areas of the market. With high inflation, the prospect of higher interest rates, and further sanctions looking probable, this positioning will remain as we enter the second quarter.

Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight bias towards energy, financials, real estate, materials, consumer staples and utilities, while being underweight information technology, communication services, consumer discretionary, health care and industrials. This portfolio positioning was beneficial to performance over the quarter.

The already tight commodity markets were given another jolt with Russia's invasion of Ukraine. Given the heightened geo-political risks, the spot price of West Texas Intermediate (WTI) crude oil appreciated by approximately 44% over the quarter. Within energy, the pool's positions in Tourmaline Oil Corp. and Apa Corporation appreciated by

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46% and 54%, respectively. As highlighted above, the strong move in both oil and gas prices, coupled with improving fundamentals continue to benefit energy stocks. Analyst estimates predict the energy sector to generate the greatest revenue and earnings growth among all sectors for 2022. Within materials, Nutrien Ltd., appreciated by 42% during the quarter as fertilizer supply is being significantly impacted by Russia's invasion of Ukraine. An elevated pricing environment for fertilizers is likely for the foreseeable future.

Throughout the quarter, the pool decreased exposure to consumer discretionary, financials and information technology. Rising interest rates have continued to weigh on the valuation of high-growth tech stocks. The high inflationary environment also has investors concerned about the consumer's propensity to spend on discretionary purchases. Although higher interest rates bode well for banks, the steepness of the yield curve dictates profitability. Currently, the flatness of the yield curve as well as the inflationary environment has weighed on bank stock performance.

Detractors to pool returns include Home Depot Inc. within consumer discretionary, as well as Microsoft Corporation and Cisco Systems Inc, which depreciated by 12%, 14% and 13%, respectively. The sell-off in Home Depot can be attributed to the higher inflationary environment as well as a slowing in renovation and remodel trends, while Microsoft Corp. and Cisco Systems Inc. were caught up in the weakness of the technology sector.
Entering Q2 2022, the pool maintains an overweight bias to consumer staples, energy, materials, real estate and utilities, while being underweight in communication services, consumer discretionary, health care, industrials, financials and information technology.

Barometer Tactical Income Pool

The Barometer Tactical Income Pool sold technology as the sector began to underperform early in the quarter. The proceeds from the sale of technology securities were directed towards short-duration assets, namely within the energy and materials sectors.

Financial exposure was also reduced from approximately 28% of pool assets to approximately 17% as the positive impact to banks of higher interest rates was muted by the flattening of the yield curve, which depressed the forward outlook on net interest margin growth and also telegraphed some economic weakness.

Exposure to the energy sector contributed most positively to performance over the quarter. The pool held Canadian Natural Resources Ltd. notably added Tourmaline Oil Corp., Topaz Energy Corp., and Imperial Oil Corp. Ltd., for example. The outlook for crude prices remains strong entering the second quarter as sanctions on Russian oil and gas will continue to depress

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supply against a backdrop of higher mobility and travel as the global economy rebounds.

Materials exposure was substantially increased during the quarter as the pool benefitted from rising commodity prices. Exposure to fertilizer companies such as CF Industries Holdings Inc. and Mosaic Co. and Nutrien Ltd. contributed to results. Global fertilizer prices reached all-time highs during the quarter as Russia and Ukraine combined to produce about 20% of the world's urea supply that was disrupted due to war. Urea is a key input in fertilizer production. Aluminum exposure such as Alcoa Corp. had strong results as well as exposure to gold through ownership of Barrick Gold Corp. , Newmont Corporation and Franco-Nevada Corp. . The pool also added exposure to base metals with positions such as First Quantum Minerals Limited (FM) and Teck Resources Ltd.

The case for dividend growth among the pools energy and materials exposures remain strong as companies will continue to increase return of capital to shareholders as increases to their cashflows improve with higher commodity prices.

Barometer Equity Pool

Energy and materials exposure contributed most positively to performance during the quarter. Within the energy sector, the pool owned Canadian Natural Resources Ltd., Baytex Energy Corp., Tourmaline Oil Corp., and Advantage Energy Ltd. for the entire quarter. Intra-quarter, the pool added exposure to Arc Resources Ltd and Imperial Oil Ltd. All energy positions made a positive contribution to performance. The pool built its substantial weight in the materials sector throughout the quarter, adding Alcoa Corp. (AA) for their aluminum exposure, Freeport-McMoran Inc. for their copper exposure, Teck Resources for their base metals exposure, Stelco Holdings Inc. for their steel exposure, and Barrick Gold Corp. for their gold exposure. All contributed positively to performance during the quarter as they benefitted from stronger commodity prices.

Exposure to the technology sector was substantially reduced during the quarter. The pool began to sell growth in favour of value beginning mid-December. As rates climbed steadily and stimulus efforts in the U.S. were reduced, growth sold off and the technology sector underperformed. lagging positions were sold such as Microsoft Corporation and Motorola Solutions Inc. Notably, the pool had some outlier technology positions that did contribute positively to performance including Palo Alto Networks Inc. that benefitted from a strong market for cybersecurity software. NVIDIA Corporation was added late March due to its relative strength in the sector.

Exposure to the financials sector was tactically reduced during the quarter as the positive impact of higher interest rates was muted by the flattening of the yield curve

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which depressed the forward outlook on net interest margin growth.

Barometer Global Macro Pool

The Barometer Global Macro Pool came into the quarter with large exposures to commodities and North American equities. The Pool maintained a large short position in fixed income throughout the quarter which was reduced at the end of March as the bond market saw substantial selling pressure reach tactically oversold conditions. The short position in fixed income made a strong positive contribution to pool performance during the quarter due to the magnitude of weakness seen in the bond market.

Exposure to North American equities was reduced throughout the quarter as the pool increased commodity exposure. Within equities, the pool reduced exposure to U.S. financials most notably, and was tactically short ETFs containing high-multiple securities like ARKK which further reduced equity exposure.

Commodities exposure made a strong positive contribution to return during the quarter as across the board commodities of all types moved higher. The pools exposure to base metals worked well as its position in the SPDR S&P Metals and Mining ETF (XME) rallied throughout the quarter. Copper exposure, achieved through ownership of the Global X Copper Miners ETF (COPX) made a strong positive contribution as well. The pool increased precious metals exposure as the quarter progressed, adding the Sprott Physical Gold Trust (PSLV) and the Sprott Physical Silver Trust (PHYS). Precious metals exposure contributed positively to pool performance during the quarter as well.

Energy exposure worked well and was achieved through owning a combination of oil & gas exploration and production companies within the SPDR S&P Oil & Gas Exploration & Production ETF (XOP) and services companies within the VanEck Oil Services ETF (OIH), as well as natural gas through the US Natural Gas Fund, LP (UNG) which owns natural gas futures.

Barometer Long/Short Pool

The Barometer Long/Short Pool entered the quarter with an overweight bias to consumer discretionary, consumer staples, energy, information technology and real estate, while being underweight communication services, financials and utilities. During the quarter, exposure towards energy and materials was increased, while exposure towards remaining market sectors was decreased. With the rise of geo-political tensions due to Russia's invasion of Ukraine, commodity markets which were already facing supply chain disruptions due to COVID-19, were met with another crisis that negatively impacts supply and has caused a significant rise in commodity prices.

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The pool benefitted from its overweight exposure to the energy sector. Given the spike in crude oil, energy stocks with slightly higher debt levels than the peer group rallied due to their torque to the higher commodity price. As such, in Q1 the pools holdings in Surge Energy Inc., Obsidian Energy Ltd., and Baytex Energy Corp. appreciated by 55%, 49%, and 43%, respectively. The pools tactical short positions in U.S. multi-state-operator cannabis companies also generated strong returns. Share prices of Curaleaf Holdings Inc., Trulieve Cannabis Corp., and Cresco Labs Inc. had all rallied in mid-February on the back of potential regulatory changes by the U.S. federal government. Channel checks and extensive research pointed to the fact that even if the proposed bills were supported in the House of Commons, there was little support to pass such bills by the Senate. Stock prices of Curaleaf Holdings Inc., Trulieve Cannabis Corp., and Cresco Labs Inc., depreciated by 23%, 24%, and 13%, respectively.

Information technology stocks were the largest detractors to fund returns as valuation multiples of high growth stocks continued to be impacted by rising interest rates. Small-cap technology stocks were most vulnerable in this environment.

Entering Q2 2022, the pool maintains an overweight bias to energy, materials, real estate and consumer discretionary, while being underweight communication services, financials, healthcare and information technology.

Looking Forward

As the situation in Ukraine continues to evolve and further sanctions remain a coordinated global response, we see current market leadership continuing. At this point, we continue to see pressure on growth stocks while commodity supply constraints keep prices strong. Inflation and the prospect of higher interest rates feed into these current investment themes, and thus portfolios will hold onto current allocations, until we see any changes.

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