DECEMBER 2022

Q4 report

This past year presented many challenges as both markets and economies adjusted to rising interest rates as central banks focused on tackling inflation.

With this in mind, we saw major sectors of the economy adjust, most notably technology, which had led markets over the past couple of years bolstered by low interest rates and a remote work environment. Areas such as real estate, as well as other interest sensitive groups, such as utilities and bonds saw sharp sell offs.

In response to the sell off, we adjusted portfolios to avoid larger losses and transitioned to industrials, healthcare, and energy – which emerged as market leaders. Even with these shifts, overall performance was still affected and as a result, we continued to actively sell declining sectors.

2022 saw the technology sector down – 28% (S&P 500 info tech index), bonds down –32% (TLT) real estate - -28% (S&P 500 real estate index) and consumer discretionary – 37% (S&P 500 cons. discret. index).

In reaction to these significant declines, cash and short-term bonds were used to cushion some of the volatility which provided some additional protection to our more balanced mandates, and in turn, outperformed our more focused equity mandates.

Barometer Tactical Balanced Pool

The Barometer Tactical Balanced Pool entered the quarter with an overweight bias towards consumer staples, energy, industrials, and utilities, while being underweight in communication services, consumer discretionary, financials, healthcare, information technology and real estate. Approximately 30% of the pool assets were invested in fixed income securities. Despite actively shifting the portfolio into stronger areas of the market, negative performing sectors did affect the overall performance. Portfolio transitions and bond exposure did mute market volatility and provided some portfolio protection versus the major equity indexes.

As inflation data and fears of further interest hikes continued to weigh on returns in the quarter, exposure to short-duration fixed income securities

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and cash was increased to 39%. Technology exposure was reduced from 10% to below 3%. Apple Inc. and Microsoft Corp. continued to perform poorly and thus were sold. The pool ended the quarter with no exposure to U.S. mega-cap technology. Concurrently, given the strengthening market breadth and fundamentals within healthcare and industrials (defense stocks), exposure to these sectors was increased. Defense giant, Lockheed Martin Corp., rallied approximately 25% over the quarter on the back of good third quarter earnings results. Defense stocks continue to benefit as the Ukraine/Russia conflict remains unresolved and a broader replenishment cycle of defense products will be required. Industrials exposure was increased to 10%.

In addition, the energy sector rallied across the board from September lows on the back of strong performance from the underlying commodity as well as solid earnings results. Energy companies generally displayed discipline in paying down debt as well as the robust cash flow in efforts to return capital to shareholders. Energy exposure remained at approximately 8%.

Entering Q1 2023, the pool maintains strong positions in energy, industrials, and utilities, while being underweight in communication services, financials, healthcare, materials, and real estate. Approximately 39% of the pool's assets are invested in short-duration fixed income securities and cash.

Barometer Tactical Income Pool

Despite positive contributions from healthcare, industrials (defense stocks) and energy, exposure earlier in the year to technology weighed negatively on overall returns. In addition, strong Bank earnings and expanding net interest margins, were outweighed by the overall negative economic sentiment that depressed stock prices which contributed negatively to returns. Bank exposure was reduced from 28% to 15%. Throughout the year, as the technology sector remained under pressure with higher rates and depressed fundamentals, technology was reduced from 18% to 7% as a result.

Healthcare sector exposure contributed most positively to the Barometer Tactical Income Pool performance during the quarter despite only moving from approximately 8% of pool assets to 9% during the quarter. Companies within this sector worked well as investors sought exposure to revenue growth exhibiting low correlation to economic growth. Eli Lilly & Co. benefitted from a robust drug development pipeline. Their drug Tirzepatide which was originally developed to treat diabetes continues to show promise in the treatment of obesity. The drug is close to full approval for obesity treatment and doctors are currently prescribing it off-label for obesity treatment. The pool's position in Eli Lilly grew from approximately 4% of pool assets at the beginning of the quarter to approximately 5%.

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Industrials sector exposure contributed positively to performance based mainly on the defense sector which continued to benefit from increased global defense spending outlook. To supply Ukraine with arms, NATO countries are depleting their inventory of consumables to the benefit of Lockheed Martin Corp. and Northrop Grumman Corp. Industrials sector exposure was taken from approximately 10% of pool assets to approximately 27% of pool assets over the course of the quarter.

Exposure to the communications sector contributed negatively to performance during the quarter due to weakness in Netflix Inc. shares. While it appeared that the introduction of an ad-supported tier would adequately address the demand for such a product, Netflix reported slower-than expected uptake and shares sold off sharply.
Utilities sector exposure was taken from approximately 10% of pool assets to 0% throughout the quarter as investors rotated out based on inflation and interest rate concerns. The Pool sold positions in Capital Power Corp., Boralex Inc., Northland Power Inc., and Canadian Utilities Ltd after each stock made a slightly negative contribution to pool performance.

Entering Q1 2023, the pool maintains positions in industrials, financials, and materials.

Barometer Tactical Equity Pool

Even though healthcare, industrials (defense stocks) and energy contributed positively to performance, technology exposure earlier in the year weighed on overall returns. However, portfolio transitions through the year did protect against some of the volatility of major equity markets. Mega-cap exposures in the U.S. detracted from performance, namely Microsoft Corp. and Amazon Corp. Investors have become increasingly concerned that prolonged economic weakness globally will begin to impact Microsoft's cloud growth. As companies tighten budgets and reduce headcount, Microsoft may see weakness in their enterprise business lines. While Microsoft bulls believe that Azure, Windows, and Office 365 spend will remain robust, bears believe that growth will eventually wane. Due to Amazon's scale, their revenue growth is somewhat tied to economic growth. If the U.S. were to see a prolonged period of economic softness or recession, it is hard to believe that Amazon will not see corresponding weakness. This, coupled with pressures on the bottom line from higher shipping costs, labour costs, etc. caused the shares to sell off further during the quarter. Exposure to mega cap technology was taken to zero by the end of the quarter.

Defense company exposure contributed positively to performance in the Barometer Tactical Equity Pool with Lockheed Martin Corp. and General Dynamics Corp. benefitting from higher global defense spending outlook. Exposure to defense companies remained

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consistent throughout the quarter at about 11% of pool assets.

Healthcare sector exposure contributed positively. Within healthcare, Merck & Co Inc. benefitted from the continued success of their diversified drug lineup. During the quarter, Merck saw evidence in phase 2 trials that their mRNA cancer vaccine, when combined with another Merck cancer therapy Keytruda, showed efficacy in recurrence-free survival for patients with late-stage melanoma. The pool also owned Eli Lilly & Co. throughout the quarter which made a positive contribution to performance.

Communications sector exposure contributed positive to performance due to the pool's ownership of Shaw Communications Inc., as shares in Shaw continued to converge upon the price at which Rogers Communications Inc. agreed to acquire the shares as the probability of regulatory approval for the deal increased.
Within the Consumer Staples sector, performance was led by Weston Ltd. And Campbell Soup Co. as both companies demonstrated better-than-expected ability to pass on inflation to customers.

Barometer Long/Short Pool

Even with the pool's exposure to consumer discretionary, energy and financials that posted positive returns, exposure to industrials and information technology detracted from overall returns. The pool's short positions were also detracted from performance during the market rally in October and November, not yielding better results until December.
Within technology, persistently stubborn inflation data as well as commentary from the Fed that it was too early to back away from interest rate hikes weighed on this sector, with position in Docebo Inc. and Magnet Forensics Inc.detracting from performance.

Within energy, the pool's positions in Cathedral Energy Services Inc., Precision Drilling, and Shawcor Ltd. rallied 32%, 13% and 38%, respectively. As strong commodity market backdrop as well as company specific fundamentals were the drivers of solid performance.

Entering Q1 2023, the pool is overweight exposure towards consumer discretionary, industrials and materials, while being underweight communication services, consumer staples, energy, financials, healthcare, information technology, real estate, and utilities.

Barometer Global Macro Pool

The Pool benefited from positive contributions to from exposure to North American equities and commodities, however, a negative impact from energy exposure during the quarter detracted from overall returns for the pool.

The pool's ownership of SPDR Oil & Gas Equipment & Services ETF contributed positively to performance as shares in energy companies broadly held during the quarter but the pool's positions in the United States Oil Fund and the US

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Natural Gas Fund LP contributed negatively as the commodity prices saw weakness.

Financials sector exposure, specifically exposure to U.S. brokerages and insurance companies made a strong positive contribution as structurally higher interest rates increased the earnings power of companies in these industries. The pool benefitted from exposure to the industrials sector broadly, precisely to the defense industry through ownership of the iShares Aerospace & Defense ETF .

Precious metals exposure made a positive contribution to pool performance during the quarter. Exposure was taken from approximately 13.5% of pool assets at the beginning of the quarter to approximately 26% of pool assets at quarter-end. Gold and silver prices chopped steadily higher throughout the quarter as investors sought inflation-hedges. Shares in the Sprott Physical Silver Trust and the iShares S&P/TSX Global Gold ETF contributed the most positively.

The pool held a short position in U.S. dollars throughout the quarter. The pool began the quarter with a short position of approximately -10% of pool assets which grew to approximately -16.5% of pool assets by the end of the quarter. USD continued to weaken for much of the quarter, causing the short position to contribute positively to performance.

The pool enters the new year with an overweight position in commodities, including base and precious metals and energy. Exposure to North American equities sits at approximately 30% of pool assets skewed towards the industrials and financials sectors. The pool remains short USD.

Looking Forward

As we begin Q1 2023, we look to more encouraging signs of slowing inflation, a deceleration of interest rate increases and an economy that can absorb this past year's disruptions. Recent U.S. CPI Data has come down from 9.1% in June to 6.5% in December and markets have begun the year demonstrating stronger market breadth. Barometer remains ready to make necessary portfolio adjustments.

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