Quarterly Market Commentary

December 2019

The U.S. and global industrial sectors follow a 40-month cycle of acceleration and deceleration which we know to be the inventory cycle. The global Producer Manufacturing Index (PMI) bottomed in July this year, 41 months after the February 2016 low. The 2016 low was 42 months after the August 2012 low. And the 2012 low came 44 months after the December 2008 low. Given that the duration of inventory cycles within this long economic expansion have been tracking close to the long-term average of 40 months, we believe that the next cycle low for the global PMI will be set within a few months of November 2022, almost three years from now. Unless inflation moves up to a degree that displeases the Fed, we expect the 2022 slowdown will also prove to be a soft landing rather than a slowdown that deteriorates into recession.

We expect commodity prices will accelerate along with global industrial production (IP) reinforced by U.S. dollar weakness as global risk appetite increases. Rising commodity prices, along with further wage gains, should translate into higher inflation. Higher inflation combined with accelerating global IP should, in turn, translate into higher bond yields.

Central banks are united in their desire for higher inflation in the years ahead. While progress towards higher inflation has been slow, the central bank commitment to this goal was reinforced this past fall with the European Central Bank's return to quantitative ease and by the aggressive way the Fed responded to pressures in the overnight repo market. The key precondition for an increase in U.S. and global inflation is now in place with unemployment rates low and wages accelerating. These wage gains will be partly offset by a re-acceleration of U.S. productivity growth. Wage growth minus productivity growth equals unit labour cost growth. Rising unit labour costs over the next two years will pressure profit margins, motivating the price gains necessary to generate the higher inflation policy makers seek.

We expect global growth will accelerate over the next 18 months, particularly industrial measures such as industrial production, the global PMI, and world trade.

During the quarter, we added a new position to the portfolio. Parkland Fuel Corp. is Canada's and the Caribbean's largest, and one of America's fastest growing, independent suppliers and marketers of fuel and petroleum products and a leading convenience store operator. Parkland owns several proprietary brands, holds a license to use the Ultramar brand and is also a brand distributor of major fuel brands, such as Chevron and Esso.

We still see good long-term upside to the shares as Parkland delivers on its 3-5% organic growth targets (excluding refinery) and adds additional scale via acquisition. Its strong execution is evident in: the 15 straight quarters of retail same store sales growth (rolling out On-the-Run concept and expanding private-label), further extending its supply advantage (Elbow River's expertise, scale benefits, and adding strategic infrastructure), filling in product holes within its existing network, and launching a cross-division loyalty program (Journie) nationally by Q1/20.

John D. Rockefeller once said, "The only thing that gives me pleasure is to see my dividend coming in." As you know, we only invest in equities that pay a dividend and have a history of increasing the dividend. We had a number of our holdings raise their dividend in the fourth quarter. Enbridge announced a 10% dividend increase that will be effective in March 2020. National Bank raised their dividend by 4.4%, Telus raised their dividend by 3.6%, Royal Bank by 3.4%, Cogeco Inc. by 10.5%, and Premium Brands by 10.5%.

We remained very active with our trim functions as we continued to take advantage of the market volatility. During the fourth quarter, we trimmed up Premium Brands and trimmed down Algonquin Power & Utilities Corp. We also added a new position to the portfolio in the fourth quarter.

Some of the names that we continue to hold and favour include:

ALGONQUIN POWER & UTILITIES CORP.

On December 3rd, Algonquin Power hosted investors and analysts for management presentations in Toronto. Management updated its five-year capital investment target, which totals $9.2 billion, including the pending acquisition of New York American Water and the Bermuda Electric for $1.1 billion. The organic portion of the plan (excluding mergers and acquisitions) is 14% higher than the company's five-year growth target a year ago; incremental gains are tied to the regulated segment.

We believe that Algonquin offers a compelling valuation, given its extensive growth pipeline that includes development activities, acquisitions, utility rate base investments, and potential international expansion. As the company has a diverse investment opportunity set, a conservative payout ratio, and manageable leverage, we believe that management's mid-term 10% annual dividend growth target is realistic.

BCE INC.

BCE continues to be a rock of stability and predictability with its results. Financial and subscriber metrics in Q3/19 were close to TD and consensus expectations; as such, management was able to reiterate both its 2019 guidance and its intention to maintain dividend growth (we estimate +5%) in 2020.

We view BCE as a lower-risk name with an industry-leading dividend yield, which we believe will remain coveted by many investors in the current low interest rate environment.

BROOKFIELD BUSINESS PARTNERS

Since the last quarter, Brookfield Business Partners has continued to execute on its strategic initiatives:

I. The pending acquisition of a 57% controlling interest in Genworth Canada for $1.8 billion. Brookfield has committed to invest up to $700 million for a 22% stake in the business. The transaction is expected to close in Q1/2020. Post-closing, Genworth is expected to benefit from a number of strategic initiatives designed to enhance return on equity, including plans to optimize the capital structure, improve returns on its investment portfolio, and increase market share.
II. An agreement to acquire a 45% interest in BrandSafway for $1.3 billion. Brookfield has committed to invest up to $400 million for a 14% stake in the business. BrandSafway is a leading global infrastructure services company, providing access and scaffolding systems, forming and shoring solutions, and specialized solutions to more than 30,000 global customers in the industrial, infrastructure and commercial property markets. The transaction is expected to close in Q1/2020.
III. An agreement to privatize Teekay Offshore. The transaction is expected to close by year-end. Post-closing, Brookfield Business Partners will own approximately 42% of the equity with an implied value of approximately $270 million.
IV. An agreement to sell North American Palladium to Impala. Brookfield Business Partners and its partners initially acquired a 92% stake in the business through a debt-for-equity swap in 2015, and subsequently sold an 11% stake to the market through a secondary bought-deal offering. Brookfield Business Partners currently has a 20% stake in the business and is expected to generate net after-tax proceeds of $130 million on the sale. When combined with prior distributions, Brookfield

Business Partners will realize a 3.3x multiple on invested capital and 26% internal rate of return on its investment.

V. Very strong results from Westinghouse.

VI. A strong liquidity position. Brookfield Business Partners exited Q3/19 with pro forma liquidity of $2.8 billion. This is more than enough to fund the pending acquisitions of Genworth, BrandSafway, and Teekay Offshore ($1,155 million in aggregate).

BROOKFIELD PROPERTY PARTNERS

Brookfield Property Partners reported mixed Q3 results. Core Office was extremely strong and is poised for even more significant growth, but Core Retail results still suffer from tenant vacancies. Funds from operation met estimates but with various one-time boosts and net asset value modestly declined and foreign exchange caused the largest drag.

Big picture, we believe investors are likely to look through at least some Core Retail weakness. Re-tenanting the vacant stores takes time, and the GGP acquisition had significant upside from redevelopment and intensification that will not be visible for many quarters to come.

Buybacks continued with 2 million shares repurchased in Q3 and a further 1 million shares repurchased since September 30th at an average price just above $19 per share.

COGECO INC.

With a healthy discount to Net Asset Value of 12.9%, we continue to believe Cogeco Inc. is the better way to get exposure to Cogeco Cable's business. We are also encouraged by the increase in the annualized dividend to $1.90 (up from $1.72 last year) together with ongoing and active share repurchases of Cogeco Inc.

CANADIAN NATIONAL RAILWAY CO.

The rails are coping with a weak freight demand environment in Q4/19, and we believe that the visibility to 2020 is poor. In this context, we favour CN's well diversified franchise, and the company's track-record of appropriately adjusting resources to changing economic conditions.

CANADIAN TIRE CORPORATION, LTD.

We view Canadian Tire as an attractive investment near-term as we believe it is poised to show attractive year-over-year growth commencing in Q4/19. This is a function of soft comparable periods in Q4/18 and Q1/19, the addition of Party City and its seasonally strong Q4, the potential for early cost savings initiatives, and the ongoing benefit of the Normal Course Issuer Bid upon earnings per share. Should Canadian Tire demonstrate meaningful year-over-year earnings per share growth in line with our forecast, we believe this should improve its applied multiple.

ENBRIDGE INC.

Enbridge provided 2020 guidance and strategic updates at its annual investor day in New York. The company also announced that it will increase its dividend by 9.8% to $0.81 per quarter effective March 1, 2020.

Enbridge noted four major areas of emphasis for 2020, including: 1) focusing on safe, reliable, and cost-efficient solutions for customers; 2) continued optimization of its system through low-risk growth; 3) executing on its capital program, including Line 3 Replacement (L3R) in the U.S.; and 4) growing the core business through efficient organic growth while maintaining a strong balance sheet and financial flexibility.

We are optimistic that the L3R and Line 5 legal, regulatory, and political challenges can be constructively resolved without materially negatively affecting Enbridge's Mainline. Obtaining regulatory approval for the next phase of the Mainline commercial framework will also be a focus for the company in 2020, and we expect the process to be drawn-out and contentious, given the diverse characteristics of the Mainline

shippers. Although these regulatory challenges could create a bit of an overhang on the stock in the near term, over the long term, we believe that Enbridge has a strong competitive incumbency due to its geographic footprint, scale, and diversification. We also believe that Enbridge is well-positioned to play a role in North America's growing hydrocarbon export market.

INTER PIPELINE LTD.

Inter Pipeline continues to make progress on its Heartland PDH/PP facility. The fundamental industry outlook supports expected strong margins, and management remains confident in its ability to contract the facility according to the initial plan. The Heartland facility is Inter Pipeline's largest growth driver, and expect investors to become more comfortable with the risk/return profile of the project over time. Our base-case thesis values Inter Pipeline as a continuing independent company, and any sale of the storage business or sale of the company could potentially surface even more value.

OPEN TEXT CORP.

During the quarter, Open Text announced a definitive agreement to acquire Carbonite. The acquisition looks good as a standalone business and consensus estimates that Carbonite will generate $539 million of revenue in 2020, with an EBITDA margin of approximately 29%.

Carbonite offers a portfolio of cloud-based data protection, backup, disaster recovery, and endpoint security solutions and services, primarily to small and medium sized businesses. Given Carbonite's strong financials, and Open Text's integration capabilities, we believe that Carbonite will make a positive financial impact on Open Text.

We remain confident on the stock, given management's proven ability to complete and successfully integrate large acquisitions.

PREMIUM BRANDS HOLDING CORP.

Despite the Asian Swine Flu headwind, there were, in our view, some encouraging takeaways from the Q3/19 results:

1. Asian Swine Flu, not execution to blame: Premium Brands Holding delivered organic revenue growth that exceeded its long-term target of 4-6%. Although it still fell short of expectations, the slower ramp-up in new product launches was a deliberate effort to not promote pork-related products in what was an unknown cost-base environment.
2. Canadian pork exports to China resume: China lifted the restrictions on Canadian pork on November 5th and that should relieve some of the pressure on European pork prices and ultimately improve the global supply and demand dynamic, in our view.
3. Robust product pipeline: Management said that the original $130 million annual run-rate for new product listings is much higher due to new contract wins.

We are still very bullish on Premium Brand Holdings' outlook and see significant upside over the long term. Specifically, Premium Brand Holdings is, in our view, at a key inflection point where a number of big investments have been completed and should start to be reflected in earnings and cash flow.

ROYAL BANK OF CANADA

Over the past 5-10 years, Royal has traded at a 5% premium to the group. In our view, the bank's structural advantages and track-record continue to support a healthy premium going into a more challenging period for the banks. Specifically, we believe Royal Bank's three large domestic businesses (banking, wealth, and capital markets) will continue to provide the diversification we value in more challenging environments.

TELUS CORP.
On December 5th, we hosted an investor presentation by Darren Entwistle. The CEO was bullish about the unique future growth prospects for TELUS via Telus International, Healthcare, and fibre to the house, while a bit more cautious on both current wireless competitive conditions and near-term 5G revenue opportunities.

Notably, we believe the enterprise value target of $5 billion for Telus International is the low end of a possible range that could go from 12x – 15x EBITDA. The CEO's personal aspirational longer-term target enterprise value for Telus International is $8 billion, or equivalent to the market cap of the old BC Tel – TELUS at the beginning of the century. We are also excited about the prospect of more disclosure from Telus International as a separate segment starting as early as Q1/20.

We estimate TELUS Health running at approximately $800 million revenue in 2020, with low double-digit organic growth, and approximately 30% margins. We believe there are multiple future opportunities to crystallize the value of TELUS Health, including potential partnerships with Telus International.

TRANSCONTINENTAL INC.
We maintain that Transcontinental's current share price does not properly reflect the underlying value of its assets and operations. Transcontinental is a strong free cash flow generator, which probably will allow for deleveraging, periodic dividend increases, and additional mergers and acquisition activity; management has demonstrated ability of proactively realigning the business in response to changing market dynamics; and the flexible packaging business offers a good platform for future growth for the company.

We look forward to the first quarter of 2020 and if you should have any questions, please do not hesitate to ask. We also like to thank everyone for their referrals in 2019. Your referrals are the highest compliment that we can receive, and we continue to welcome new business. If you should have any family or friends that could benefit from our services, we would appreciate the introduction.

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* TD Security Analyst Reports, 2019
* TD PAIR, 2019

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