Quarterly Market Commentary

July 2022

For this commentary, we would like to think of the market as a patient undergoing treatment for the traumatic event known as COVID -19. During the first few months of the pandemic, the public was fearing an economic apocalypse. The stock market fell faster than ever before, and oil prices dropped through zero and into negative territory.

Governments and central banks reacted quickly by spending trillions on emergency benefits and by cutting interest rates to nearly zero. There were few objections at the time. For industries hit hardest – the "high contact" businesses that were forced to shut down immediately, like restaurants and hotels – the stimulus was a lifeline. For much of the rest of the economy, the stimulus was a savings opportunity.

Our economy proved far more resilient than anyone imagined, and that is because governments, central banks, and even economists all underestimated the technology. They underestimated mRNA technology and the ability of genetic engineers to develop effective vaccines within a year. They underestimated communications technology, and the ability of most office workers to continue to do their jobs from pretty much anywhere.

Over the past two years, major central banks around the world printed money non-stop to lend it to governments, banks and businesses . Think of this stimulus as the medicine. The patient seemed to be in cardiac arrest and nothing short of a massive dose of adrenaline seemed appropriate.

However, the stimulus or adrenaline did way more than bring the patient back to life – it sent the patient into fits. Consumer spending, business investment and corporate earnings all rose simultaneously as unprecedented levels of stimulus were administered leading to the fastest recovery in the history of the markets.

These were the effects of the medicine and those effects are now starting to wear off . And beyond the inflationary impact of the stimulus, there is also the war in Ukraine, which has boosted energy and food prices generating a second shock to the global economy.

The good news is that the economy remains strong, convoluted supply chains have rewoven themselves into a new economic fabric, and the labour market remains historically tight. The bad news is that the stimulus has created an unpleasant side effect – inflation.

Financial markets today are akin to the patient abruptly ending a treatment plan. The transition will be uncomfortable initially, but it will settle down and the patient will stabilize. Right now, financial markets are experiencing sticker shock. It was understandable in the emergency room, as we all begged the doctor to help, knowing that we were willing to pay whatever it took to save the patient. But two years later, our memory fades and we forget just how bad the crisis was at-the-moment. Now we are left with the bill and we wonder how long it will take us to pay for the life saving procedure.

There is good news, however. Corrections like the one we are experiencing right now ultimately represents an opportunity for us to acquire assets that have been sold in duress (to pay the medical bill).

Pulling out of the market whenever volatility spikes is akin to ending the treatment plan too early, just as the patient begins to recover. It may be tempting, but by selling out of the market during periods of intense volatility, investors may miss out on a potential rebound and opportunity for gains while they are on the sidelines. History has shown that the longer an investor stays in the market, the greater chances for a positive outcome .

Instead of trying to forecast the bottoms, we remain calm and focus on the things we can control. We are very comfortable and confident with how we are currently positioned. We leave market timing to the speculators and let time be our friend.

We were very active with the portfolio in the second quarter. We had raised our cash position in the first quarter and took advantage of this market volatility by trimming up on some of our positions and adding Microsoft to the platform.

MICROSOFT CORPORATION

During the quarter, we added Microsoft to our platform. The technology sector has been beaten down and it presented an opportunity for us. Microsoft is the world's largest independent software developer. Microsoft's strong March-quarter results and positive current-quarter outlook suggest that underlying software demand remains robust, and, perhaps, that all is not lost in Tech. Of course, Microsoft may just hold the premiere position in business technology. We believe that Microsoft is well positioned to take advantage of increased enterprise IT spending as the pandemic recedes. Microsoft is one of the few companies with a complete and integrated product set aimed at enterprise efficiency, cloud transformation, collaboration, and business intelligence. It also has a large and loyal customer base, a large cash cushion, and a rock-solid balance sheet.

ALGONQUIN POWER & UTILIITES CORP

During the quarter, we trimmed up our position at the end of April. First quarter results met expectations, and 2022 guidance is unchanged. We believe that Algonquin offers a compelling valuation in the context of an extensive growth pipeline that includes organic development activity, acquisitions, and utility rate-base investments. As the company has a diverse growth opportunity set and comfortable leverage, we believe that above-sector-average dividend growth is realistic.

APPLE INC

As you know, we trimmed Apple at the beginning of the year at $182.04 per share after a strong year. That trim worked out very well and we bought back more Apple at $137 per share in mid-May. During the quarter, Apple also raised the dividend by 5% and increased its share repurchase authorization by $90 billion.

In June, Apple hosted its annual worldwide developers conference where they unveiled both software upgrades and some new silicon hardware as well. Apple introduced the latest iteration of its iPhone operating system, iOS 16. The latest iteration includes new personalization features, ability to integrate voice dictation with text, installment payments in Apple Pay, and multi-stop routing in Apple Maps. Apple also introduced the new Watch OS 9, which will be featured on the new upcoming Apple Watch 9. On the hardware front, Apple introduced an all-new MacBook Air, built around its new M2 processor.

BROOKFIELD RENEWABLE PARTNERS L.P.

Brookfield Renewable reported Q1/22 results that exceeded TD's estimates. We believe Brookfield Renewable deserves a valuation premium based on several factors: scale; broad investment opportunity-set; consistent value-accretive track record; ability to act on large/complex transactions; operating/procurement expertise; management depth; and a strong funding platform.

COGECO INC.

The holdco discount continues to sit around its all-time high at 29%. The stub value has also surpassed the $25 level. In addition, we remain bullish on the long-term recovery of long-life broadband infrastructure assets. Although Cogeco Cable's shares are arguably undervalued relative to its U.S. peer group, we believe Cogeco Inc.'s shares provide long-term investors with an even better way to gain exposure to these infrastructure assets. We believe that in the short term, additional clarity on Rogers' plans for its Cogeco Cable and Cogeco Inc. shares could provide an opportunity for the holdco discount to revert to its mean. Although Cogeco Inc. shares do not have a lot of liquidity, the discounted nature of the assets that it holds reinforces our buy rating.

CANADIAN TIRE CORPORATION, LTD.

The Q1/22 results cannot be summarized as anything short of impressive. The material beat in earnings coupled with an unexpected dividend increase of 25% validates our love for this company.

The company is on track to maintain its growth trajectory even as the pandemic eases. It is early days, but the pillars appear in place with its loyalty program and data analytic capabilities to further drive consumer engagement and increased share of wallet. This should be further complemented by Canadian Tire's material capital initiative the next several years aimed at creating a connected omnichannel customer platform, strengthening its fulfillment capabilities, and modernizing its IT infrastructure.

CRESCENT POINT ENERGY

As you know, we added Crescent Point Energy to the platform on March 17th at $8.66 per share. We then trimmed our position on June 2nd at $11.55 per share and we just bought it back on June 24th at $8.94 per share. The company had a very strong Q1 and increased its quarterly dividend by 40%. Additionally, the company has actively been participating in its Normal Course Issuer Bid. We forecast approximately 3% of the shares will be repurchased by mid-year. In aggregate, we forecast 30% of its fiscal cash flow will be returned to shareholders in the first half of 2022 and we expect the number to grow in the second half of 2022 and 2023.

Crescent Point is in the later stages of a long-term positive transition of its asset base and cost structure. However, its valuation has yet to reflect this material underlying improvement.

DEFINITY FINANCIAL CORP.

The company reported a strong first quarter where operating earnings per share and operating return on equity exceeded our estimates. Relative to our estimate, better-than-expected results reflect a much lower underlying claims ratio, which was 200 basis points lower than our forecast. We believe Definity offers exposure to a stable business model with good upside potential if the company is able to grow through acquisition and/or be acquired (long term scenario).

ENBRIDGE INC.

The company's resilient business model, long-life assets, and ability to pivot to meet continued industry changes, including a transition to a lower-carbon future, should warrant a premium valuation, we believe. Over the long term, we expect Enbridge to continue to have a strong competitive incumbency due to its geographic footprint, scale, connectivity, and diversification, and we believe that this positions it to play a role in North America's contracted and regulated energy infrastructure evolution to support global long-term climate-change goals and continued energy demand.

FIRST CAPITAL REIT

The company remains one of the small number of REITs trading at the most meaningful valuation discounts versus pre-pandemic. Those pre-pandemic valuations were already discounted to reflect the need to

reduce leverage following First Capital's $742 million share buyback in 2019. We consider today's valuation even more compelling, given our forecast of peer-leading after-tax funds from operation and net asset value growth going forward, and the fact that cap rates for grocery-anchored retail properties (like those owned by First Capital) have compressed during the pandemic.

MAPLE LEAF FOODS INC.

At only 8.5 times next 12-months earnings before interest, tax, depreciation, and amortization, Maple Leaf Foods is trading well below its approximate 9.5 times historical average and closest peers. With this low valuation as the backdrop, we expect a material rise in Maple Leaf Food's share price over the next four quarters as earnings recover rapidly, investors gain confidence that Mean margins can reach 14 – 16%, protein based products progresses toward break-even or better by Q4/23, and large strategic capex projects are completed. Combined, these factors are expected to lead to Maple Leaf Foods to positive fiscal cash flow by Q4/22 and 9%/11% fiscal cash flow yields in 2023/24.

PARKLAND CORP

The shares remain well undervalued and are trading more in line with refiners despite refining accounting for approximately 25% of forecast EBITDA. The strong growth this year coupled with greater than 9% fiscal cash flow yield going forward should ultimately help valuation recover closer to the historical average, particularly once the energy bull run fades and/or investors widen their horizon.

ROYAL BANK OF CANADA

Over the past 5-10 years, Royal has traded at an ~5% premium to the group. In our view, the bank's structural advantages and track-record continue to support a healthy premium. We believe that the bank is particularly well positioned for the themes we believe will favour bank stock performance in 2022. Consequently, we expect Royal Bank to be among the leaders in terms of Pre-Tax Pre-Provision earnings growth in 2022 and 2023. Finally, return of capital also supports a positive outlook on the bank

SUNCOR ENERGY INC.

We continue to see relative upside in Suncor shares, especially given downstream tailwinds, which, for now, are not being priced in by the market. However, we believe improved operational consistency will prove critical to bridging the multiple gap with its peers, and maintaining it I the long term.

TC ENERGY CORP.

TC Energy has a strong incumbency in prolific natural-gas-producing regions in North America, notably the Appalachian and Montney, combined with access to large markets, in our view. We believe that TC Energy's scale, energy infrastructure expertise, low-risk business model, and financial strength position the company well as societies transition to using lower-carbon energy sources over the long term, while ensuring energy security for North America and its global allies.

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