Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

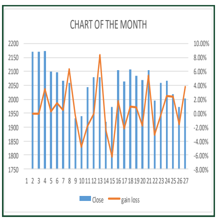
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 9, ISSUE 10 OCT 2020

"The most important quality for an investor is temperament, not intellect."
Warren Buffett

Sergio Simone
EDITORIAL COMMENT

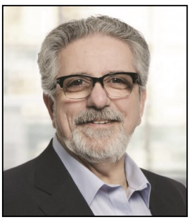
Kristina De Souza
INVESTING IN YOUR CHILD'S FUTURE



WE ARE AT THE BEGINNING OF A NEW ECONOMIC CYCLE

Ryan Simone, CLU, CHS
EMPLOYEE STOCK OPTION PLANS

Editorial Comment



Sergio Simone

As I write this, we are mere weeks away from the U.S. Federal Election. In our last issue, my editorial focused on what could happen to the economy depending on four possible election outcomes. This month I am going to take a different perspective and write about what has happened post-presidential elections in a historical context. The question on my mind is: "In hindsight, do U.S. presidential elections really matter to the stock markets?"

Continue Reading

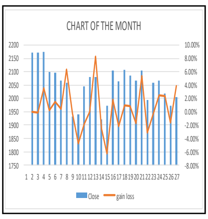
Investing In Your Child's Future

Kristina De Souza

Most people are aware of the ins, outs, and numerous benefits of the Registered Education Savings Plan (RESP), which I have touched on in the past. However, I suspect that not as many people (until recently this included myself) are aware of the advantages of a RESP loan, particularly for those who contribute to an RESP but aren't able to take full advantage of government grants.

Continue Reading

We Are At The Beginning Of A New Economic Cycle



The NBER has declared the US recession started in February. The average expansion lasts for 64 months while the average recession lasts for 11 months. However, as this recession was a result of a government shutdown, we believe its duration will be shorter than the historical average. We believe, given the improvements in economic data the recession ended in June.

Continue Reading

Employee Stock Option Plans

Ryan Simone, CLU, CHS

Whether you work for a Canadian Controlled Private Corporation (CCPC) or a large publicly traded company, you may have been offered to take part in an Employee Stock Option Plan. Simply put, a stock option plan gives employees the ability to purchase shares of the company they work for. The employee will be granted the "option" to buy the shares at a future date for a pre-determined price known as the "strike price".

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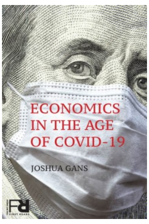


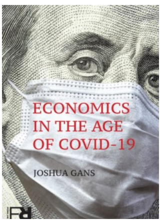
BOOK OF THE MONTH

FUND OF THE MONTH
MANULIFE U.S.
DIVIDEND INCOME

INVESTMENT TERMINOLOGY

BLOG OF THE MONTH
NERD WALLET

BOOK OF THE MONTH

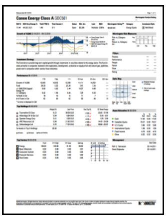


ECONOMICS IN THE AGE OF COVID-19

- by Joshua Gans

The COVID-19 pandemic has unleashed a firehose of information (much of it wrong) and an avalanche of opinions (many of them ill-founded). Most of us are so distracted by the everyday awfulness that we don't see the broader issues in play. Gans steps back from the short-term chaos to take a clear and systematic look at how economic choices are being made in response to COVID-19.

FUND OF THE MONTH



MANULIFE U.S. DIVIDEND INCOME FUND

The Portfolio Managers use a fundamental, value based investment approach to seek out attractively priced dividend paying equity securities, primarily located in the U.S., that offer the potential for growth and income. Investment analysis is focused on understanding and evaluating the factors that make a company profitable including profit margins, the use of assets, debt levels, revenues and reinvestment opportunities.

MONETARY INFLATION

Monetary inflation is a sustained increase in the money supply of a country (or currency area). Depending on many factors, especially public expectations, the fundamental state and development of the economy, and the transmission mechanism, it is likely to result in price inflation, which is usually just called "inflation", which is a rise in the general level of prices of goods and services.

Continue To Video

BLOG OF THE MONTH

HOW MUCH YOU'LL NEED TO INVEST PER MONTH TO RETIRE WITH $5 MILLION, BROKEN DOWN BY AGE

Most Americans are not on track to retire as millionaires. In fact, only 12% of Americans in their 60s say that they have more than $1 million in savings, according to a 2020 TD Ameritrade report. But what if you could retire with $5 million by the time you were 67? The good news is that it is possible with persistent monthly saving.

Personal finance site NerdWallet crunched the numbers, broken down by age group, to demonstrate how much you'll need to stash away every month.
First, let's go over how it got there. The math assumes you are starting with no money in savings, that your investments will earn 6% annually and that you retire at 67.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

EVERYTHING RETIREMENT LIVING LIFE BEGINS NOW

TRANSFERRING WEALTH BETWEEN THE GENERATIONS

How prepared are Canadian families to give and receive inheritances? It's a conundrum. We at Everything Retirement have decided to make an in-depth study to find some answers to that very question. We feel that exceptional insights can come from anywhere, especially when it comes to financial matters. And that is why we want to draw your attention to a recent research analysis entitled Wealth Transfer Report 2017. It was published by RBC Wealth. Looking at their insights into this conundrum made for a very interesting read.

Robb Report

A SECOND EUROPEAN WAVE OF COVID COULD ERASE THE LUXURY MARKET'S FRAGILE RECOVERY

Just as the luxury market's downturn was beginning to see the first glimmers of recovery, Europe's second coronavirus wave threatens to send it reeling once again.

Though Europe may be home to many of the world's most recognizable luxury labels, it is heavily reliant on tourist spending. And with coronavirus cases surging once again, the world's most esteemed brands aren't likely to see travelers returning to their gilded shops anytime soon. But according to a new report from Vogue Business, Europe's luxury sector might be able to take some strategic cues from Chinese consumer habits.

RBC Wealth Management

CYBERSECURITY: HOW TO PROTECT YOURSELF AND YOUR MONEY

Protecting your assets is a central part of any wealth management strategy. While most of us may plan for the usual threats, taking precautions such as installing home-security systems and working with trusted advisors, not all of us are vigilant about the possibility of cybercrime. Yet cybercrime affected 143 million Americans in 2017, with financial losses totaling US$19.4 billion. According to a 2017 Campden Research study, more than a quarter of ultra-high-net worth (UHNW) families, family offices and family businesses, with an average wealth of $1.1 billion, have been targeted by a cyberattack, yet 38 percent lack a comprehensive cybersecurity plan.

WEALTH-X

COVID-19 WEALTH IMPACT: THE WORLD ULTRA WEALTH REPORT 2020

The 8th edition of the Wealth-X World Ultra Wealth Report reveals that this segment grew by 9.5% in 2019, to 290,720 individuals worldwide. This was a sharp acceleration from the flat growth in 2018. In addition, the combined net worth of the UHNW population mirrored this growth, increasing by 9.7% to $35.4 trillion.

The report also reveals a significant decline in wealth from this population in early 2020 due to the impact of the COVID-19 pandemic. However, by the end of August the UHNW population and their collective wealth had shown significant recovery, rebounding toward end-2019 levels.

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FUND MANAGER COMMENTARY

TODD MATTINA
MACKENZIE FINANCIAL

EILEEN RILEY
LOOMIS, SAYLES
& COMPANY, LP

REGINA CHI
AGF MANAGEMENT
LIMITED

MICHAEL GREENBERG
FRANKLIN TEMPLETON

Todd Mattina, SVP, Chief Economist, Portfolio Manager

Mackenzie Financial

Unprecedented government budget deficits remain essential to underpin the fragile economic recovery from the pandemic and support analyst expectations of a rebound to the pre-pandemic levels of GDP and corporate earnings by end-2021.

Continue Reading

Eileen Riley, VP & Portfolio Manager

Loomis, Sayles & Company, L.P.

The following is a summary of comments made during a panel discussion held on September 21, 2020.

What impact has COVID-19 had on the companies you've been following?

- The idea that there are pandemic stocks vs. non-pandemic stocks is an oversimplification

Continue Reading

Regina Chi, V.P. & Portfolio Manaager

AGF Management Limited

Deglobalization and Emerging Market Opportunities

As the COVID-19 environment endures, uncertainty has crept back into the capital markets. In many countries, the first wave of the pandemic has been followed by a second and we just don't know how long it will be until there is a credible vaccine.

Continue Reading

Michael Greenberg, V.P., Portfolio Manager

Franklin Templeton

CAD Outlook and Positioning

One of the most common queries we get from advisors and clients alike is to comment on how we see the Canadian Dollar, mainly in relation to the US greenback. Here are our current thoughts.

THE CAD -A NICE RUN

We have seen a strong rebound in the loonie vs. greenback in the past few months as markets and economies have recovered from the depths of March. Going forward what do we expect?

BROAD ECONOMY—CONCERNS WITH SOME GLIMMERS OF HOPE

We see some headwinds to the Canadian economy that, all else being equal, would be negative for the CAD:

Continue Reading

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LINKS

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DB Pensions' Funding Positions Recovering, But Major Risks Ahead

The funding positions of Canadian defined benefit pension plans

The Virus And The Labour Market: Uneven Pain

As momentum slows and job growth volatility subsides, we are in a better position to take stock and assess the nature of

Interest Rates For The Fourth Calendar Quarter

The Canada Revenue Agency announced the prescribed annual interest rates that will apply to

Path To Economic Recovery Filled With Risks That Need To Be Managed

The governor of the Bank of Canada is warning that

Sustained Period Of Lower Returns Coming, Experts Warn

Thanks to strong fiscal and monetary support from government

BDO Canada Affordability Index: COVID-19 Intensifies Economic Disparity

According to the third annual BDO Canada Affordability Index

US Retail Sales Grow For 5th Month In A Row

Retail sales rose strongly in September, the fifth consecutive month of growth, as Americans spent more on clothing, cars and sporting goods.

As Stresses Ease, Bank Of Canada Curtails Supports

The central bank will wind up liquidity programs and reduce

Aging In Place: Growing Older At Home

These are common issues for older people. You may share the often-heard wish—"I want to stay

OECD

EMPLOYMENT OUTLOOK 2020

The COVID-19 pandemic has triggered one of the worst jobs crises since the Great Depression. There is a real danger that the crisis will increase poverty and widen inequalities, with the impact felt for years to come. Countries now need to do everything they can to stop this jobs crisis from turning into a social crisis.

BlueBay Asset Management

THINKING OUT LOUD: MARKET IMPLICATIONS OF US ELECTIONS

The political priorities and policies of the government of the world's largest economy and superpower evidently matters for international investors. The checks and balances in the US Constitution limit the room for radical changes in policy direction and typically market volatility around US presidential and congressional elections is moderate and short-lived. But these are extraordinary times with a pandemic, a global economy still recovering from the deepest recession in modern history, political polarisation and the fear of a delayed and contested election outcome.

VIDEO LINKS

Macklem Puts 'Dangerously Over-leveraged' Canadians On Notice

The governor of the Bank of Canada said managing the

Q4 Update: The Old New Cycle

Overheated technology stocks and U.S. election uncertainty are near-term headwinds, but positive

Survey: Advisors Optimistic, Investors Cautious On Q4 2020 Market Outlook

After months of COVID-19 market turbulence, advisors and investor

IMFBlog INSIGHTS & ANALYSIS ON ECONOMICS & FINANCE

COVID'S IMPACT IN REAL TIME: FINDING BALANCE AMID THE CRISIS

One enduring lesson from the COVID-19 pandemic is that any lasting economic recovery will depend on resolving the health crisis. Our research in the latest World Economic Outlook shows that government lockdowns—while succeeding in their intended goal of lowering infections—contributed considerably to the recession and had disproportional effects on vulnerable groups, such as women and young people. But the recession was also largely driven by people voluntarily refraining from social interactions as they feared contracting the virus. Therefore, lifting lockdowns is unlikely to lead to a decisive and sustained economic boost if infections are still elevated, as voluntary social distancing will likely persist.

EDITORIAL COMMENT-CONTINUED

I would like to be forthright about my caveat to the reader to take all this in with a grain of salt. Although the data goes back to 1927, there have only been 23 presidential elections since then and this is too small a number to derive irrefutable conclusions. Still, it should be fun.

Before digging into this month's editorial, I would like to emphasize that dwelling on political fears or expectations leading to consequential changes in your investment portfolio allocations can lead to damaging results. Trying to calculate the results of a Trump win or a Biden victory will likely prove futile. I have often stressed that historical trends act more like a barometer of future events, but they in no way, shape or form predict what will happen.

The U.S. has a rich history of Booms, Busts, Wars, Insurgencies, etc, so it is inevitable that some presidential elections have occurred during these times. For example, Roosevelt's sweeping victory in 1932 in the middle of the Great Depression and his unprecedented third and fourth term as president in 1940 and 1944 during WWII. In the 2000 presidential election George H. Bush defeated Al Gore at the onset of the tech bubble burst and finally we have Barach Obama defeating John McCain just as the Financial Crisis erupted in 2008.

I can easily conclude that market returns around these elections was more a function of the historic events than it was the result of that specific election outcome. It is not much different than what seems to be occurring today as the coronavirus pandemic is dominating both the election and market returns.

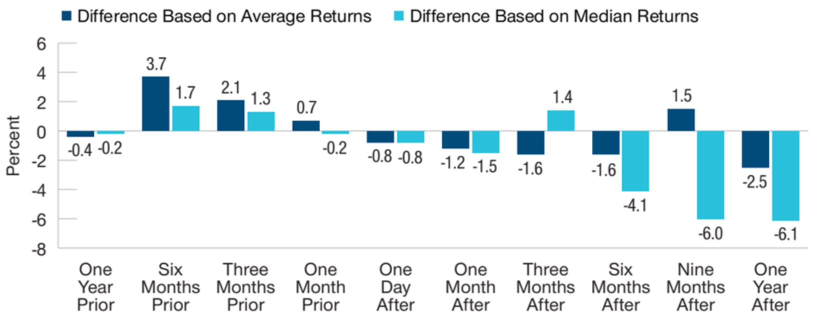
The following chart from Bloomberg Finance L.P. compares election year results from other year results using the S&P 500 Index as the measurement index.

According to this chart, historical returns for election years is 0.9% less than the mean of all other years. This difference is approximately 7.75%, but when we look at the Standard Deviation, which many investors use as a measurement of risk, we see that election years STDEV is 3.8 less than other years, or approximately 18.35% less. It would appear that election years tend to produce a modestly lower return, on average, but with a significantly lower Standard Deviation. This is further confirmed by the Maximum and Minimum returns between election years and other years. Election years average a lower maximum return than other years but also a 10.1% lesser minimum return.

	Election Years	Other Years	All Years
Count	23	69	92
Mean	10.7%	11.6%	11.4%
Median	12.0	14.3	14.0
Standard Deviation	16.9	20.7	19.7
Maximum	37.9	52.3	52.3
Minimum	-37.0	-47.1	-47.1

The following Bloomberg chart compares return differences between election years and other years.

Statistics indicate that returns were generally higher during the year before the election than the year following the election. This is an interesting phenomenon that may not be easily explained. One theory is that elected presidents have just been unlucky in their timing. The National Bureau of Economic Research has concluded that there is a 57% probability that a recession happened during the year following an election. Compare this to 22%, 30% and 17% in the 2nd , 3rd and 4th years following the election.



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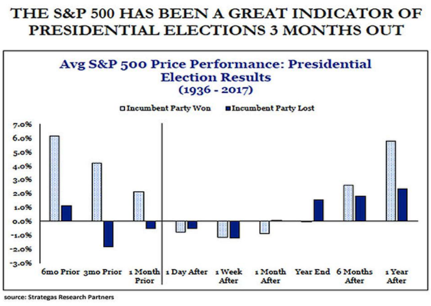
EDITORIAL COMMENT-CONTINUED

What does history have to say about the markets if the incumbent party wins the election? Based on historical data there was a 57% chance that the incumbent party would get re-elected. The probability is greater that an incumbent party will get re-elected if there is no recession in the two years prior to the election. There has been only one election that an incumbent was re-elected when there was a recession in the two years prior to the election. In 1948 Calvin Coolidge successfully won re-election when the country had experienced a recession in the two years leading up to the election.

There is a lot of logic here. When voters are happy about the economy and the stock markets, they will re-elect the incumbent, on the other hand if the economy is unsound and the markets are soft prior to an election, then the incumbent party generally loses.

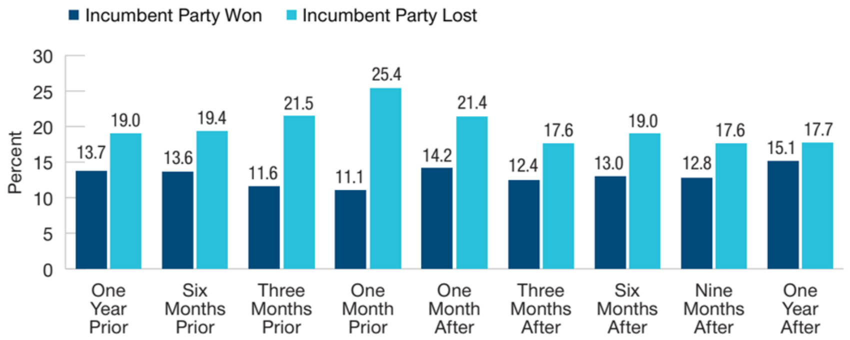
Research completed by Dan Clifton of Strategas Research Partners showed that stock market performance leading up to an election has also been a leading indictor of the outcome of that election. He says that the performance of the S&P 500 in the three months leading up to the election has predicted 87% of elections since 1928 and 100% since 1984. When returns were positive, the incumbent party wins. If the index suffered losses during that three month window, the incumbent lost.



As I mentioned earlier, the markets despise uncertainty so, it should come as no surprise that markets tend to perform better during a year when an incumbent president is elected compared to the introduction of a new administration. A new president brings many unknowns to the Oval Office. There is greater potential for increased taxes and regulations, changes in trade deals and many other changes the market perceives as anti-business that can influence investor sentiment.

The following chart shows that volatility in the stock market increases as election day nears and begins to reduce post-election. This is expected as markets hate uncertainty. Volatility experienced around election times seem to be significantly higher when the incumbent party loses than when it wins. This is most notable during the month before the election.

Another observation is that the path pre and post elections has depended on the outcomes. If the incumbent party won, the volatility decreased before the elections and rose slightly after. The opposite result occurred when the incumbent party lost. That is, volatility greatly increased before the election but then receded afterwards.



Despite the volatility trends, newly elected presidents face a greater risk of facing a recession in their inauguration year in office. This is evidenced by the trend that shows returns after an election year tend to underperform other years on average.

As I mentioned earlier, volatility around election years tends to trend lower than in other years. However, the volatility experienced pre and post elections were completely opposite depending on whether the incumbent party was re-elected or lost. When the incumbent party won, the volatility trended lower around the election dates, while the volatility increased when the incumbent party lost.

Before concluding I'd like to leave you with some considerations:

- Avoid taking actions based on headlines. For the news media, presidential elections are like the Superbowl, World Series and Stanley Cup all rolled into one. Media networks are being deluged with ad money and will say or write just about anything to keep the eyeballs fixated on them.

EDITORIAL COMMENT-CONTINUED

- Focus on what you can control. As an individual you have no control over the outcome of the election so do not stress about it and how it will affect your investment portfolio. Instead, focus on portfolio construction and asset allocation to make sure you are properly diversified.

- Stay focused on the long-term. The markets have risen and fallen under all presidents, but the glaring takeaway is that the trajectory of the markets has been positive.

- Don't lose site of your goals and objectives by getting hung up on what-ifs.

As for the 2020 election, in 1992, George H. Bush's presidential adviser James Carville stated it pure and simple, "It's the economy, stupid." I might make a slight change to Carville's statement in 2020, "It's COVID, stupid."

Whether it is Trump or Biden, my personal belief is that the 2020 election will have less impact on the markets than some have suggested. I concur that either winning the presidency may cause short-term reactions, ultimately, it will be the long wave of economic fundamentals that drives the markets beyond any one election or any one party.

We will know soon enough.

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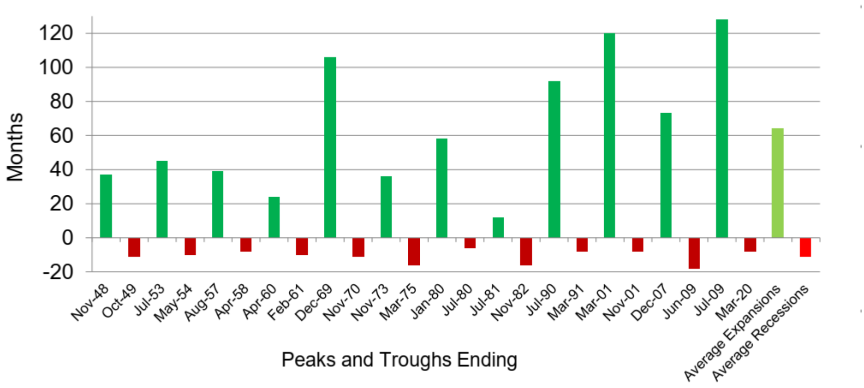
CHART OF THE MONTH-CONTINUED

We are at the beginning of a new economic cycle

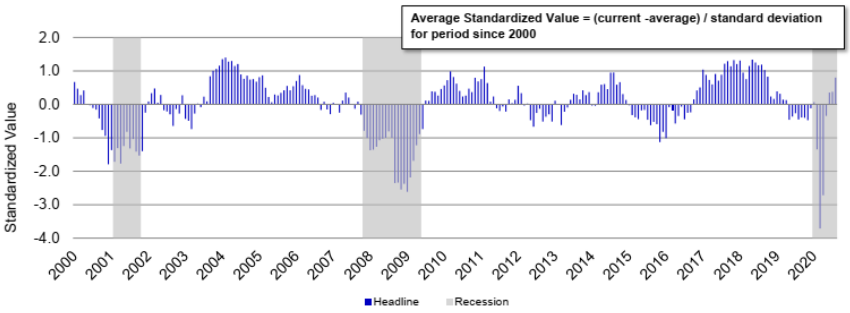
US economic expansion and contractions (1948 – September 2020)



Source: Manulife Investment Management, Bloomberg. Average does not include current cycle. As of September 30, 2020

Trend in manufacturing growth would suggest the worst for the economy was in April/May

US manufacturing activity avg. standardized values: ISM (National, Chicago, Cincinnati) Fed manufacturing (Empire, Philadelphia, Richmond, Dallas) indices (2000 – current)



Source: Manulife Investment Management, Bloomberg. As of September 30, 2020

Investing In Your Child's Future —Continued

I can personally attest to the fact that as a parent, one of our top priorities is to help guide our children towards achieving their goals. One of the best ways to do this is via an RESP to help fund a child's post secondary education.

It is here that the foundation of education can be laid from the early days as contributions grow free of tax and enjoy the benefits of government grant programs. In an ideal world, $2,500 per year is the optimal contribution amount for each beneficiary, however, for a multitude of reasons this is not always possible for everyone. Fortunately, there is a way to contribute more towards achieving education savings goals without impacting the overall budget, all thanks to the RESP loan.

The way the RESP loan works is fairly straightforward.

On top of your own contributions, you deposit the borrowed funds in your child's RESP, in order to receive the maximum government grants available. Obviously up to the specified limits, the more funds that are deposited to the RESP, the greater the grants will be. Ultimately, it is the combination of your own contributions, the loan, and the grants that generate returns and continue to compound over time on a tax-free basis.

Depending on the individual circumstances, by starting early and saving in a RESP, there may be over $10,000 available in government grants per beneficiary. The RESP loan allows these grants to become available for those who would otherwise be unable to take full advantage of the program offering.

Another added benefit is that the RESP loan allows you to recover unused government grants from previous years if the borrowed funds are utilized to catch up on previous years' missed contributions. Ultimately, this increases the total return of the RESP as all these funds are invested.

When the time comes for the beneficiaries to begin their post-secondary education, you can withdraw enough funds from the RESP to pay back the amount of the loan and the interest on the loan. The premise of the RESP loan is that the child is in a far better financial position to address their education needs than they would have been without the loan, thanks to the increased grants and power of compounding.

The information provided herein is general in nature, but I would be happy to discuss in further detail if you are looking to get the most for your child's RESP. Please do not hesitate to contact me for further details.

Employee Stock Option Plans —Continued

When it comes to taxation, stock option plans can be a bit complex. For instance, depending on the value of the shares at the time of purchase, there may a taxable benefit to consider. If the value of the shares are greater than what you paid for them, you will incur a taxable benefit. This tends to be the case since your employer will offer a strike price that may be cheaper than the actual share price at the time of purchase. For example, if you are given a strike price of $10 and the shares are trading at $20 when you buy them, you will have a gain of $10 per share – this is a clear benefit to you, the employee, and, as such, a reason for the CRA to claim taxes on that gain (i.e. a taxable benefit).

Taxable benefit = (value of shares acquired) – (cost to acquire the shares)

Your "Adjusted Cost Base" or ACB will also be impacted by your taxable benefit. For example, your ACB is the sum of what you paid for the shares plus the amount of the taxable benefit plus the amount, if any, you paid for the options to buy the shares.

ACB = (what you paid for the shares) + (taxable benefit) + (what you paid, if any, for the options)

Just to clarify on that last point about "options": when your employer offers you a chance to buy shares in the future and at a predetermined price, the employer is essentially handing you an option. You can think of an option like an IOU. You'll have an IOU that gives you the right to buy a stock at a set price at any time in the future. Since these IOUs have value of their own, if you pay for it, you get to add it to your ACB (this is a good thing since it will lessen the tax burden on your capital gain later on).

Although there is a tax cost in the form of a taxable benefit, in some cases the CRA allows for an "offsetting deduction" on the taxable benefit. This means you could deduct 50% from the taxable benefit. So, if you realize a taxable benefit of $10,000, the deduction will reduce that benefit by 50% or $5,000. Whether you are eligible for the deduction depends first on whether the stock options pertain to a CCPC (Canadian Controlled Private Corporation), or a publicly traded corporation. If the share options are being granted by a publicly traded company, then we are most concerned with when the option is granted and exercised (i.e. when it is offered to the employee and when the employee exercises his right). Alternatively, If the share options are being granted by a CCPC, then we are most concerned with the employee's disposition of the shares after he has exercised his option to buy the shares (i.e. when the employee sells his or her shares from the employee share option plan).

Here's an example for each scenario:

SCENARIO 1: Publicly traded company

In 2009 Bill is granted 1,000 options to buy shares of his employer (this means Bill can buy 1000 shares). The options have an exercise price of $10. When the options were granted to Bill, the actual cost of the shares was also $10. In 2015 Bill decides to exercise his right to buy 1000 shares by paying $10,000 to his company. At the time Bill exercised his options, the company stock had risen to $15 per share. In February of 2020, Bill leaves his employer and sells his shares on the open market for $35 per share. The following are Bill's tax implications:

2009: Nothing. Bill is granted the option to buy the shares but no action is taken on his part yet.

2015: Bill incurs a taxable benefit of $5,000 because he exercised his right to buy the shares at $10 per share when they were trading at $15 per share.

Taxable benefit = ($15 - $10) X 1000

We can also determine Bill's ACB now that he has exercised his options:

ACB = (what Bill paid) + (taxable benefit) + (cost of the option)

ACB = ($10,000) + ($5,000) + ($0)

ACB = $15,000

Since the options were granted to Bill when the exercise price plus the cost of acquiring the options was equal to or less than the actual price, Bill can apply a deduction to the taxable benefit. (This only works if the shares being offered are common shares).

Bill's deduction is calculated as half of the taxable benefit:

50% x $5,000 = $2,500

This means Bill can apply a deduction of $2,500 to his net income in 2015.

Employee Stock Option Plans —Continued

2020: Bill will realize a capital gain of $20,000 because he sold his shares at $35 per share and had an ACB of $15 per share. The gain is calculated as:

($35 - $15) x 1000 = $20,000

Half of this gain will be taxable at Bill's marginal tax rate (i.e. $10,000)

SCENARIO 2: Canadian Controlled Private Corporation

In 2009, Belinda is granted 1,000 options to buy shares of her employer. The options have an exercise price of $1 per share; at the same time the actual value of the shares are $10 per share. In 2015, Belinda exercises her right to buy $1,000 shares by paying $1,000 to her employer. In 2020, Belinda leaves her job and sells her shares for $35 each ($35,000). The following are Belinda's tax implications:

2009: Nothing. Belinda has been granted an option to buy the shares but no action is taken on her part.

2015: Belinda buys the shares but no taxable benefit is realized until she sells the shares (This is because the shares are from a CCPC and not a publicly traded company). Belinda's ACB will be determined only when she sells her shares.

2020: Belinda sells her shares, so she will realize a taxable benefit and a capital gain from the sale:

Belinda's taxable benefit = ($10 - $1) x 1000 = $9,000

Belinda's capital gain = ($35,000 – ACB)

[Belinda's ACB = ($1,000 + $9,000 + $0) = $10,000]

Belinda's capital gain = ($35,000 - $10,000) = $25,000

Deduction rules are also different for CCPCs. To get the offsetting deduction, the employee must have held the shares for at least 2 years or the exercise price must be equal to or less then the fair market value when the shares were granted.

Belinda's exercise price was $1; however, she was granted the options when the FMV of the shares was $10. Since the FMV is greater than the exercise price, Belinda will have to hold the shares for 2 years before she can apply an offsetting deduction.

Belinda's offsetting deduction is calculated as:

$9,000 x 50% = $4,500

Thus, Belinda can deduct $4,500 from her net income in the same year she sells the shares and realizes a capital gain.

To recap:

Publicly Traded Company

Get your taxable benefit when you exercise your option to buy shares

Get your offsetting deduction if your options are granted when the exercise price (i.e. strike price) is greater than the FMV of the shares

Canadian Controlled Private Corporation

Get your taxable benefit when you sell your shares

Get your offsetting deduction if you held the shares for at least 2 years or if the exercise price is equal to or greater than FMV of the shares when the shares are granted

Eileen Riley —Continued

• We're living in a period of accelerated change driven by technology.

• We're seeing an acceleration of trends that have been in place for some time.

• Estée Lauder is one name you might think is struggling given department store closures and travel/retail being down to almost zero.

  o In fact, its long-term outlook has become significantly more attractive as the company shifts distribution into brand-owned e-commerce.

• Many assume commercial real estate is on the way out, but we believe it's premature to draw this conclusion, as there will likely be a shift in how office space is used.

  o We're already seeing this in the asset management business.

  o Nonetheless, it is difficult to make a call today in the environment we're in.

  o We have removed CBRE Group from Global Allocation Fund (GAF) and Global Equity Opportunities Fund (GEOF).

    -It wasn't completely due to the headwinds commercial real estate is facing, but this was a contributing factor.

    -We saw better opportunities for the portfolio, particularly with the valuation correction in the early part of this year (when we found quite a few opportunities to reallocate capital into new ideas).

What is the team seeing from a credit market standpoint and how does that inform what you're doing in the equity portfolio?

• In GAF, we've been more heavily weighted towards equities than fixed income.

• The shared view among the four portfolio managers is that given the interest rate environment and tight spreads, there are more opportunities to find value in equities.

• With low rates and easy access to credit, the types of businesses we own on the equity side (typically ones with strong balance sheets) have had a lot of flexibility to use their balance sheets opportunistically.

  o E.g., Danaher: Late last year the company raised over $6 billion (to fund an acquisition) with a weighted average interest rate below 1%

• We value businesses on a long time horizon using a discounted cash flow approach.

  o But we have to be confident that the businesses we own can get through shorter-term challenges.

  o Our research work with our fixed-income colleagues helps ensure that we select companies that will not only make it through accelerating long-term trends, but also be able to navigate short-term headwinds as well.

GAF and GEOF have a large exposure to financials, but little exposure to the banks. What types of financial sector companies do you own?

• It's important to emphasize that the portfolio is constructed on an individual stock basis, which is to say that we are not making broad sector calls as the basis for individual stock selection.

  o Our sector weightings are a byproduct of our stock selection.

• Our financials exposure is quite diverse.

• We do have some balance sheet-driven names (e.g., HDFC Bank, M&T Bank), but this is contrasted with businesses that are much more driven by fees and are less capital intensive, and that are significant free cash flow generators (e.g., London Stock Exchange, S&P Global).

  o These businesses are typically taking advantage of the rising value of data and all the services that go around providing that data.

• Within banks we have some exposure, but we're certainly very selective in what we own.

  o HDFC Bank has some very specific, unique drivers in not only its strategy and execution but also its position within India's market.

  o Within the banking sector, the interest rate environment will continue to be a maj or challenge, not only in terms of net interest margin compression but also loan growth, or lack thereof.

• Specifically, access to credit (which happens to benefit a company like S&P Global) will generally be much more challenging for the typical bank.

Eileen Riley —Continued

Peloton is a name you added in January and it’s been a shutdown winner. What attracted you to this name and given the run-up, do you still own it?

• This company is a great example of a theme we touched on earlier: the benefit Peloton has seen during the shutdown is due to an acceleration of trends that we believe were in place prior to COVID-19 and that will continue in a post-COVID world.

• Peloton has the leading position in a market with significant growth potential.

o A variety of other industries show that consumers want their products and ser vices when they want them and where they want them.

o At-home, connected fitness is “where you want it, when you want it” and also “how you want it,” making it a positive experience for consumers.

o The hardware bundled with digital on-demand classes is what makes it most attractive to users.

o When you have a subscription business, it’s much more expensive to attract new customers than retain them.

o One of the ways you can monitor the ability to retain is engagement.

o Peloton’s engagement statistics are extraordinarily attractive, with customers increasingly using its products more and more over time.

o The company is also continuing to expand its product offering, a very attractive aspect that contributes to why we like this subscription-driven business.

Will the outcome of the upcoming U.S. election affect what you do in the Funds?

• In Q4 2016, U.S. bank stocks shot up on the assumption that a Trump administration was going to be great for U.S. banks.

o In the four months post-election the U.S. banks index was up about 40%.

o But look at what’s happened since: clearly it was not a great investment option beyond that very brief window.

• We will do what we always do: pay attention to anything that might change the duration effect (the ability of a company to progressively increase cash flows over time) of the businesses we own, but we don’t think that a presidential cycle is going to be a big driver of that.

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