Points in Time: Q1 2020

Bear market begins in Q1-2020 as policymakers unleash unprecedented measures to combat the shutdown in economic activity caused by COVID-19.

WATCHING

The COVID-19 pandemic caused a sharp sell-off in stocks and commodities this quarter. From the high on February 20, 2020, the S&P/TSX Composite Index fell -37% in only 22 days. North American stocks did rally into quarter-end, but Q1 ended with the S&P 500 Index and the S&P/TSX Composite Index declining -12.18% (in Canadian dollar terms) and -20.90% respectively.

With much of the North American economy shut down and headed for a recession, we saw swift and large responses from monetary and fiscal policymakers in an effort to minimize the damage to the economy from COVID-19. The U.S. Federal Reserve cut interest rates to near zero and unleashed a new round of Quantitative Easing to ensure the smooth functioning of credit markets. The Bank of Canada followed suit and deployed similar measures.

The U.S. benchmark WTI oil price also plunged by more than 50% and closed the quarter near a 17-year low at US$20 as OPEC and Russia could not come to an agreement on production cuts to curtail supply in an already weak demand environment. The Canadian dollar weakened as a result, also closing the quarter near 17-year lows at $0.71 to the U.S. dollar.

Government bonds rallied in this risk-off environment as the U.S. 10-year bond yield declined by over 100 basis points to end the quarter at 0.70%. Similarly, the Canada 10-year bond yield declined by over 90 basis points and ended the quarter at 0.71%.

Asset prices in many markets experienced extreme volatility in March as the World Health Organization declared COVID-19 a global pandemic, and new cases of the virus grew exponentially in hot spots such as Italy, Iran, Spain and the U.S. During the worst days of the sell-off, there were signs of forced liquidations and panic selling and it required the bazooka responses from fiscal and monetary policymakers to bring some calm to markets.

THINKING

As we look ahead, stock prices have discounted a grim future. Investor anxiety is elevated and COVID-19 has not yet been contained. However, with healthcare companies racing to find a vaccine and much of the population in North America and Europe engaged in social distancing or in quarantine, it is a matter of time before we "flatten the curve." China already seems to have accomplished this and offers a playbook for the rest of the world to follow in flattening the curve and getting the economy restarted.

While upcoming economic data will portray an economy already in recession, the abrupt and large decline in equities has already priced in some of this bad news. The extreme volatility we are seeing in stock prices will not persist and, over time, this volatility will revert lower. Eventually, this bear market will give way to a new bull market in equities as COVID-19 cases peak and the economy recovers. No one can predict when stock prices will bottom, which is why it is critical for clients to stay disciplined to their long-term investment plan and work with their Portfolio Manager in navigating through this difficult environment.

Nearly **50%** of your companies have increased their dividend, giving you close to a **4%** raise in income year to date despite market volatility.

DOING

There were a number of things on our to-do list to begin 2020. While 2019 was more about reducing risk, 2020 is about diversifying with certain companies whose characteristics and quality were attractive though their share prices were rather stretched. Magna International and Open Text were two companies we've had our eye on for some time. Both experienced some share price weakness towards the beginning of the quarter. We added Open Text, an enterprise software company that allows businesses to store, manage and analyze their internal data such as accounting information or documents. This addition gives the portfolio some technology exposure with a Canadian company which has a solid dividend track record. We're targeting 1.5% as a weight for Open Text. Magna, one of the world's strongest and most diverse auto parts manufacturers, was also added at 1.5%. This is an opening position, which we'd like to increase opportunistically. As the quarter unfolded, and the reality of the risk presented by Covid-19 became apparent, the markets took a serious tumble. Though we expect this volatility to continue well into Q2, we took advantage of the sell-off in order to add Brookfield Asset Management to the portfolio. This is also a starting position at 1.0%. Brookfield is an international asset manager. They purchase or take large controlling positions in a variety of infrastructure and real estate investments around the world. They've demonstrated a strict discipline with regard to valuation. As the coming quarter unfolds, we look to putting more cash to work and getting to our fully invested portfolio with about 2.0% cash. In these volatile times, it's important to keep our heads and continue to invest as prudently as possible. We believe that many of the valuations we're seeing in the market will have proven to be great opportunities a year or two from now.

The Leon Frazer Bond Fund continues to emphasize liquidity, quality corporate bonds and government bonds. The targeted duration (interest rate sensitivity) remains slightly shorter than the benchmark. The Leon Frazer Preferred Fund continues to have a balance of rate resets, floating and fixed rate perpetual preferred equities, in a similar range as the benchmark.

2020 Dividend Performance Summary

Canadian Dividend Portfolio

Number of companies in the equity portfolio	30
Number of companies that declared an increased dividend	14
% of companies that declared an increased dividend	46.7%
Weighted average of dividend increases	3.8%
Consumer Price Index Increase (YoY*)	2.2%
Equity portfolio dividend yield**	5.3%
S&P/TSX dividend yield	4.0%

Income Stability Portfolio

Number of companies in the equity portfolio	29
Number of companies that declared an increased dividend	13
% of companies that declared an increased dividend	44.8%
Weighted average of dividend increases	3.4%
Consumer Price Index Increase (YoY*)	2.2%
Equity portfolio dividend yield***	5.1%
S&P/TSX dividend yield	4.0%

Top 10 Dividend Growers

Gildan Activewear	15.7%
Agnico Eagle Mines	14.3%
Canadian Natural Resources	13.3%
Manulife Financial Corporation	12.0%
Suncor Energy	10.7%
Enbridge	9.8%
Intact Financial Corporation	9.2%
TC Energy Corporation	8.0%
Canadian National Railway	7.0%
Toronto Dominion Bank	6.8%

* As at February 28th, 2020

** The dividend yield is based on the Leon Frazer Canadian Dividend Fund using the target weight for cash

*** The dividend yield is based on the Leon Frazer Income Stability Fund using the target weight for cash

source: Leon Frazer & Associates, March 31, 2020

A Closer Look: Brookfield Asset Management

Brookfield Asset Management Fact Sheet:

Trading Symbol:	BAM.A
Market Cap (Mil):	$66,640
Dividend Yield:	1.46%
Dividend Growth 3 Year:	8.2%
Dividend Growth 5 Year:	10.6%
Sector: Financials – Asset Management	

Overview

Brookfield Asset Management is a global alternative asset manager with over $540 billion of assets under management across real estate, infrastructure, renewable power, private equity and credit.

Their stated objective is to generate attractive, long-term risk-adjusted returns for the benefit of clients and shareholders.

Brookfield generates revenues in 3 ways:

As an investor: BAM management is very disciplined, looking for investments at attractive valuations, particularly situations that create opportunities for valuation gains and cash flow returns, or by monetizing assets at appropriate times.

As an operator: As an owner-operator of the companies they invest in, BAM works to increase the value of the assets of these businesses and the cash flows they produce.

As a manager: As an asset manager Brookfield has invited other large investors into various acquisitions. By investing both its own capital and that of investors, this provides for increased scale operations, and also generates management fees.

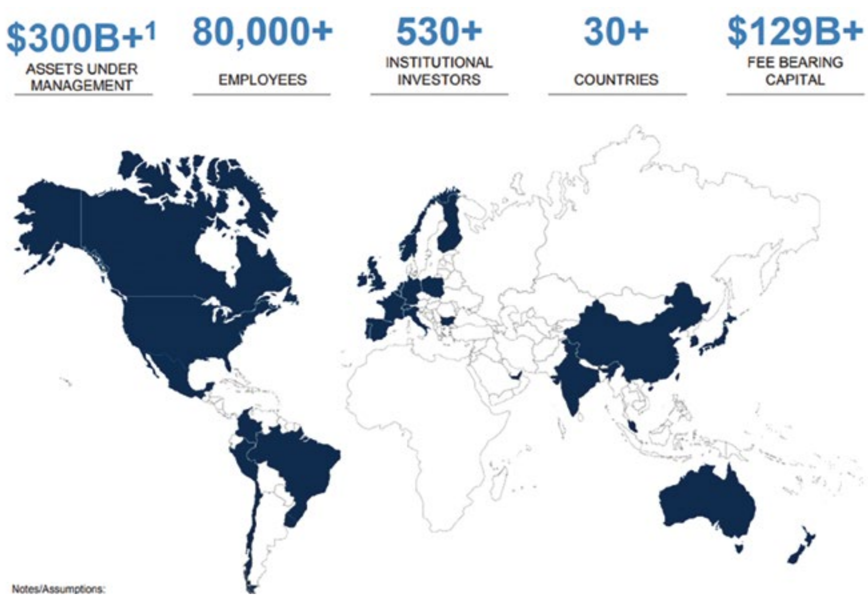
Strengths

Scale: Brookfield has over $30 billion of capital invested primarily in four listed partnerships: Brookfield Property Partners, Brookfield Infrastructure Partners, Brookfield Renewable Partners and Brookfield Business Partners. This access to large-scale capital enables them to make investments in sizeable, premier assets across geographies and asset classes that few other managers are able to do.

Global diversification: BAM has investments in more than 30 countries. This footprint, combined with their scale of capital, gives them significant access to proprietary deal flow.

Management: Brookfield's management has demonstrated its ability to identify excellent value, as well as manage and operate acquisitions.

source: Bloomberg, Brookfield Asset Management



Coming together with CWB Financial Group

In early March, I wrote to let you know that our parent company would be changing to CWB Financial Group subject to final closing of the transaction. In follow-up to that, I'd like to share with you some of the valued features at Leon Frazer that appealed to, and were factors in, the CWB purchase decision.

As Chris Fowler, CWB's CEO and president noted in the March 2, 2020 press release, "Leon Frazer bring(s) recognized talent and scale to our key markets and we believe (this) team will be an excellent fit with our people-first, relationship-focused culture."

Matt Evans, President and CEO of CWB Wealth Management, echoed Chris Fowler's comments and singled out the highly respected team at Leon Frazer. He also paid tribute to Leon Frazer's long history and the value in our investment philosophy, "Leon Frazer brings a rich heritage in dividend-focused investing, and adds valuable diversification to our established in-house asset management capabilities. We are excited to bring these compelling new dimensions to our clients as we continue to align CWB's boutique wealth offering with our proactive full-service business and personal banking experience."

It's always rewarding when a third party recognizes the value our team brings, our approach to managing client assets over many generations and the importance of you, our clients. We're proud to be able to share the valued and proven investment philosophy that our clients have come to know, and look forward to collaborating with CWB on new ways to enrich your experience with us.

Mark Arthur, CEO
Leon Frazer & Associates

Source: CWB Financial Group Press Release, March 2, 2020.

About CWB Financial Group

CWB's Beginnings: CWB was founded 35 years ago during a time of economic uncertainty. Canadian business owners were struggling to get the financing they needed to thrive, and CWB stepped up to support them. Since then, they've grown with these and many other individual Canadians, offering a range of financial services.

CWB Services: CWB Financial Group is a diversified financial services organization that provides specialized service across Canada in business and personal banking, equipment financing, trust services and wealth management.

CWB Values: CWB's corporate social values embrace participation in the growth, development and sustainability of their communities; providing an equitable and inclusive environment for a diverse workforce; and reducing their environmental footprint by managing GHG emissions, waste and a sustainable infrastructure.

Learn more about CWB Financial Group at https://www.cwb.com

CWB
Financial Group

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