Points in Time: Q4 2020

Our best defense against unpredictable outcomes continues to be a long-term focus, a financial plan and staying invested

WATCHING

The global equity market rally continued into year-end. Both Pfizer and Moderna announced effective COVID-19 vaccines, which were both fast-tracked to approval. The vaccines are currently being manufactured and administered across the globe. Markets hate uncertainty and the vaccine development takes a huge question mark off the table. For the first time since the pandemic started, we are able to start to see light at the end of the tunnel.

The S&P 500 Index rose 7.05% (in Canadian dollar terms) during the quarter, with gains from every sector. In Canada, the S&P/TSX Composite Index gained 8.97% in Q4 led by Health Care (Cannabis stocks) and Consumer Discretionary, while the Materials and Consumer Staples sectors were the only sectors delivering negative returns. Although, 10-year government bond yields in Canada and the U.S. remain at historically low levels, they did move higher in Q4. The Canada 10-year ended yielding 0.72% (up 16bps from Q3), while the U.S. 10-year was at 0.93% (up 25bps from Q4).

The Canadian dollar gained 4.6% vs the U.S. dollar during the quarter to end at $0.785. In general, the U.S. dollar was softer against other currencies. Commodities continued to rally with copper up 16%. In fact, 2020 saw most major commodities gain on the year. Of particular note was lumber up 77% on the year as low interest rates more than offset pandemic fears for the housing market. Gold was flat in Q4, but still ended up 24.7% on the year. Oil rebounded in Q4, but ended the year down around 20%.

THINKING

Before we turn to 2021, it's worth taking a moment to reflect on 2020. Our lives were significantly disrupted on both a personal and professional level due to the global pandemic. It was anything but normal. For investors it was a particularly volatile year. The market selloff was deep but also very short. Stock markets mostly bottomed in March and then spent the remainder of the year recovering. Had an investor only looked at the market at the start and end of the year, they would have likely viewed 2020 as a normal year. Once again, this shows the power of staying invested.

As we look into 2021, there are lots of reasons for optimism. Forecasts are for a synchronized global economic expansion. Economic growth in 2021 should be well above average before tapering down towards a more normal run rate thereafter. This should support strong corporate earnings growth and lead to stock market gains. Investors can also have comfort in the fact that interest rates are low and that central banks are committed to keeping them there for an extended period of time. Although we may see market leaders change, for instance, we will likely see spending shift from consumer goods to services such as travel and dining out, the overall backdrop is very constructive.

While we anticipate a strong year in 2021, there are always reasons for caution. The virus could mutate, making the vaccines less effective. The U.S. political situation could spiral out of control. The reopening could disappoint and growth may be less robust than forecasted. Our best defense against any of these outcomes continues to be a long-term focus, a financial plan, and to stay invested.

Quality dividend payers garner market attention, while dividend increases continue

DOING

As the fourth quarter of 2020 unfolded, the equity markets began paying more attention to the higher-quality, dividend-paying stocks. As you might imagine, that was a refreshing and welcome change. In particular, the bank stocks fared very well as they exhibited excellent credit metrics, as well as strong capital positions.

Also of note were our consumer stocks, as well as our non-precious metal materials stocks. We were not particularly active in the quarter as we saw many undervalued stocks in the portfolio become more fairly valued. One exception was CN Rail, which had performed well throughout the year and had become relatively overweight. We trimmed that position back to a more comfortable level and re-invested those funds into Magna, increasing its weight in the portfolio.

Dividend increases continued, with Canadian Tire, Telus and OpenText all increasing their dividends in the quarter.

2020 Dividend Performance Summary

Canadian Dividend Portfolio

Number of companies in the equity portfolio	30
Number of companies that declared an increased dividend	17
% of companies that declared an increased dividend	56.7%
Weighted average of dividend increase	4.4%
Consumer Price Index Increase (YoY*)	1.0%
Equity portfolio dividend yield**	4.2%
S&P/TSX dividend yield	2.9%

Income Stability Portfolio

Number of companies in the equity portfolio	28
Number of companies that declared an increased dividend	17
% of companies that declared an increased dividend	60.7%
Weighted average of dividend increase	2.7%
Consumer Price Index Increase (YoY*)	1.0%
Equity portfolio dividend yield***	4.1%
S&P/TSX dividend yield	2.9%

Top 10 Dividend Growers

Agnico Eagle Mines	100%
Open Text Corporation	14.7%
Canadian Natural Resources	13.3%
Manulife Financial Corporation	12.0%
Enbridge	9.8%
Intact Financial Corporation	9.2%
TC Energy Corporation	8.0%
Canadian National Railway	7.0%
Toronto Dominion Bank	6.8%
Telus Corporation	6.4%

* Estimate from Bank of Canada, November 30, 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, December 31, 2020

A Closer Look at Rogers Communications

ROGERS™

Rogers Fact Sheet:

Trading Symbol:	RCI.B
Market Cap (Bil):	$30.6
Dividend Yield:	3.3%
Dividend Growth 3 Year (per year)	1.4%
Dividend Growth 5 Year (per year)	0.8%
Dividend Growth 10 Year (per year)	4.4%
Sector: Communications Services	

Overview

Founded by Ted Rogers in the 1960s, Rogers is a Canadian communications and media company with three business segments: Wireless, Cable, and Media. The company is the largest wireless provider in Canada with approximately 10.9 million subscribers. Their wireless brands include: Rogers, Fido and Chatr Mobile.

Rogers has the largest cable footprint across Ontario, New Brunswick and Newfoundland and Labrador with 5 million fixed wireline subscribers. Rogers Media assets include radio and television stations, the Toronto Blue Jays and an ownership stake in Maple Leaf Sports & Entertainment (e.g., Toronto Maple Leafs, Toronto Raptors, Toronto FC and Scotiabank Arena).

Rogers' segmented revenue is 61% wireless, 26% cable, and 13% media, while the adjusted EBITDA breakdown is 68% wireless, 30% cable and 2% media.

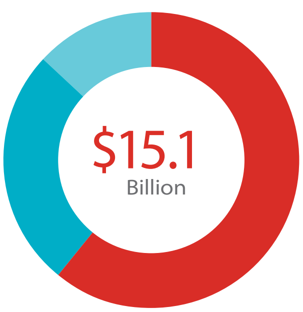
Strengths

Rogers has returned a significant amount of capital to shareholders via dividend and share repurchases. Rogers has increased its dividend by an average of 4.4% per year for the past 10 years, and has repurchased 12% of its shares outstanding.

In addition to having the largest owned mobile network in Canada, Rogers also has the largest 5G network. As a percentage of revenue, Rogers has the greatest exposure to the higher growth wireless segment.

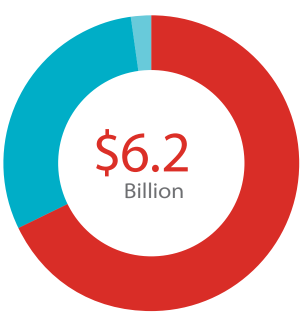
The company has made extensive capital investments in all three segments. Once future wireless spectrum auctions are complete, and the company has optimized their non-core assets, we expect more regular dividend increases due to future earnings and cash flow growth.

Rogers Segment Breakdown



Total Revenue 2019

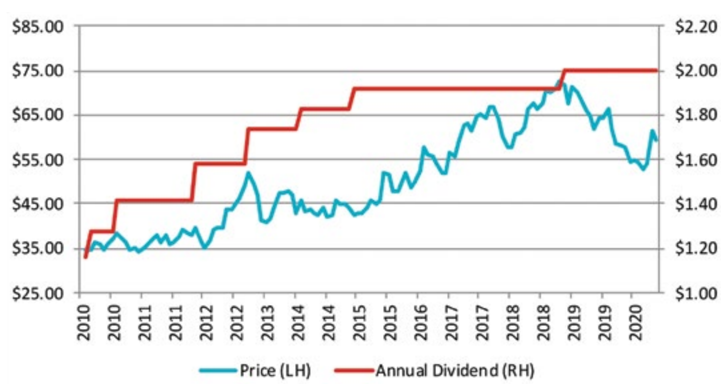
61% Wireless
26% Cable
10% Media



Adjusted EBITDA 2019

68% Wireless
30% Cable
2% Media

Rogers Communications Price and Dividend History



Sources: Bloomberg, Thomson Eikon, Rogers Communications

Changing world, enduring legacy

Let me begin by extending my warmest wishes to you and your family in this new year. Though the battle against COVID-19 continues, it is important that we persevere through this. I want to assure all of our Leon Frazer clients that we continue to actively manage your portfolios in this dynamic, and often uncertain, environment. Staying exposed to the market continues to be our winning strategy, which we have espoused for over 80 years.

As many of you know, Leon Frazer and Associates has a new owner and partner, Canadian Western Bank (or CWB Financial Group). To be more specific, our new parent company is CWB Wealth Management, the wealth division of CWB Financial Group. This is a particularly exciting development for us at LFA. CWB Wealth Management shares not only our investment philosophy, but is also a strongly client-centric organization. The way you currently interact with LFA, whether online, through our client service team, or directly with your portfolio manager, will remain unchanged. What's more, the Leon Frazer dividend investment philosophy that you currently benefit from will not only continue, but be a cornerstone of the Canadian equity investment approach for CWB Wealth Management going forward.

Our investment management team is also benefitting. I will continue to manage the Leon Frazer dividend strategy. Scott Cuthbert, Portfolio Manager, will undertake a more concentrated role in stock analysis and portfolio structure. Further building on the strength of our team, we have added Connor Barth, who will work out of our Edmonton office as Equity Analyst, focussing on stock analysis and investment valuation modelling. This dedicated team will report to Scott Blair, Chief Investment Officer.

Scott Blair's expertise in portfolio management and equity research stems from over 25 years of experience in the financial industry. Prior to joining CWB Wealth Management, he was head of research for one of Canada's largest pension fund managers, where he led a team of 10 investment professionals. His expertise includes developing and implementing group strategy, intrinsic valuation framework, and standardizing research processes to ensure a consistent approach towards equity analysis. Scott has deep investment insights and regularly authors thoughtful commentaries, which you will be seeing more of in the future.

At a senior level, Mark Arthur continues as Executive Vice President for CWB Wealth Management, working directly with Scott on both the integration of LFA as a division of CWB, as well as the overall product strategy. Overseeing all of this is Matt Evans, President and CEO of CWB Wealth Management. With nearly 15 years in the financial services industry, Matt's expertise as a private wealth advisor has led to progressive leadership roles within CWB Financial Group. He has played active roles in corporate strategy, mergers and acquisitions, and investor relations. Most recently, he served as CWB Financial Group's Vice President, Strategy, and Corporate Development. Matt's depth of knowledge in corporate strategic planning and execution, high-impact leadership, and coaching through change will help position our team to offer you a new level of wealth management care.

The world is an unusual place right now, and belongs to those who can adapt to it wisely. Our partnership with CWB Financial Group makes us stronger, and gives us the ability to continue serving you through these trying times. In such an uncertain environment, it is reassuring to see that well over 50% of the companies in your portfolio increased their dividend this year!

Please, stay safe and stay well.

Gil Lamothe
Vice President & Senior Portfolio Manager, Leon Frazer & Associates

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