1Q20 | BLACK SWAN EVENT SPARKS UNPRECEDENTED STIMULUS RESPONSE

INVESTMENT ENVIRONMENT

- Quickly enacted stimulus will help buffer economies and should allow markets to bridge the gap from current challenges to longer-term opportunities.

EQUITY MARKETS

- A disciplined investment process emphasizing companies best positioned to navigate the near-term uncertainty and thrive post recovery.

FIXED INCOME MARKETS

- Short-term interest rates remain lower for longer. Widening credit-spreads present opportunities when the economy begins to stabilize.

INVESTMENT ENVIRONMENT | BRIDGING THE GAP

The first quarter of 2020 experienced one of the most dramatic shocks the global economy has ever seen. As the year began, there were positive signs that the trade war between the U.S. and China was starting to thaw. This initially positioned the global economy well for 2020, with low interest rates, a strong job market and optimism regarding re-acceleration in growth prospects. The stock market began reflecting this optimism with global indices hitting records in February. Then COVID-19 accelerated in China, followed by a surprisingly rapid spread to the rest of the world. Once it became clear that the hospital systems were not able to deal with the swell in patients, containment measures were dramatically elevated, which resulted in an abrupt and synchronized halt to global economic activity. The impact on financial markets has been extreme with equity benchmarks falling from record highs into bear territory very quickly alongside intermittent stress in the credit markets.

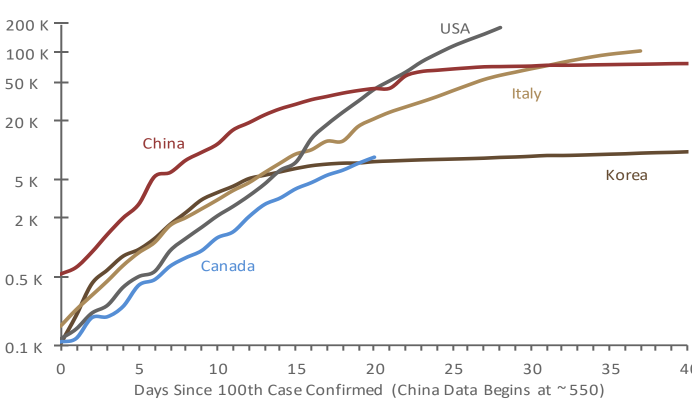
The course that the pandemic will take remains unknown at this point but looking at the experience of countries that were first impacted can be used as a reference. As such, it is encouraging to see new cases in China and South Korea fall dramatically after a period of strict quarantine measures (Figure 1), and that factories in China are resuming production again. In addition, we are starting to see the number of new cases in Italy stabilize off their recent highs. Although the U.S. now seems to be the epicentre of focus regarding rising cases, they have recently mobilized significant resources.

Comparisons to the Global Financial Crisis (GFC) of 08/09 make for interesting headlines, though are likely wide of the mark given fundamental differences that better position the markets this time around. **Governments and related institutions have reacted with unprecedented speed and scope to support an economic recovery once the virus is brought under control.** Businesses are in stronger financial shape this time around, and there don't appear to be any significant excesses to correct. With remarkable speed, governments are announcing significant fiscal stimulus (Figure 2) which targets businesses and people who will lose their jobs, and Central Banks have put in place sizable monetary stimulus to support credit markets. This should help those affected bridge the gap while containment measures remain in place, and quickly defuse any financial issues that lingered during the GFC.

Although the shape of this downturn is very difficult to ascertain at this point, we expect that the benefits of policy measures and medical capacity expansion to take care of those most at risk to ramp up over the coming months. Until that time, we remain focused on monitoring COVID-19 case load trends, the employment situation, and various other key indicators to get a better sense on the shape of this downturn.

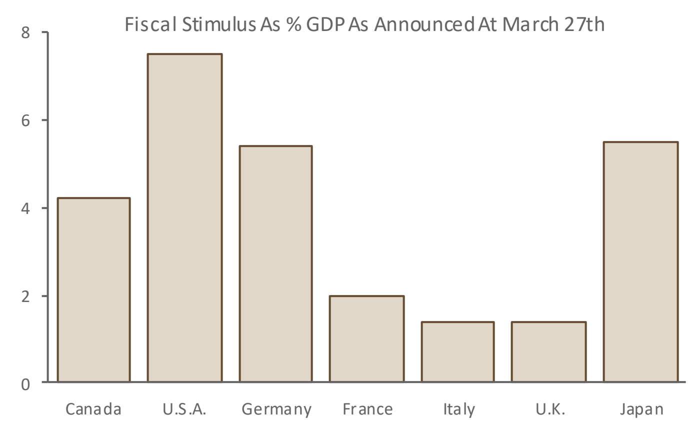
Furthermore, we feel that the conditions are in place for a robust recovery with the biggest unknown being the timeframe for caseloads to peak in the currently hardest hit regions. Historically, markets have always been forward looking and will eventually look through the valley ahead of the major economic recovery. We expect there will be continued volatility in the financial markets over the near-term and will look to take advantage of price dislocations in under-valued high quality securities.

FIGURE 1: KEY COUNTRY COVID-19 CASE LOADS



Source: Johns Hopkins CSSE | Data Ending March 31st 2020

FIGURE 2: CURRENT G7 FISCAL STIMULUS



Source: BMO Capital Markets

EQUITY MARKETS | NAVIGATING THE COVID-19 STORM

Equity Index Returns		
	1Q20 (CAD)	1Q20 (USD)
Canadian	-20.9%	
Global (Net)	-13.3%	-20.7%

The relative calm of January and February devolved into extreme volatility (Figure 3) as COVID-19 began to meaningfully impact ex-Asia geographies via containment measures to slow the spread of the virus. While the timeline for returning to economic normalcy will be dependent on passing a peak of COVID-19 caseloads and a relaxation of health policies, Central Banks and governments have already unleashed an enormous amount of monetary and fiscal stimulus and stand ready to do more in order to remove any obstacles to an eventual recovery. The experience of some Asian countries suggests that the timeframe to contain COVID-19 need not be too prolonged.

BIM EQUITY FRAMEWORK

Given the uncertainty in the depth and length of the current recession, priority will be placed on companies that we believe will come out either intact or potentially stronger from this downturn, and that won't require fundamental changes to their balance sheet or business models. Companies that meet our investment criteria tend to be well positioned within their industry and ideally have an established global footprint which allows for better supply chain management and an ability to quickly take advantage of regions that will return to growth sooner. In addition, many of these companies are better exposed to industries that have long-term structural growth drivers and are being led by strong management teams who have demonstrated an ability to navigate economic uncertainties and generate meaningful free cash flow. The selloff in equity markets has presented some interesting opportunities, and we have taken advantage of the volatility to add to these quality companies at attractive valuations. Likewise, we also sold out of some companies that may not be able to navigate the near term uncertainty very well, and will patiently await improved visibility before we revisit them for the portfolios. **Our investment philosophy (Figure 4) and process intends to avoid undue portfolio volatility, while also taking advantage of higher quality opportunities that arise.**

The energy industry in particular is suffering from a significant and abrupt decline in consumption demand that is well ahead of any potential near term supply response resulting in structurally lower crude prices for a long time. We have reduced the energy exposure across portfolios and added to companies that are best equipped to navigate the short-term uncertainty. Potential OPEC+ intervention could to a degree mitigate the oversupply impacts, though economic driven shut-ins in higher cost regions will also have to play a role.

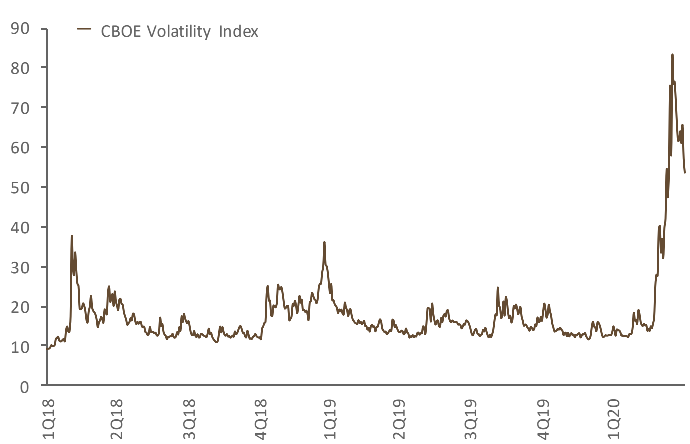
GLOBAL MARKETS

During periods of heightened uncertainty the typical investor's time horizon shortens dramatically, resulting in an overly bearish view of company fundamentals. By staying focused on our disciplined stock selection process, we look to take advantage of this myopic behaviour, and add to companies with strong long-term prospects. An example of structurally well positioned companies long held in the global equity portfolios are those exposed to the ongoing shift toward digital migration, cloud computing, and Internet of Things. Companies continue to invest to upgrade their systems in order to take advantage of big data to improve decision making such as: new product innovations, how to better focus capital expenditures to areas with best return characteristics, and becoming more flexible in navigating the changing demand environment. Furthermore, the current work from home environment triggered by the COVID-19 pandemic has demonstrated the importance of this digitization trend and should drive an acceleration in demand. Although these companies will still experience a negative impact to earnings in the short-term, we believe they will emerge stronger when the economy comes out of the current downturn.

CANADIAN MARKET

Dividend sustainability is an additional criterion we are analyzing when evaluating how existing or potential new investments will emerge from the current COVID-19 induced correction. In particular, the Canadian banks rely on dividends as a meaningful contribution to their total return. However, European regulators have begun to pressure their own banks to refrain from paying distributions to ensure they continue to lend through the downturn. This at least begs the question if such a declaration could happen in Canada as well, though at this time the Canadian regulator OSFI is not considering such a measure. We don't see much risk to Canadian bank dividends at present given the industry is extremely well capitalized, is structurally more profitable than the majority of peers, and has been granted some leniency in the provisioning for potential credit losses. In short, Canadian banks more effectively navigated previous periods of economic hardship, and once again appear to be better positioned than their European counterparts as was the case in 2008.

FIGURE 3: SPIKE IN EQUITY VOLATILITY



Source: Bloomberg

FIGURE 4: BARRANTAGH INVESTMENT PHILOSOPHY

OUR KEY VALUE TENETS

High quality and sustainable business to outperform across the cycle

BIM EQUITY THESIS SPOTLIGHT

International Flavors & Fragrances (IFF) creates and manufactures taste and smell ingredients that are used in food, beverages, personal care products, cleaning products, cosmetic fragrances and other applications. They play a crucial role in providing key ingredients to consumer packaged goods companies who are always looking to improve their products. For instance, IFF is one of the leaders in driving consumer trends that include natural, health & wellness, clean label, and plant-based protein, all of which tend to require more innovative flavor, smell, natural colors, and food protection ingredients.

Given the stability of their customer base, the industry has both attractive and less volatile long-term growth rates and has the benefit of being a consolidated industry landscape. In fact, IFF's recently announced acquisition of DuPont's Nutrition & Biosciences business will further consolidate the industry, and also establish them as the de facto market leader in an industry where scale matters even more. In addition to revenue and cost synergies, the DuPont N&B deal will provide the company with a much broader and differentiated product offering in a very geographically diverse market. Lastly, IFF's valuation is currently very attractive, particularly as they smooth out the issues encountered from last year's Frutarom acquisition, which will likely result in a narrowing of the steep discount to its European peers.

FIXED INCOME MARKETS | FLIGHT TO SAFETY

Fixed Income Index Returns	1Q20
Canadian	+1.6%

2020 started off encouragingly with rising equity markets, declining interest rates, and tight credit spreads. Phase One of the trade deal between the U.S. and China had been signed, and the U.S. Federal Reserve had lowered its overnight rate a third time back in October. Interest rates were declining on the idea that Central Banks were not going to be able to raise overnight rates as high as expected, and to balance the growth in equity markets.

COVID-19 broke out in China months earlier, but appeared to be a local China issue. However, by the second half of February that view was quickly corrected. Credit spreads increased dramatically in a short time period (Figure 5), mirroring the decline in equities. The impact was comparable to the Global Financial Crisis and the oil shock in 2015.

In Q1, overall Fixed Income portfolios were able to make a positive return from interest rate declines and interest income (Figure 6). Going forward the Bank of Canada (BoC) will keep its overnight rate at 0.25%, or less, until the economy is well into the recovery and job losses have recuperated. This will anchor interest rates in the short end for the foreseeable future. Fixed Income portfolios are overweight duration stemming from 5-year maturities.

The credit impact from the COVID-19 shock will take time to play out. Credit rating agencies are revising their outlooks and ratings lower affecting auto manufacturers and oil producers the most. Consumer and business loans will show delinquencies and an uptick in defaults, but the extent will be a result of the length of the shutdown and how quickly the economy recovers. Governments and the Central Bank are working extremely hard to aid the recovery, and their speed and force has been encouraging.

Fixed Income portfolios remain underweight credit risk and credit selection has helped performance.

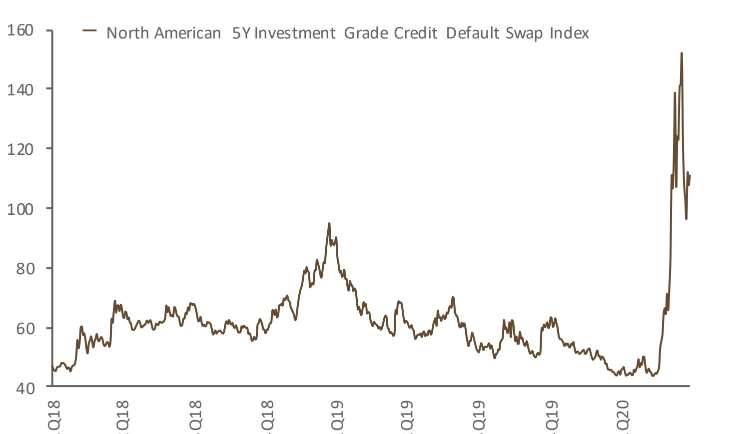
BIM FIXED INCOME FRAMEWORK

In late-January we sold the Telus 2046 bonds and added the proceeds to the Canada 2045 holding until early February when we switched into a new holding of Province of Ontario 2046. At the time credit spreads were low and it was good time to move from Corporate BBB to Provincial credit.

In late-February as the COVID-19 shock was growing we sold a near maturity bank bond and added to the Federal Agency CMB 2024 holding to better position for emerging Bank of Canada (BoC) interest rate cuts. **By the end of March the BoC had cut its overnight rate from 1.75% to 0.25%, the effective lower bound. It also began buying Canada and CMB bonds in the secondary market to support liquidity and initiate quantitative easing.**

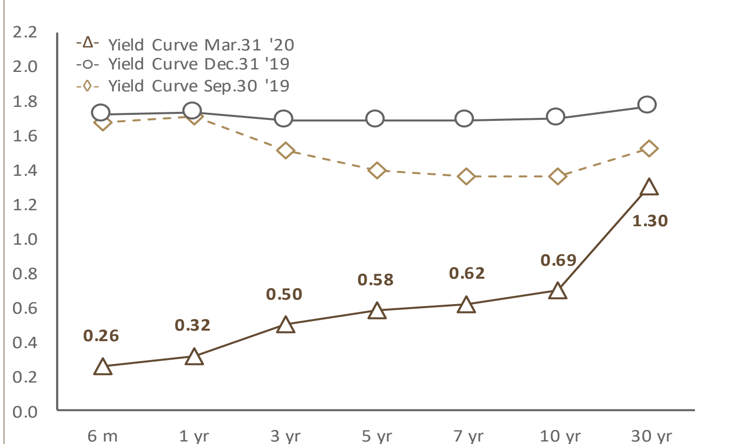
Finally, in early March we sold the Canada 2023 bond and added to the Canada 2026 holding. This change, as well as the CMB 2024 purchase, better positioned portfolios for the new economic environment.

FIGURE 5: CREDIT RISK (bps)



Source: Bloomberg

FIGURE 6: CANADIAN YIELD CURVE (%)



Source: Bloomberg

Barrantagh

Investment Management

Barrantagh {manx gaelic} trustworthy *adj.,* dependable *adj.*

We are dedicated to preserving our clients' capital while generating growth through consistent application of our value-based fundamental investment philosophy

Barrantagh Investment Management Inc. provides disciplined portfolio management to institutional and individual investors. The firm is committed to a high level of client service provided directly by its experienced partners. We are dedicated to preserving our clients' capital while generating growth through consistent application of our value-based fundamental investment philosophy. We manage portfolios on a segregated basis to meet our clients' investment objectives. Because the firm is owned by our professional staff we maintain a completely independent and objective perspective.

For more information contact: Barrantagh Investment Management Inc. (416) 868-6295