Market Update

2023 Year End Review

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Market Returns

December 31st, 2023 (YTD)

Q4-2023 Returns

S&P/TSX Total Return	**8.10%**
S&P 500 Total Return (USD)	**11.70%**
NASDAQ Comp (US Tech)	**13.60%**
FTSE All-World Index	**7.80%**
FTSE TMX Universe Bond	**8.27%**
Canadian Spot FX Rate	**-2.46%**

YTD-Total Returns

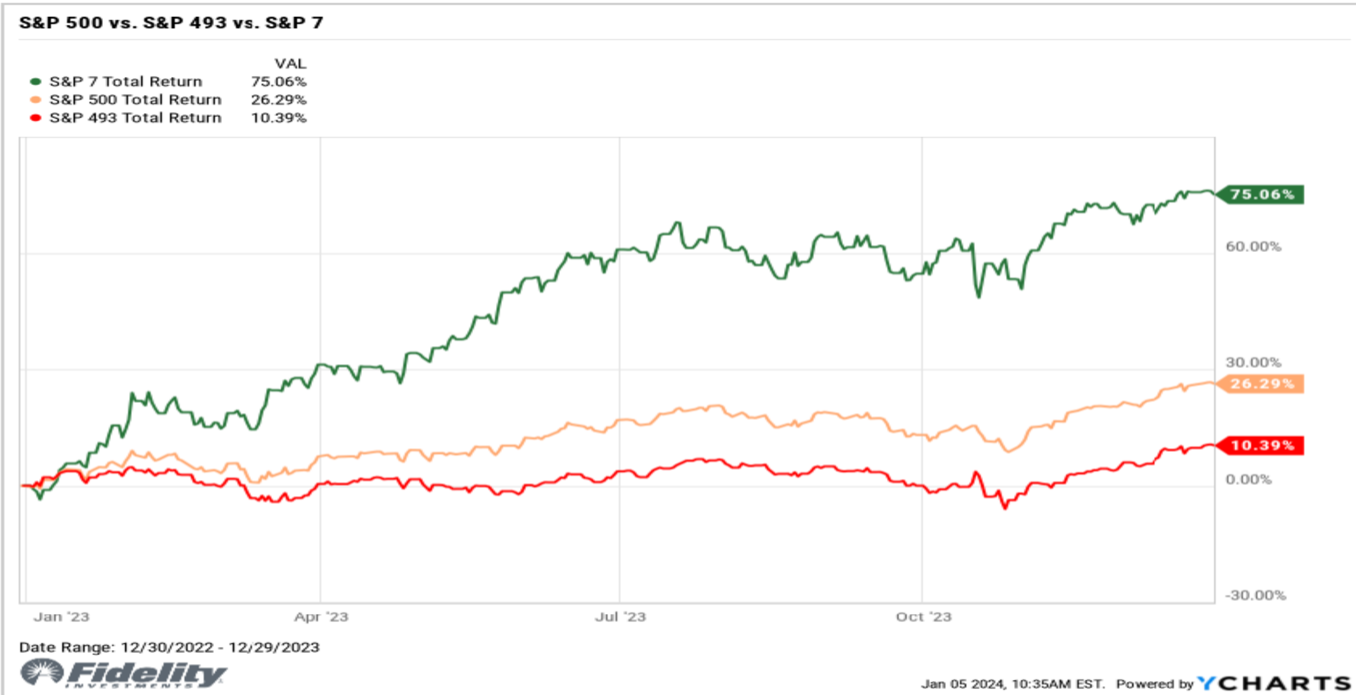
S&P/TSX Total Return	**11.80%**
S&P 500 Total Return (USD)	**26.30%**
NASDAQ Comp (US Tech)	**43.40%**
FTSE All-World Index	**17.00%**
FTSE TMX Universe Bond	**6.69%**
Canadian Spot FX Rate	**-2.29%**

Nice Annual Return in Q4!

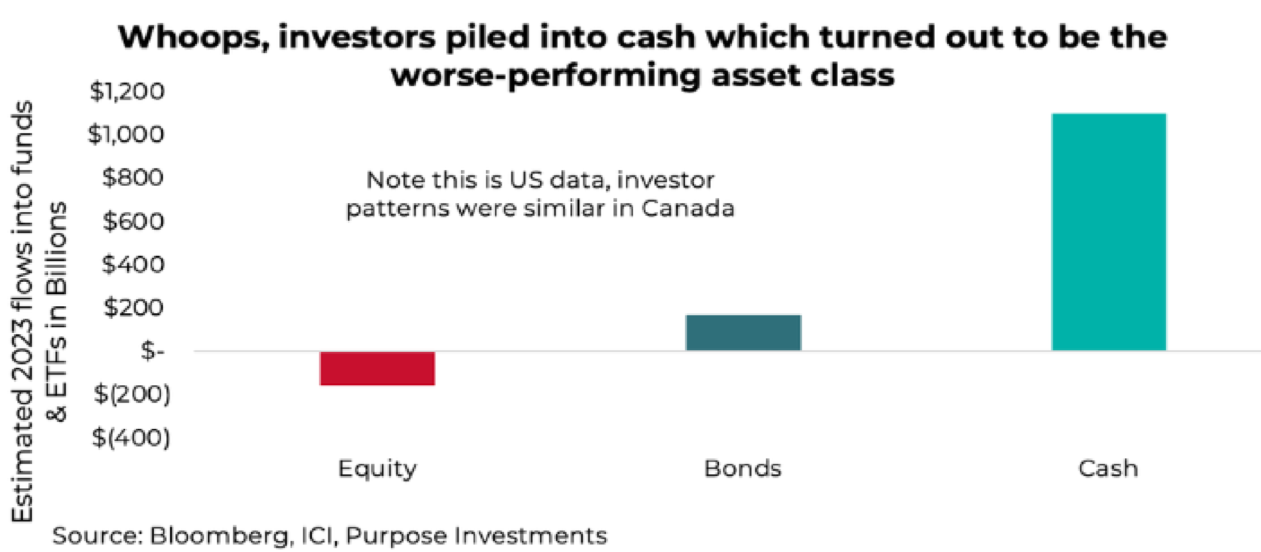
Last year seemed as though it was going to end with another lump of coal but after Jerome Powell did a 180 degree turn on interest rates the holiday rally was in full force. Almost ¾ of the annual return for clients came from the last two months of 2023. The chart above echoes that sentiment. In 2022, we saw interest rates move higher and hinder all asset classes. Now, with the likelihood of rate cuts in 2024, we should see the opposite and have wind back in our sails!

This past month, I attended the Economic Club of Canada's annual breakfast. They hosted six head economists from each of the banks to discuss the situation in Canada and around the world. The topics discussed ranged from inflation, immigration, housing, policy decisions by the government and of course changing interest rates. Each economist agreed that rates in 2024 could be cut by 150 bps or 1.5%, not just the 75 bps Powell mentioned. They also believed that the overnight rate would stabilize around 2.5% to 3% over the next two years. Keep in mind that the overnight rate is at 5% today. This is great news for individuals with variable debt payments and it is even better news for everyone invested today. However, not all managers have the same opinion which is why we diversify with managers and within asset classes to protect against even consensus.

We have mentioned the magnificent seven stocks that ran the markets last year. Here is an excellent breakdown of just how much tech outperformed the remaining 493 stocks in the S&P500.

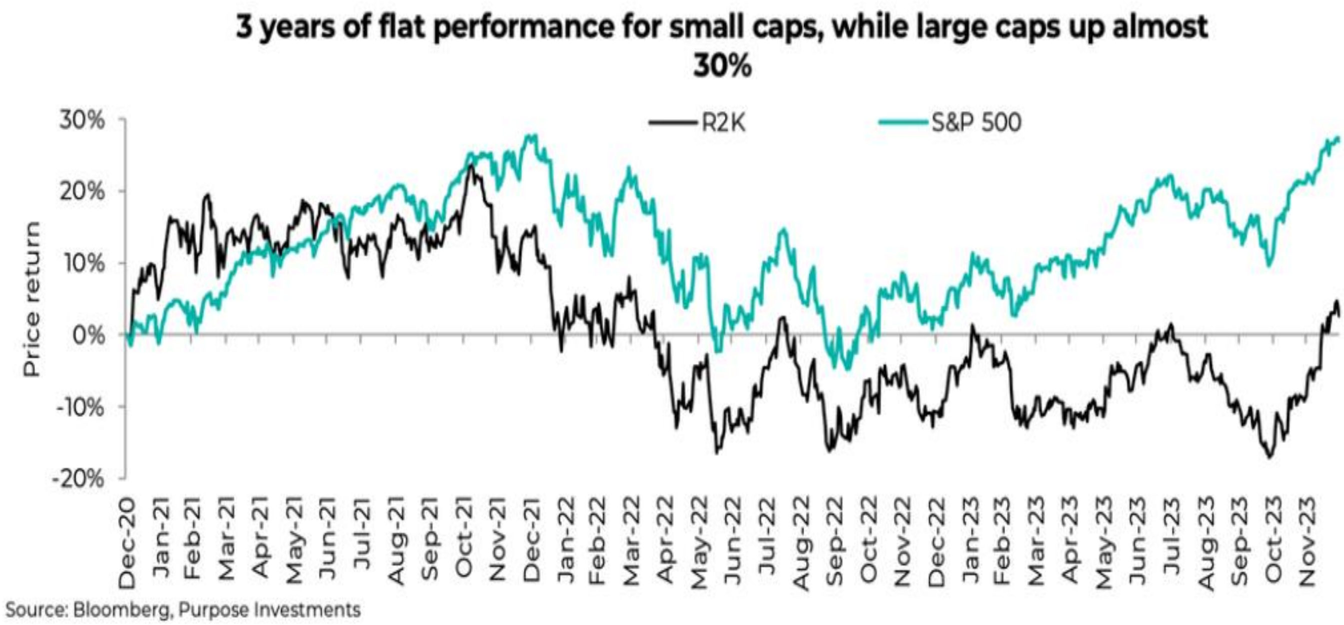


I would be remised if I didn't comment about the tensions around the world today. To say that we can move forward blindly in to 2024 without caution would be foolish. There are wars being fought in many countries and tensions are running higher in Iran and China after the elections in Taiwan. We don't need to look too far away to see issues politically both in Canada and even more in the US. There are always reasons to stay on the sidelines, but it is proven time and time again investing is a long-term game. After an awful year in the markets in 2022, many investors went to cash which turned out to be the worst investment decision as 2023 ended positively.



How we are positioning clients for 2024

We begin the year by rebalancing client portfolios back to their strategic allocations. For example, our target weight for Fidelity Global Innovators is 5% and after a year where we saw the fund jump 45%, we will be trimming back that position and adding other investments that didn't perform as strongly. Last quarter we decided to move on from our position in Lynwood Opportunities Fund, which we held for several years. We felt that some of the early wins were in part due to the funds smaller AUM which made the fund nimbler and allowed the manager to find better, more unique opportunities. It was also a better time to be investing in Canada's small cap space. We still believe in small cap stocks and even more today as they have underperformed for the last few years (see below). We plan to continue to hold small/medium cap managers such as MMCAP Canadian Fund, Pender Small Mid Cap Fund and we will be introducing Fidelity Global Small Cap Fund. We feel that these managers have shown better downside protection while still providing great returns when markets perform well. R2K is the Russell 2000 index which focuses on smaller companies vs. the mega caps.



We believe that our stocks and managers will continue to have a constructive year, knowing that bonds have higher yields today and will do even better if rates come down. We see a benefit in reducing our allocation to alternatives and equity to realign into safer investments that can provide high single digit returns with lower risk.

For those of you who are in the higher risk allocation, we will be sending out a brief update going forward twice a year on a few of the growth holdings such as Crypto, Biotech, and a new Turtle Creek 2.0 fund. If any client is interested in these topics, please reach out to us and we are happy to discuss them with you in our next portfolio review.

Investment Highlights in the Fourth Quarter

For those of you who enjoy more detail on investments, please see the below comments from myself and Brenan. This commentary provides a more detailed evaluation of our best and worst performing stocks within the models.

As of 12/31/2023	Standouts based on Q4 - 2023 returns	Stocks Under Pressure – Q4 2023
US Stocks (in USD)	Broadcom Inc (AVGO): 34.39% Truist Financial (TFC): 29.05%	Albemarle (ALB): -15.03% (Sold)
Canadian Stocks (in CDN)	Manulife Financial (MFC): 17.97% Goeasy Ltd (GSY): 48.23%	Finning International (FTT): -4.34%
Mutual Funds	Fidelity Global Innovators: 22.34% Dynamic Precious Metals: 14.60%	Kensington Private Equity: -1.64% Brookfield Real Estate Income Corp: -2.78%

Source: Partington Wealth Management – Stock Models

US Stocks

The Partington US Asset Growth & Income Model was up +10.7% over the quarter and ended 2023 up +15.4% meanwhile the S&P 500 Total Return Index was up 11.7% over the quarter and up +26.3% on the year. This resulted in an underperformance of -10.90%. Although we are disappointed in our 2023 underperformance relative our US benchmark, one of our main goals, is managing risk and providing downside protection – as you may recall, in 2022 the US Model was down -8.9% relative to the S&P Total Return Index which was down -18.1%, so we're still outperforming on a 2-year basis with less volatility. We trimmed Nvidia three times over the last year which hurt the return but was the prudent thing to do.

In Q4, our top performing stocks were Truist Financial (TFC) and Broadcom Inc (AVGO) which were up 29.05% and 34.39%, respectively. TFC largely benefitted from improving macro sentiment surrounding US Financials and the sector up approximately 15% over the quarter. TFC specifically was overly sold after missing top & bottom line Q2 estimates but quickly bounced back after posting a solid revenue & EPS beating in Q3 (and this year in Q4). AVGO is a global technology company that designs, develops, and supplies a broad range of semiconductors, enterprise software and security solutions and has been one of our top performing stocks in the US Model. AVGO has been the benefactor of the positive tailwinds surrounding Artificial Intelligence (increased demand for Semi-Conductors) and has revised year end estimates higher which has led to a significant rerate on the stock price.

We only had one stock that was down in Q4, Albemarle Corp (ALB), which was down -15.03%. ALB, one of the world's largest lithium producers, was hit extremely hard in 2022 due to the fact the that the spot price of lithium went from $70 USD/KG to roughly $15 USD/KG which drastically lowered revenues and profits. The pullback in lithium spot price was predominantly due to increased supply coming to market, the adoption of newer and potentially cheaper material substitutes for EV batteries, and decreased EV adoption. Due to the above, we decided to cut our losses, sell the position, and purchased a position in Alphabet (GOOGL) which is the cheapest (on a P/E basis) of all the Mega Cap companies and has beaten analyst estimates over the past three quarters.

Canadian Stocks

The Partington Canadian Dividend Growth Model was up +11.26% in Q4 and up +12.14% in 2023. The TSX Total Return Index was up +8.10% in Q4 and +11.80% in 2023 resulting in an outperformance for the year of +0.34%. Our decision to go underweight energy and materials and focus our attention on less cyclical (i.e. commodity based) but quality companies help lead to the out performance. Over 28% of the TSX is made up of energy and material and both sectors underperformed in 2023 (opposite of 2022).

Our top performing positions in Q4 were Goeasy Ltd. (GSY) and Manulife Financial (MFC), which were up 48.2% and 17.97% respectively. GSY provides non-prime leasing and lending services through its easyhome, easyfinancial and LendCare brands. In Q3, the stock came under severe pressure after the federal government announced plans to Prohibit lenders from charging borrowers interest rates over 35%. In typical fashion the market overestimated the reductions in earnings growth and the stock sold off to roughly $90. We were buyers at around $100 after having calls with analysts and learning that most of their business was already providing loans under the maximum 35% and more so, that the quality of their loan book was improving (higher rates are charged for riskier loans). Last week GSY stock price hit a high of $168 and we were trimming the position. MFC has traded within the $20 to $28 range for over 5 years, meanwhile paying out an annual dividend of 5%. After posting strong Q3 earnings (11% beat from expectations) and announcing a $13B reinsurance transaction with Global Atlantic in December, the stock has traded up from an annual low of approximately $24 to where it closed this week at $29. MFC finally broke $28 resistance level that has been tested 5 times before – the more frequently a level is tested the more likely it is to be exceeded (in either direction). A breakout could target $40, where it gapped down in 2008. It's been a long time coming.

The only negative stock in the model over the quarter was Finning International (FTT) which was down -4.34%. FTT pulled back after slightly missing revenue estimates – the stock pulled back but developed a healthy base in the $34 range. We believe FTT will benefit from the positive tailwinds stemming from the construction, mining, and oil & gas sectors – as you may recall, they provide Caterpillar equipment and servicing in Canada, South America, and UK/Ireland.

Mutual Funds

Our top performing funds over the quarter were Fidelity Innovators and Dynamic Precious Metals, which were up 22.34% and 14.60%. In 2023, the top performing funds were Fidelity Global Innovators and the Turtle Creek Equity Fund which were up 48%, and 27.50%, respectively. Fidelity Global Innovators did a fantastic job of picking up cheap mega cap names at the end of 2022 and in the beginning of 2023. The Portfolio Manager, Mark Schmehl is based out of San Fransico and has deep relationships with most tech company CEO's – needless the say, the fund has benefitted tremendously from the positive tailwinds stemming from Artificial Intelligence. We referenced Turtle Creek in our Q3 2022 newsletter and as you may recall, they are long only, active managers who have performed well coming out of bear markets. In 2022 and 2023, Turtle Creek did an excellent job of averaging down on their highest conviction names which were trading at depressed valuations. Moreover, Turtle Creek actively trades their core positions around in periods of volatility and has stuck to their knitting of buying/averaging down and selling/trimming high. Over the past year, the markets were extremely volatile, so this strategy helped the fund generate alpha.

Our worst performing funds in the quarter and on the year, were Kensington Private Equity and Brookfield Real Estate Income Corp (REIC). The Kensington Private Equity Fund was down -1.64% in the quarter and up +0.39% on the year. Private Equity in general had a tough 2023 as the IPO market froze and valuations on most private investments rerated lower on the back of higher interest rates. We still like Kensington as a core holding seeing as it's return profile is uncorrelated with the public markets – in 2022, the fund posted a positive return of 3.73% and we trimmed the position in early 2023 and rolled the proceeds into public equities and fixed income. The Brookfield REIC was down -2.78% in the quarter and down -7.20% on the year. The fund posted negative performance from elevated capitalization rates that the real estate sector has faced which has lowered the values on comparables transactions of properties Brookfield REIC holds. As a result, Brookfield had to mark to market their property values lower. Only 5% of the fund (2 properties) have exposure to the office properties and over 60% of the fund has exposure to rental housing so we're very comfortable with holding this position.

Spotlight on Sterling Mortgage:

We wanted to highlight a couple of changes and comments with respect to Sterling Mortgage Income Fund (SMIF) who we've been investing with for several years. Sterling provides senior/junior mortgages and other loans to real estate developers in residential, mixed use and commercial space. The fund is comprised of fixed and floating rate loans, so we expect the fund to continue to perform well in a higher interest rate environment. The portfolio has an average loan to value of 44% across the portfolio.

The purpose of this note is to update you on a recent agreement related to the underlying funds in which the Fund invests, which gives us comfort in times of stress. In 2022, the fund paid out 7% during the year and an additional 5.3% top up in March of 2023 generating 12.3 % return for 2022. Keep in mind the bond index was down close to 12% during the same period. In 2023 it also paid out 7% and they have also announced another distribution of 5% which will take the return over 12% again.

A few other Highlights:

- There has been a change to the fund structure (not the fund mandate). Prior to June 1, 2021, the Fund you own invested in SMIF, which made direct investments in a variety of mortgages and real estate equity investments in the Bahamas, Cayman Islands, United States, Canada and in Europe. On June 1, 2021, Sterling Mortgage Income Fund Ltd. transferred all its mortgage and real estate investments to Sterling Mortgage Income Master Fund LP (the Master Fund) in exchange for units in the Master Fund. The Master Fund now makes the direct investments that were previously made by Sterling Mortgage Income Fund Ltd, now referred to as the Feeder Fund. Sterling has advised us that the purpose of the reorganization was to attract new investors based in the U.S. and Europe. Please note that this reorganization does not impact your ownership interest in the Fund. For the Offering Memorandum ask for a copy and we can send it to you.

- We also wanted to note that Richardson Wealth advisors and their clients currently own approximately CDN$150 million or 79% of SMIF and, indirectly, 53% of the Feeder Fund and Master Fund. We therefore wanted to ensure you are aware of our firm's overall position in the Fund. They have just released a statement that they are expanding into the US as well to diversify the investors base.

- Richardson Wealth has acted as an agent in connection with client investments in SMIF and for other Sterling Financial private closed funds.

- Over the last 10 years, my team including myself, have visited the offices of Sterling Financial in the Bahamas on diligence trips. We have also explored several of the development properties which Sterling has provided loans against. During our diligence trip, we met with Sterling's management team along with their founder, David Kosey.

If you have any questions regarding the Fund, Sterling, or any of the information above, please do not hesitate to reach out to us directly.

Looking Ahead

As 2024 is full steam ahead, we remind you of the upcoming contribution deadlines.

The RRSP contribution deadline for 2023. The 2023 RRSP contribution limit is **$30,780**. For reference, your current allowable contribution limit can be found on your latest notice of assessment from the Canada Revenue Agency. This is a great opportunity for us to review your retirement investment strategy. Together, we can:

- **Calculate your contribution limit.** The annual contribution limit is 18% of your earned income in the prior year, to a maximum of $30,780 for 2023. If you did not use your previous RRSP contribution limit, you can carry forward any unused amounts to next year. Note that employer and employee contributions to a registered pension plan will reduce your contribution room.

- **Decide how much to contribute** and how to set up regular, automatic payments to an RRSP if you haven't already done so.

- **Contribute to other tax-efficient plans** such as a Tax-Free Savings Account (TFSA) or Registered Education Savings Plan (RESP). The **2024** contribution limit for TFSAs is **$7,000**.

To make a tax-deductible contribution, the contribution must be made within 60 days after December 31. Contributions to be deducted against 2023 income must be made by February 29, 2024.

You can easily transfer funds from your bank account to your investment account in much the same way as you would pay a bill online. Click here for deposit instructions.

Should you wish to contribute or if you have any questions, please contact **o**ne of our team members.

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