Cidel
Asset Management

Cidel's Investment Team Commentary

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CIDEL BALANCED FUND

Q1 2022 as of March 31st

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Asset Management

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I. Market Overview

The first quarter of the year started out with declines in both equity markets and bond markets, as worries about inflation and the Russian invasion weighed on market sentiment. The Balanced fund was only down 2.5% outperforming the benchmark by 0.90%. The outperformance in the balanced fund resulted from strong relative performances of Global equities, corporate bond, and the allocation to alternatives. Overall, the conservative orientation of the portfolio going into 2022 helped protect our client's capital in a particularly volatile market. We expect to maintain our conservative positioning into the next quarter.

II. Performance

The balanced fund was down 2.5% versus -3.3% for the benchmark in the quarter. The allocation to Canadian equities was the only part of the portfolio that underperformed its benchmark. The underperformance was almost entirely due to an underweight in the energy sector. As the energy sector was the top performing sector as oil prices soared on news of the Russian invasion of Ukraine.

Canadian Dollar	4 Year Annualized (%)	1 Year (%)	Year-To-Date (%)	3 Months (%)
Rate of Return				
Cidel Balanced Fund	7.9	7.1	-2.5	-2.5
Cidel Balanced Benchmark*	8.4	7.6	-3.3	-3.3
Value Added/Detracted	**-47 bps**	**-50 bps**	**87 bps**	**87 bps**
Fixed Income Portfolio	2.9	-4.0	-6.4	-6.4
Bloomberg Barclays Aggregate Canada Index	1.6	-4.5	-6.8	-6.8
Canadian Equity Portfolio	10.5	15.5	2.3	2.3
S&P/TSX Composite Index	12.6	20.2	3.8	3.8
Foreign Equity Portfolio	10.2	8.8	-4.2	-4.2
MSCI World Index - ND	11.3	9.4	-6.2	-6.2

*Customized Benchmark Breakdown (2% FTSE TMX Canada 91 Day Tbill Index; 33% Bloomberg Barclays Aggregate Canada Index; 30% S&P/TSX Capped Composite Index; 35% MSCI World Index (CDN$)

The fixed income portion of the fund returned -6.4% compared to -6.8% for the benchmark. This decline represents the largest loss in fixed income in more than 30 years. The more conservative positioning helped the balanced pool outperform.

Canadian Dollar	4 Year Annualized (%)	1 Year (%)	Year-To-Date (%)	3 Months (%)
Rate of Return				
Cidel Canadian Fixed Income	2.9	-4.0	-6.4	-6.4
Bloomberg Barclays Aggregate Canada Index	1.6	-4.5	-6.8	-6.8
Value Added/Dectracted	**134 bps**	**50 bps**	**39 bps**	**39 bps**

The Canadian equity portion of balanced fund returned 2.3% vs the benchmark return of 3.8%. The underperformance was almost all attributable to the energy sector.

Canadian Dollar	4 Year Annualized (%)	1 Year (%)	Year-To-Date (%)	3 Months (%)
Rate of Return				
Cidel Canadian Equity	10.5	15.5	2.3	2.3
S&P/TSX Composite Index	12.6	20.2	3.8	3.8
Value Added/Detracted	**-208 bps**	**-465 bps**	**-154 bps**	**-154 bps**
Standard Deviation				
Cidel Canadian Equity	15.4	8.3	9.0	9.0
S&P/TSX Composite Index	15.2	7.8	8.1	8.1

The Global Equity portion was down 4.2% vs -6.2% for the benchmark.

Canadian Dollar	4 Year Annualized (%)	1 Year (%)	Year-To-Date (%)	3 Months (%)
Rate of Return				
Cidel Global Equity Fund	10.2	8.8	-4.2	-4.2
MSCI World Index - ND	11.3	9.4	-6.2	-6.2
Value Added/Detracted	**-101 bps**	**-64 bps**	**201 bps**	**201 bps**
Standard Deviation				
Cidel Global Equity Fund	11.2	8.0	5.1	5.1
MSCI World Index - ND	12.4	10.5	10.3	10.3

III. Asset Mix

Asset Mix	Range (%)			Actual (%)		
	Min	Max	Benchmark*	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022
Cash & Short-Term	0.0	20.0	2.0	3.0	5.1	3.0
Fixed Income	20.0	45.0	33.0	27.0	24.9	26.9
Alternatives	0.0	10.0	0.0	5.0	4.8	5.2
Equities	45.0	75.0	65.0	65.0	65.2	64.9
Canadian	20.0	40.0	30.0	31.0	29.8	30.1
Foreign	15.0	55.0	35.0	34.0	35.4	34.8

During the past quarter we did not make any substantial changes in our allocations. Our defensive positioning helped generate the outperformance during the first quarter. As yields continue to rise, we expect to reduce our cash position and to purchase bonds at some of the highest yields we have seen in some time.

IV. Portfolio and Characteristics

Fixed Income:

Given higher-short term rates and wider short-term corporate spreads, cash positions were invested into short-term corporates. The portfolio's relative shorter duration position was maintained. Provincially, the Ontario weight was increased though a reduction of the Alberta (significant yield spread compression relative to other provinces due to an improving fiscal profile) weight. We sold cable positions to facilitate the purchase of senior domestic bank and insurance debt, on the back of concessionary new issue pricing, which we expect will benefit from higher yields. Consequently, the portfolio's exposure to lower rated investment grade debt was reduced.

Performance benefitted from the portfolio's shorter duration versus the benchmark given the rise of yields. The portfolio's positioning for flattening with an overweight in short and long-term debt and underweight 7 and 10-year debt was also positive for performance given significant flattening of the yield curve. Long bond exposure was concentrated in provincial debt, with an overweight in Alberta, which was amongst the few credit issuers that experienced yield spread narrowing. The overweight in credit also provided additional yield to the portfolio.

The portfolio's corporate term distribution, which was positioned conservatively with overweights in the short and mid terms, was negative for performance given the bear flattening of the corporate credit curve. The portfolio's corporate term distribution, which was positioned conservatively with overweights in the short and mid terms, was negative for performance given the bear flattening of the corporate credit curve.

Sectors	Dec 2021		March 2022		
	Portfolio (%)	Benchmark* (%)	Portfolio (%)	Benchmark* (%)	+/- (%)
Key Characteristics					
Average Yield To Maturity	2.4	1.8	3.3	2.9	0.3
Average Term (Yrs.)	9.1	10.8	9.0	10.3	-1.4
Duration	7.1	8.3	6.7	7.6	-0.9
Sector					
Federal	10.6	41.4	10.7	43.1	-32.4
Provincial	40.0	31.3	42.9	32.1	10.9
Municipal	0.1	1.2	0.1	1.7	-1.6
Corporate	46.7	25.3	41.4	19.9	21.6
Preferred	2.5	0.0	2.2	0.0	2.2
ABS	0.0	0.0	2.8	0.0	2.8
Term					
Short Term (0-5 Yrs.)	22.6	41.6	38.5	43.6	-5.1
Mid Term (5-10 Yrs.)	23.1	25.6	18.8	25.5	-6.7
Long Term (+10 Yrs.)	54.2	32.8	42.6	30.9	11.7
Ratings					
AAA	21.9	43.7	20.1	44.8	-24.7
AA	43.7	32.8	48.1	16.2	31.9
A	13.2	13.7	13.1	29.3	-16.2
BBB	21.2	9.8	18.7	9.7	9.1
<BBB	0.0	0.0	0.0	0.0	0.0
NR	0.0	0.0	0.0	0.0	0.0

*Bloomberg Barclays Aggregate Canada Index

Canadian Equity:

The Canadian equity portion of balanced fund returned 2.3% vs the benchmark returns of 3.8%. The underperformance was almost all attributable to the energy sector.

New Holdings	Increased Holdings	Decreased Holdings	Eliminated Holdings
Barrick Gold Corporation	Canadian Natural Resources Limited	Agnico Eagle Mines Ltd.	BRP Inc
CCL Industries Inc	CGI Group Inc	Bank of Nova Scotia	Lightspeed Commerce Inc
First Quantum Minerals Ltd.	NUTRIEN LTD	Canadian Imperial Bank of Commerce	SSR Mining Inc
Nuvei Corp	Open Text Corp	Canadian Natural Resources Limited	
Thomson Reuters Corp.	Restaurant Brands International Inc	Franco Nevada Corp	
	SNC-Lavalin Group Inc.	Nutrein Ltd	
	Suncor Energy Inc.	Parkland Corp	
	TELUS International CDA Inc	Royal Bank of Canada	
		Shopify Inc- Class A	
		The Toronto-Dominion Bank	

During the quarter we added five new names to the portfolio: Barrick Gold, CCL Industries, First Quantum Minerals, NUVEI, and Thomson Reuters. We eliminated three positions: BRP Inc., Lightspeed Commerce, and SSR Mining.

We added Barrick back to the portfolio after removing it in the fourth quarter of 2021. We had become concerned that the Company was going to try to out-bid Kinross gold for the Great Bear exploration project in Ontario, an asset that had a very lofty price tag. When it became clear that Barrick was going to remain disciplined, we re-established our position. We funded the purchase through the elimination of SSR Mining – a position that had significantly outperformed, and we started to become concerned about higher cost assumptions.

CCL Industries is a global leader in labels and packaging solutions for large companies and small businesses. The Company has a long track-record of attractive profitable growth. The stock finally reached a valuation that we found to be attractive.

First Quantum Minerals is a copper miner that is currently seeing strong growth as it ramps up production at its Cobre Panama mine in Panama. The Company is benefitting from a strong copper price environment.

Nuvei is a next-generation provider of payment technology solutions to merchants globally. Nuvei allows merchants to accept payments in over 200 global markets and nearly 150 currencies while allowing its merchants' customers to transact across 450 alternative payment methods (APMs). There is an accelerating shift in payments away from off-line (brick-and-mortar, or card-present) to on-line (card-not-present). The Company's outsized organic revenue growth since IPO in September 2020 is the result of its focus on high growth verticals like eCommerce and online regulated Gaming. Nuvei is building its sustainable competitive advantage by solving the problem faced by all merchants: payment complexity. There has been an explosion of growth in alternative payment methods, which means merchants need a trusted service provider to assist them in managing which payments to accept. Finally, Nuvei is not just high growth; it is also very profitable with roughly ~40% EBITDA margins. Simply put, Nuvei has all of the building blocks to be a cash flow compounder.

Thomson Reuters is one of the world's largest providers of intelligent information services, ranking first or second in most major markets covered. Key end markets include Legal, and Tax & Accounting. The Company has a very attractive organic growth profile and improving profitability as the company transitions to a fully-digital offering.

We eliminated BRP Inc, a leader in the design, development and manufacturing of powersports products such as snowmobiles, ATVs, SSVs and personal watercraft. These products are amongst the most discretionary of purchases, and we became concerned that higher interest rates could result in consumers deferring their purchases.

Sectors	Dec 2021		March 2022		
	Portfolio (%)	Benchmark* (%)	Portfolio (%)	Benchmark* (%)	+/- (%)
Energy	12.6	13.1	15.7	16.3	-0.6
Materials	9.1	11.5	11.7	13.2	-1.5
Industrials	12.2	11.9	12.2	12.0	0.2
Consumer Discretionary	6.1	3.7	4.6	3.2	1.4
Consumer Staples	4.6	3.7	4.7	3.8	0.9
Health Care	0.7	0.8	0.0	0.7	-0.7
Financials	35.4	32.2	35.5	31.8	3.8
Information Technology	13.1	10.7	11.2	6.7	4.5
Communication Services	2.6	4.7	2.7	5.0	-2.3
Utilities	1.7	4.6	1.7	4.6	-3.0
Real Estate	1.5	3.1	0.0	2.8	-2.8

*S&P/TSX Capped Composite

Key Ratios	Dec 2021		March 2022		
	Portfolio (%)	Benchmark (%)	Portfolio (%)	Benchmark (%)	+/- (%)
Avg. Market Cap ($M CAD)	76,176.7	82,982.0	69,857.1	79,015.3	-9,158.2
Dividend Yield (%)	2.5	2.7	2.5	2.7	-0.3
Price / Earning Trailing (x)	18.1	16.9	17.6	16.1	1.6
Price / Earning Forward (x)	14.6	14.3	14.3	13.7	0.5
Return on Equity (%) (LTM)	13.3	13.6	14.1	14.5	-0.4
EPS Growth (5 Year- %)	15.9	12.6	15.4	13.2	2.2
Dividend Growth (5 Year - %)	9.3	8.6	8.9	8.3	0.6
CO2 Per Market Cap	80.4	88.5	67.2	84.5	-17.3

*S&P/TSX Capped Composite

Global Equity:

The Cidel Global Equity Strategy made a number of portfolio changes during the quarter. Apart from the stock specific considerations described below, factors that influenced the trades included a desire to use the market volatility to improve the long-term capital appreciation potential of the portfolio, an opportunity to improve the portfolio's quality characteristics, and to reduce exposure to pockets of the economy where we think medium term results are most at risk from inflationary pressures.

1. We have built a small position in PayPal Holdings Inc. We believe this American provider of digital payment solutions is well positioned to benefit from the ongoing rise of cashless

transactions and e-commerce purchases. Some of its newer product offerings, and in particular peer to peer money transfer app Venmo, are modest profit contributors at present but offer compelling long-term potential. Correspondingly we believe the company has many years of low double digit organic revenue growth potential ahead of it. The stock was bid up to (an arguably insane price of) over $300 last summer, but with the above-described weakness in higher growth tech stocks the shares ended the quarter at just $116. The company should generate nearly $6b in free cash flow this year, which equates to a 4.5% free cash flow yield. As such we think this is a good entry point for this high-quality compounder.

2. We've also built a small position in Argentine ecommerce and fintech company Mercadolibre Inc. Similar to Paypal, Mercadolibre's share price had run well ahead of reasonable estimates of intrinsic value over the course of 2021. And as is inevitably the case when shares hit valuation extreme's (in Mercadolibre's case shares traded in excess of 25x sales – not earnings, sales – at points in 2021) the shares have had a torrid few month, falling from a high of $1954 in early September down to $1191 at March 31st 2022 (after having hit an absolute low of $884 in mid- March). We were happy to add this high growth company at a price well below our estimate of its value. The company operates in a variety of Latin American countries, where penetration of ecommerce, online banking and online advertising is still in its relative infancy. The company has and will continue to invest heavily in both its technological and logistics capabilities. This heightened spend has depressed near term profits, but we are confident it will maximize the performance and value of the business in the long run. Despite the high level of internal investment, the company is free cash flow positive, its balance sheet is strong, and we expect revenue growth to be in excess of 20% for many years to come.

3. We established a full position in French luxury goods conglomerate LVMH Moet Hennessy Louis Vuitton SE. Apart from the well known and iconic Louis Vuitton leather goods, the company business lines include champagne, cognac, watches and jewellery, perfumes and travel. The company's other brands include Tiffany, Christian Dior, Sephora, Hennessy, Veuve Cliquot, Zenith and many others. While Louis Vuitton never puts their purses on sale, the shares can occasionally be had on the cheap. The shares experienced weakness as European equities sold off in the immediate wake of the Russian invasion of Ukraine and this past winter's rising COVID 19 case count in China (a key market for luxury goods). They have declined from an all time high €758 in early January to a low of €550 in early March before rebounding to end the quarter at €649. We expect that the company will continue to take market share from rivals and is well poised to continue to demonstrate organic growth well in excess or the overall economy or greater consumer sector. We also believe LVMH has excellent pricing power relative to most other consumer (or even industrial for that matter) businesses, which is a key consideration in an inflationary environment.

4. Finally, we have also built a full position in U.S. defense contractor Lockheed Martin Corporation. Lockheed Martin is well positioned to win business from higher NATO and allied defense spending in the years (and likely decades) to come. The order backlog should grow at an accelerated rate, and this in turn will drive better revenue growth and an uptick in margins. Lockheed's key products include the multi-decade F35 fighter jet program (Canada, Finland and Germany have come onboard as new customers in just the last few months), which provides a high level of earnings visibility for years to come. While the factory in Ft Worth Texas that manufactures the F35 is fully utilized, there is the opportunity to expand it to improve capacity (and thus Lockheed Martin's revenues). The company's other segments are Space, Missiles and Mission Systems. Even prior to the outset of the war defense stocks are worth investigating in an environment of slowing growth, as they typically have attractive cash returns, and often have low correlations with other parts of the equity market. While Lockheed Martin's medium term revenue growth profile is not on the order of Paypal, Mercadolibre or even LVMH, its cash return prospects are excellent. We expect Lockheed Martin to generate roughly $6.5 to $7.0b of free cash flow in each of the next three years. This will enable a cash return of roughly 5.5% this year, with 2.5% coming from the dividend and 3.0% from a share buyback. At quarter end the stock was trading at approximately 17 times forward earnings, well below the overall S&P 500 PE ratio.

These four new investments were financed by selling four existing investments. We sold our positions in Irish construction materials firm CRH and in Dutch brewer Heineken NV. Both companies are executing well, and neither company's shares are overvalued. However, they both face rising input cost pressures in the near and medium term. We believe that LVMH has much better pricing power and long-term growth potential, and these two sales largely funded the LVMH purchase. Despite howls of protest and indignation from the author's school aged children, we also sold our position in American chocolate and snacks firm Mondelez International Inc. for similar reasons. We are worried that the maker of Cadbury chocolate and Oreo cookies will struggle to maintain margins and market share in the face of higher input costs. Part of the proceeds of this exit were used to increase our position in Procter & Gamble, a conceptually similar stock which we believe has better pricing power. Finally, we also exited our position in Medtronic. After a period of being significantly undervalued vs. peers in the late 2010's, the the shares had appreciated to the point where they were trading inline with our valuation and given our significant weight in health care (and in particular medical devices due to our investments in Olympus and Johnson & Johnson), we opted to use our Medtronic position to fund the purchases of Paypal and MercadoLibre.

New Holdings	Increased Holdings	Decreased Holdings	Eliminated Holdings
LVMH Moet Hennessy Louis Vuitton SE	Analog Devices Inc	Capgemini SE	Heineken NV
Lockheed Martin Corp	CMS Energy Corp	Chubb Limited	CRH PLC
MercadoLibre Inc	Dollar General Corporation	Dassault Systemes SE	Medtronic Plc
PayPal Holdings Inc	Lloyds Banking Group PLC	Deutsche Boerse AG	Mondelez International Inc
	Microsoft Corporation	Nextera Energy Inc.	
	Olympus Corporation	RELX PLC	
	Ross Stores Inc	SalMar ASA	
	Tectronic Holdings Co. Ltd.	Sanofi ADR	
	The Procter & Gamble Company	United Community Banks Inc/GA	
	Visa Inc		

Sectors	Dec 2021		March 2022		
	Portfolio (%)	Benchmark* (%)	Portfolio (%)	Benchmark* (%)	+/- (%)
Energy	2.4	3.1	2.9	4.3	-1.4
Materials	1.8	4.2	0.0	4.5	-4.5
Industrials	11.4	10.2	14.1	10.0	4.0
Consumer Discretionary	14.2	12.3	17.5	11.6	5.9
Consumer Staples	12.5	6.9	8.4	7.0	1.4
Health Care	16.8	12.6	15.9	12.9	3.1
Financials	13.5	13.2	12.1	13.7	-1.6
Information Technology	18.9	23.7	20.5	22.5	-1.9
Communication Services	2.5	8.3	2.4	7.9	-5.5
Utilities	6.1	2.7	6.2	2.9	3.3
Real Estate	0.0	2.8	0.0	2.8	-2.8

*MSCI World-ND

Region	Dec 2021		March 2022		
	Portfolio (%)	Benchmark* (%)	Portfolio (%)	Benchmark* (%)	+/- (%)
North America	48.2	71.2	52.4	71.4	-19.0
Europe	29.2	19.3	23.2	18.8	4.5
Asia	15.7	9.2	20.4	9.6	10.8
Emerging Markets	6.9	0.3	4.0	0.1	3.9

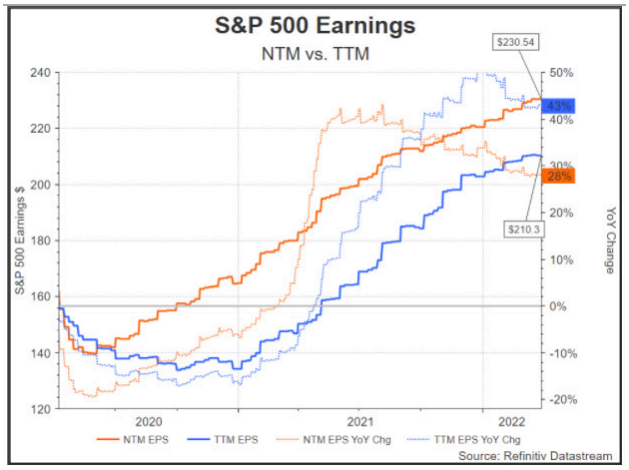
*MSCI World-ND

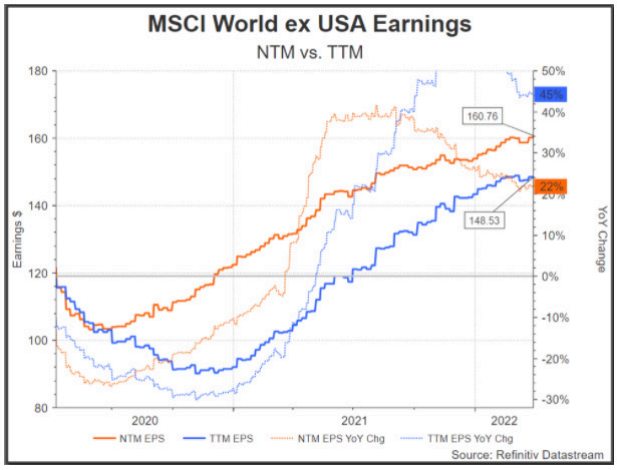
Key Ratios	Dec 2021		March 2022		
	Portfolio (%)	Benchmark (%)	Portfolio (%)	Benchmark (%)	+/- (%)
Avg. Market Cap ($M CAD)	313,905.8	549,470.5	308,599.5	523,386.0	-214,786.5
Dividend Yield (%)	1.8	1.7	1.8	1.8	0.0
Price / Earning Trailing (x)	20.8	21.5	19.8	18.9	0.9
Price / Earning Forward (x)	18.2	19.2	17.5	17.6	-0.1
Return on Equity (%) (LTM)	15.2	16.2	17.1	17.4	-0.3
EPS Growth (5 Year- %)	8.3	10.4	13.0	11.5	1.5
Dividend Growth (5 Year - %)	5.9	4.3	6.0	4.3	1.7
CO2 Per Market Cap	58.3	56.7	43.9	60.0	-16.1

*MSCI World-ND

V. Outlook

The economic growth outlook – which is the ultimate driver of public market equity profit growth – was already decelerating even prior to the start of the war. Reuters poll of 2022 U.S. GDP growth estimates have fallen from a rosy 4.2% last September to a much more pedestrian 3.3% presently; the 2023 growth estimate has fallen to just 2.2%. While economic forecasts are infamous for their inconsistent accuracy, but the direction of travel matters. By contrast, we can see from the chart below that S&P 500 EPS forecasts (currently expecting $230 over the next 12 months) have continued to rise at a nice clip in 2022. With the April earnings season just getting underway it will be interesting to see if estimates can maintain this strong run. By contrast earnings estimates outside the U.S. (specifically the MSCI World ex U.S. Index) have clearly started to flatten.





Central banks were slow to acknowledge the persistence of rising inflationary pressures in 2020 and 2021, and as we enter 2022, they are now in a position of having to increase interest rates aggressively this year and possibly beyond. For equity markets this threatens a set up of decelerating earnings growth and rising investment hurdle rates (via higher interest rates). In our prior quarterly commentary, we noted that while we retained a generally favourable medium-term outlook, we were somewhat concerned for 2022's prospects. Not only must equities overcome earnings growth deceleration and tighter liquidity, but they are also at risk of needing to take a proverbial "breather" after three extraordinary calendar years of returns between 2019- 21 (wherein annual USD returns for the MSCI World Index ranged between 15% to 27%).

Long-term investors should be able to see the silver lining that accompanies weak or volatile markets, namely the opportunity to add in high quality businesses to the portfolio. Whatever the market throws our way, the Equity Income portfolio will stick to its philosophy of emphasizing attractive dividend yield, higher quality businesses, and lower-than-market volatility.

Within the fixed income space, we expect monetary policy to tighten until inflation is brought under control and the Fed regains credibility. Unfortunately, supply-chains and commodity supply are problems that will negatively impact both growth and inflation for the foreseeable future; while labour markets, which have tightened quickly, are at risk of precipitating a wage-price spiral. Ultimately, long-term inflation expectations, which have risen, will remain top of mind for policymakers, until they show signs of slowing.

We think the Fed and the Bank of Canada will raise rates and empty their balance sheets so long as inflation remains high and real yields abnormally low. The yield curve is at risk of steepening, before re-flattening, to reflect an economy not yet ready to materially slow. Eventually, we expect an inverted yield curve (Fed Funds to 10-years) to signal an impending slowdown, maybe even recession, but we are not there yet.

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Where applicable, Cidel has selected a benchmark so that a relevant and relative comparison can be made between the performance of the portfolio vs. the benchmark. Where possible, Cidel has selected a benchmark that best fits the portfolio composition based on asset class, geographic and currency allocations. Benchmark performance does not include the cost of investing and should be taken into account when comparing net performance (i.e. after management fees have been de-ducted) of the portfolio vs. the benchmark. Please contact your Cidel representative if more detailed information is required on the benchmark.

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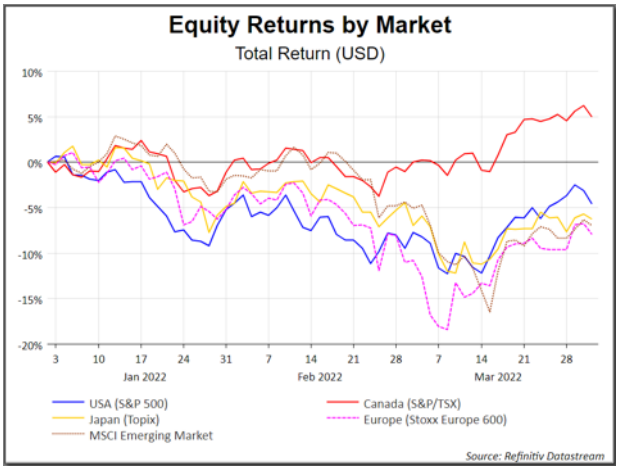
Q1 2022 Cidel Global Equity Strategy Commentary

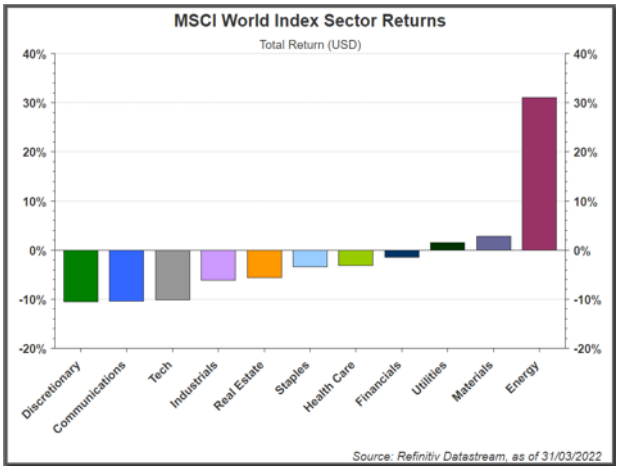
cidel.com

By Charles Lannon, CFA, Senior Vice President and Head of Equities

Equities had a memorable first quarter of 2022, but entirely for awful reasons. Early in the quarter markets exhibited weakness as they continued to digest the reality that persistent inflation was helping to bring the era of extreme central bank and fiscal liquidity to a close. Long duration assets, which in the equity market often means higher growth, high valuation stocks (frequently but not exclusively found in the Tech sector) were particularly vulnerable, and continued their corrective slide that started in November 2021 with the Adobe Inc. earnings and guidance "miss", and continued with the release of the Federal Reserve minutes (which revealed growing concern by Fed Board members surrounding inflation and inflation expectations).

Equities further weakened in the immediate wake of the horrific and previously barely imaginable February 24th invasion of Ukraine by Russia. For the quarter the MSCI World Index ended down 5.1% in $U.S. terms (and down 6.3% in $CAD terms). Canadian equities did relatively well in the quarter. They obviously benefited from the local markets higher weighting in Energy stocks, and less obviously probably tangentially benefitted from the country's relatively low absolute and relative geopolitical risk. Energy, whose medium term fundamentals – specifically the prospects for a limited supply response to rising "re-opening" demand – was already performing well prior to the war. Energy stocks further benefitted from the spike in geopolitical risk, and as such proved to be the only sector that offered up significant returns during the quarter. The below left chart recaps how various equity markets have performed thus far in 2022, and the below right chart illustrates how weak sectoral breadth – ie the proportion of sectors that have enjoyed good returns - has been thus far this year.





The Cidel Global Equity Strategy made a number of portfolio changes during the quarter. Apart from the stock specific considerations described below, factors that influenced the trades included a desire to use the market volatility to improve the long term capital appreciation potential of the portfolio, an opportunity to improve the portfolio's quality characteristics, and to reduce exposure to pockets of the economy where we think medium term results are most at risk from inflationary pressures.

1. We have built a small position in PayPal Holdings Inc. We believe this American provider of digital payment solutions is well positioned to benefit from the ongoing rise of cashless transactions and e-commerce purchases. Some of its newer product offerings, and in particular peer to peer money transfer app Venmo, are modest profit contributors at present but offer compelling long term potential. Correspondingly we believe the company has many years of low double digit organic revenue growth potential ahead of it. The stock was bid up to (an arguably insane price of) over $300 last summer, but with the above described weakness in higher growth tech stocks the shares ended the quarter at just $116. The company should generate nearly $6b in free cash flow this year, which equates to a 4.5% free cash flow yield. As such we think this is a good entry point for this high quality compounder.

2. We've also built a small position in Argentine ecommerce and fintech company Mercadolibre Inc. Similar to Paypal, Mercadolibre's share price had run well ahead of reasonable estimates of intrinsic value over the course of 2021. And as is inevitably the case when shares hit valuation extreme's (in Mercadolibre's case shares traded in excess of 25x sales – not earnings, sales – at points in 2021) the shares have had a torrid few months, falling from a high of $1954 in early September down to $1191 at March 31st 2022 (after having hit an absolute low of $884 in mid- March). We were happy to add this high growth company at a price well below our estimate of its value. The company operates in a variety of Latin American countries, where penetration of ecommerce, online banking and online advertising is still in its relative infancy. The company has and will continue to invest heavily in both its technological and logistics capabilities. This heightened spend has depressed near term profits but we are confident it will maximize the performance and value of the business in the long run. Despite the high level of internal investment, the company is free cash flow positive, its balance sheet is strong and we expect revenue growth to be in excess of 20% for many years to come.

3. We established a full position in French luxury goods conglomerate LVMH Moet Hennessy Louis Vuitton SE. Apart from the well known and iconic Louis Vuitton leather goods, the company business lines include champagne, cognac, watches and jewellery, perfumes and travel. The company's other brands include Tiffany, Christian Dior, Sephora, Hennessy, Veuve Cliquot, Zenith and many others. While Louis Vuitton never puts their purses on sale, the shares can occasionally be had on the cheap. The shares experienced weakness as European equities sold off in the immediate wake of the Russian invasion of Ukraine and this past winter's rising COVID 19 case count in China (a key market for luxury goods). They have declined from an all time high €758 in early January to a low of €550 in early March before rebounding to end the quarter at €649. We expect that the company will continue to take market share from rivals and is well poised to continue to demonstrate organic growth well in excess or the overall economy or greater consumer sector. We also believe LVMH has excellent pricing power relative to most other consumer (or even industrial for that matter) businesses, which is a key consideration in an inflationary environment.

4. Finally we have also built a full position in U.S. defense contractor Lockheed Martin Corporation. Lockheed Martin is well positioned to win business from higher NATO and allied defense spending in the years (and likely decades) to come. The order backlog should grow at an accelerated rate,

4. Cont'd: and this in turn will drive better revenue growth and an uptick in margins. Lockheed's key products include the multi-decade F35 fighter jet program (Canada, Finland and Germany have come onboard as new customers in just the last few months), which provides a high level of earnings visibility for years to come. While the factory in Ft Worth Texas that manufactures the F35 is fully utilized, there is the opportunity to expand it to improve capacity (and thus Lockheed Martin's revenues). The company's other segments are Space, Missiles and Mission Systems. Even prior to the outset of the war defense stocks are worth investigating in an environment of slowing growth, as they typically have attractive cash returns, and often have low correlations with other parts of the equity market. While Lockheed Martin's medium term revenue growth profile is not on the order of Paypal, Mercadolibre or even LVMH, its cash return prospects are excellent. We expect Lockheed Martin to generate roughly $6.5 to $7.0b of free cash flow in each of the next three years. This will enable a cash return of roughly 5.5% this year, with 2.5% coming from the dividend and 3.0% from a share buyback. At quarter end the stock was trading at approximately 17 times forward earnings, well below the overall S&P 500 PE ratio.

These four new investments were financed by selling four existing investments. We sold our positions in Irish construction materials firm CRH and in Dutch brewer Heineken NV. Both companies are executing well, and neither company's shares are overvalued. However, they both face rising input cost pressures in the near and medium term. We believe that LVMH has much better pricing power and long term growth potential, and these two sales largely funded the LVMH purchase. Despite howls of protest and indignation from the author's school aged children, we also sold our position in American chocolate and snacks firm Mondelez International Inc. for similar reasons. We are worried that the maker of Cadbury chocolate and Oreo cookies will struggle to maintain margins and market share in the face of higher input costs. Part of the proceeds of this exit were used to increase our position in Procter & Gamble, a conceptually similar stock which we believe has better pricing power. Finally we also exited our position in Medtronic. After a period of being significantly undervalued vs. peers in the late 2010's, the the shares had appreciated to the point where they were trading inline with our valuation, and given our significant weight in health care (and in particular medical devices due to our investments in Olympus and Johnson & Johnson), we opted to use our Medtronic position to fund the purchases of Paypal and MercadoLibre.

The economic growth outlook – which is the ultimate driver of public market equity profit growth – was already decelerating even prior to the start of the war. Reuters poll of 2022 U.S. GDP growth estimates have fallen from a rosy 4.2% last September to a much more pedestrian 3.3% presently; the 2023 growth estimate has fallen to just 2.2%. While economic forecasts are infamous for their inconsistent accuracy, but the direction of travel matters. By contrast, we can see from the chart below that S&P 500 EPS forecasts (currently expecting $230 over the next 12 months) have continued to rise at a nice clip in 2022. With the April earnings season just getting underway it will be interesting to see if estimates can maintain this strong run. By contrast earnings estimates outside the U.S. (specifically the MSCI World ex U.S. Index) have clearly started to flatten.

Cidel
Asset Management

Q1 2022 Cidel Global Equity Strategy Commentary

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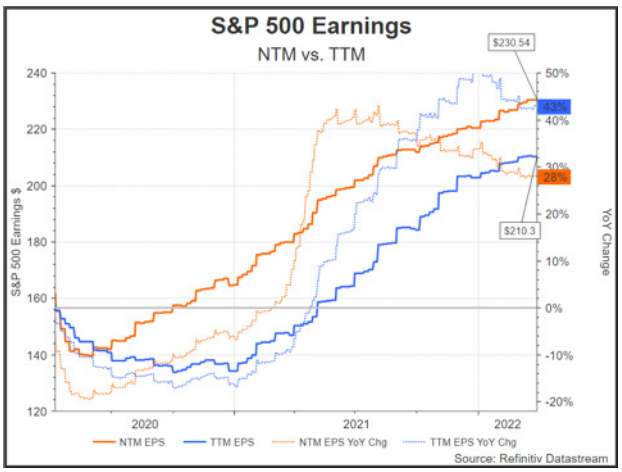
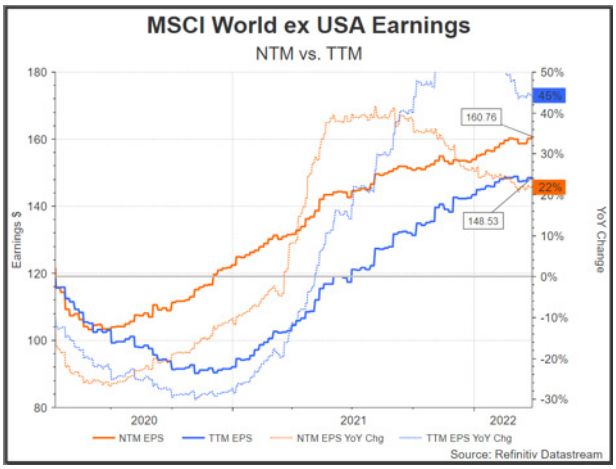




Central banks were slow to acknowledge the persistence of rising inflationary pressures in 2020 and 2021, and as we enter 2022 they are now in a position of having to increase interest rates aggressively this year and possibly beyond. For equity markets this threatens a set up of decelerating earnings growth and rising investment hurdle rates (via higher interest rates). In our prior quarterly commentary we noted that while we retained a generally favourable medium term outlook we were somewhat concerned for 2022's prospects. Not only must equities overcome earnings growth deceleration and tighter liquidity, they are also at risk of needing to take a proverbial "breather" after three extraordinary calendar years of returns between 2019- 21 (wherein annual USD returns for the MSCI World Index ranged between 15% to 27%).

But long term investors should be able to see the silver lining that accompanies weak or volatile markets, namely the opportunity to add in high quality businesses to the portfolio. The businesses we invest in have excellent balance sheets, often with no net debt at all, and will be able to not only navigate through tighter liquidity and a slowdown, but can capitalize upon it. We expect the vast majority of our holdings to increase dividends this year, and while dividend growth has been a relatively poor performing "factor" in recent years we are confident that it can recover for a couple of reasons. First and foremost dividends (and re-investment) are a huge component of long term equity returns (as much as half depending upon the time period and the market in question). Long term stock market investors ignore dividends at their peril. Secondly in an environment of rising economic and geopolitical uncertainty we think that company's that can prove their consistency and cash flow visibility to investors by increasing their dividends – on a sustained basis – will stand out even more so than normal.

April 2022

Q1.22 | Cidel

Cidel International Equity (CAD)

The Cidel International Equity (CAD) Fund is designed for long-term investors seeking above-average total return. Investors benefit from the Fund's diversified exposure to equities outside of North America with less volatility than the market.

Overview

The Investment is a concentrated equity portfolio consisting of 30 to 40 quality companies from outside of North America, chose to access sources of global growth.

The Objective is to exhibit greater total return through dividend and capital growth with lower volatility than the market as a whole.

The Investment Philosophy is founded in our belief that, by investing globally in companies with outstanding financial characteristics, strong fundamentals and stable cash flow generation, we can achieve superior performance with lower volatility than the market.

The Process

- ***Company Fundamentals.*** Conduct bottom-up research to thoroughly understand fundamental characteristics of individual companies.
- ***Company Selection.*** Identify companies that can sustainably increase their cash flows and dividends over the long term.
- ***Portfolio Construction.*** Diversify holdings according to economic activity, sensitivity to economic factors, and geographic exposure.

Market Commentary

The first quarter saw the benchmark MSCI EAFE index fall 7.0% in CAD terms. Europe (65% of the index) was down 8.9% in CAD, with a weaker Euro contributing -2.6% to the USD returns. On a local currency basis, the -5.2% return for MSCI Europe was somewhat surprisingly in line with the return for MSCI USA. Earlier in the quarter European stocks were roiled by an expressed intention to tighten monetary policy faster than had been assumed in response to inflation pressure proving more durable that the European Central Bank has been hoping. International benchmarks were outperforming the US market, with the latter dragged down by a pronounced valuation led correction in higher multiple stocks. Alas the Russian invasion of Ukraine understandably put paid to that. While European stocks have rebounded from the initial shock move lower (+9.5% from the bottom on 8 March), its undeniable that the economic outlook has deteriorated particularly due to Europe's energy reliance on Russia (45% of natural gas and 25% of oil imports)- for now they continue to flow but a move by Russia to cut them off would pose a serious threat to growth that would overwhelm the growth positive from the ongoing recovery from covid impact and higher government spending on infrastructure etc. The markets within EAFE showing positive returns were the UK and Australia, both with sizable exposure to energy/metals/financials.

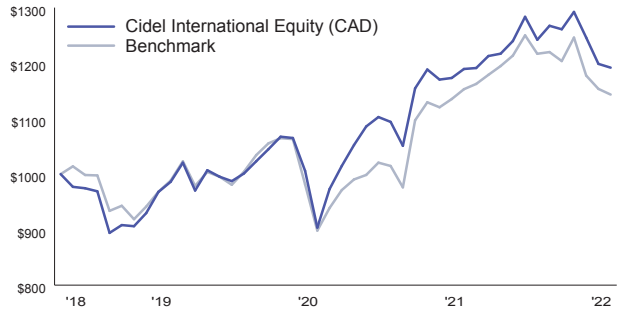
The Fund has had a lacklustre start to the year, down 7.8% in CAD versus -7.0% for the EAFE benchmark. Sector allocation was a -1.2% drag that more than offset +0.4% from stock selection.

A major negative was the underweighting of the materials sector (and stock selection)- no exposure to the big mining stocks like BHP, while CRH suffered from concerns over the impact of rising US mortgage rates on its exposure to US residential end markets (about 15% of sales).

KEY CHARACTERISTICS	Cidel	Benchmark
Q1 Return	-7.8%	-7.0%
YTD	-7.8%	-7.0%
1 Year Return (Annualized)	0.2%	0.5%
3 Year Return (Annualized)	6.5%	5.5%
Return Since Inception (Annualized)	4.9%	4.0%
Standard Deviation (5 year annualized)	N/A	N/A
Yield	2.2%	2.8%

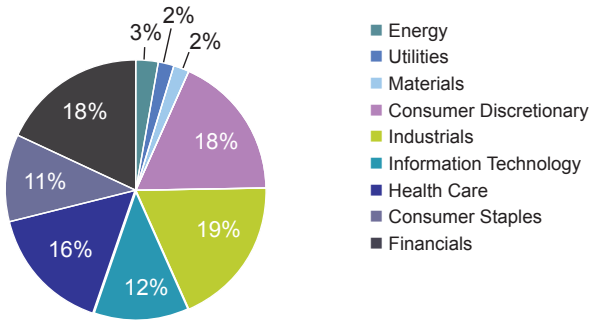
NOTABLE HOLDINGS	
AstraZeneca	5.3%
Nestle	4.4%
Sanofi	4.4%
United Overseas Bank	4.3%
Deutsche Boerse	3.7%
AIA Group	3.6%
SalMar	3.6%
Relx	3.6%
Olympus	3.3%
Lloyds Banking Group	3.3%

GROWTH OF $1,000 VS. BENCHMARK



ANNUAL PERFORMANCE (%)	YTD	2021	2020	2019	Inception
Cidel	-6.7%	9.6%	13.3%	24.1%	5.7%
Benchmark	-5.9%	11.3%	7.8%	22.0%	5.0%

SECTOR ALLOCATION



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Q1.22 | Cidel

Cidel Canadian Total Return Equity

The Canadian Total Return Equity Fund is designed for long-term investors seeking above-average total return. Investors benefit from the Fund's diversified exposure to Canadian equities with less volatility than the market.

Overview

The Investment is an equity portfolio consisting of large- and mid-cap Canadian companies selected for their high quality and expected dividend growth.

The Objective is to deliver strong Canadian equity returns with low volatility.

The Investment Philosophy is to align client interests with companies that consistently grow their cash flows and dividends.

The Process

- ***Company Fundamentals.*** Conduct bottom-up research to thoroughly understand fundamental characteristics of individual companies.
- ***Company Selection.*** Identify companies that can sustainably increase their cash flows and dividends over the long term.
- ***Portfolio Construction.*** Diversify holdings according to economic activity, sensitivity to economic factors, and geographic exposure.

Market Commentary

The Canadian equity market continued its positive trajectory in the first quarter of 2022 posting a 3.8% total return. While inflation and tightening monetary policy were headwinds, the war in Ukraine was a clear catalyst for strong return in the Energy and Materials sectors.

The Fund posted a positive return of 2.5% in the first quarter trailing the S&P/TSX Index's return of 3.8%. We remind investors that this is an incredibly short period to measure performance. Nevertheless, the reasons for the underperformance compared to the S&P/TSX Index was due to negative sector allocation. Positive security selection did provide a partial offset.

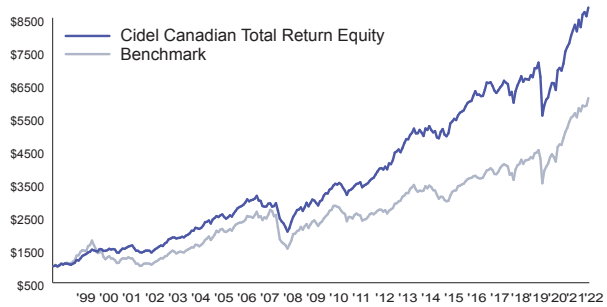
The leading sector for security selection was Technology with the holdings in Open Text, Enghouse, Constellation, NUVEI and CGI all outperforming the Technology sector, which as noted was led lower by Shopify which the Fund did not own. Security selection was also strong in the Consumer Sector, with the holding in 'all-weather' Dollarama up 12% while the sector was down 8%. Somewhat offsetting the strong security selection in Technology and Consumer Discretionary was security selection in the Industrial sector with the position in Boyd Group down 17%. Boyd continues to struggle near-term with weak margins due to pandemic related labour shortages and supply chains issues. Relief is coming with higher reimbursement rates from their insurance clients, but it will take time. We continue to believe that the issues are temporary with no change to our long-term thesis that with the 'professionalization' of the auto collision industry, Boyd has a long-term opportunity to deploy capital (i.e. acquire small operators) at attractive rates of return.

From a sector allocation perspective, the underweights in the outperforming Materials and Energy sectors and the overweight in the underperforming Technology sector had the largest negative impact. As noted above the Russian invasion of the Ukraine drove commodity prices (and commodity related equities) sharply higher in the quarter. The Technology sector positions in the Fund have proven business models; they generate substantial free-cash flow with attractive long-term business fundamentals

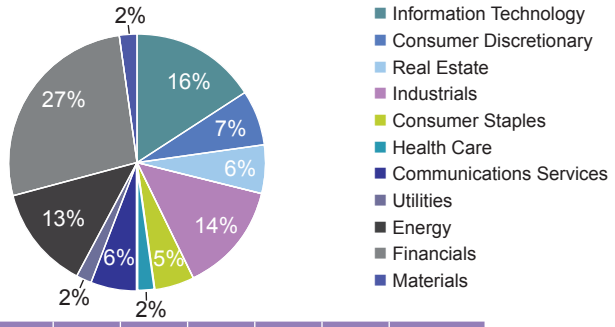
KEY CHARACTERISTICS	Cidel	Benchmark
Q1 Return	2.5%	3.8%
YTD	2.5%	3.8%
1 Year Return (Annualized)	17.8%	20.2%
3 Year Return (Annualized)	10.2%	14.1%
5 Year Return (Annualized)	7.5%	10.3%
Return Since Inception (Annualized)	9.8%	8.7%
Standard Deviation (5 year annualized)	12.6%	13.8%
Yield	2.5%	2.7%

NOTABLE HOLDINGS	
Royal Bank of Canada	6.14%
Toronto Dominion	5.69%
Bank of Nova Scotia	4.69%
Bank of Montreal	4.41%
Open Text	4.39%
Constellation Software	3.84%
Dollarama	3.79%
Brookfield Asset Management	3.79%
Alimentation Couche Tard	3.30%
Restaurants Brands International	3.27%

GROWTH OF $1,000 VS. BENCHMARK



SECTOR ALLOCATION



ANNUAL PERFORMANCE (%)	YTD	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	Inception
Cidel	2.5%	23.1%	0.1%	17.4%	-9.4%	10.5%	19.3%	-1.3%	11.2%	20.1%	12.4%	1.2%	13.6%	27.4%	9.8%
Benchmark	3.8%	25.1%	5.6%	22.9%	-8.9%	9.1%	21.1%	-8.3%	10.6%	13.0%	7.2%	-8.7%	17.6%	35.1%	8.7%

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