Focused on Wealth Creation

An inside look at Loomis Sayles' research-driven, alpha-focused approach

June 2021 Financial Planning Email Update

Amanda and I attended a virtual Loomis Sayles portfolio manager due diligence update produced by iA Clarington. The iA Clarington Loomis Sayles Global Allocation Fund is one of our low to medium risk recommended funds. This is a global balanced fund investing in both global equities and global fixed income. The following is a summary produced by iA Clarington of a due diligence session with iA Clarington sub-advisor Loomis, Sayles & Company, L.P.(Loomis Sayles). The event was held on May 13,2021.

About Loomis Sayles

Boston-based Loomis Sayles has been skillfully managing money for investors since 1926. With expertise across all major asset classes, the firm currently manages over US$345 billion* on behalf of clients worldwide. Deeply committed to fundamental research, and with extensive resources across the U.S., Europe and Asia, Loomis Sayles' perspective answers the challenges of global investing.

Available in Canada exclusively through iA Clarington, Loomis Sayles' retail mandates provide actively managed, alpha-driven exposure to the full spectrum of asset classes.

IA Clarington Loomis suite of funds:

- IA Clarington Loomis Global Allocation Fund
- IA Clarington Loomis Global Equity Opportunities Fund
- IA Clarington Loomis Global Multisector Bond Fund
- IA Clarington Loomis U.S. All Cap Growth Fund

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95 Years of Real Results for Investors

Kevin Charleston
Chairman of the Board
President & CEO
Loomis Sayles

- Loomis Sayles was founded in 1926 on a fairly simple premise: if you can determine the intrinsic value of a business you have strong potential to be a successful investor.
- We are an active manager with the goal of generating alpha for our clients.
- We are a global firm with offices in the U.S., Europe and Asia; we also have a global client base, spanning 51 countries.
- We are one of only a few firms that has been able to successfully build out broad capabilities across both equities and fixed income.

- Our investment teams are the foundation of the firm and our ability to generate alpha.
- My job as CEO is to ensure that these talented professionals have best-in-class tools and resources, enabling them to stay laser-focused on generating ideas with strong alpha potential.
- When people think of Loomis Sayles, they tend to think of our credit research capabilities.
  - Over the past 30 years, we've invested more in this area than any of our competitors.
  - But it takes more than strong credit research to be successful on the fixed-income side, so we've also invested tremendous resources in our macro and quantitative research capabilities.
- We've also made a significant investment in our environmental, social and governance (ESG) framework, and in developing the tools that allow our analysts to integrate this framework into their analysis.
- Our investment teams all adhere to a disciplined process with strong risk management; at the same time, each team is unique, with their own chemistry and approach.
- Both our equity and fixed-income teams are willing to buck consensus and build portfolios that look quite different from the benchmark.
  - This is particularly important in a world where asset prices are increasingly driven not by the underlying value of businesses but by momentum and other factors.
  - At some point, someone has to figure out the intrinsic value of these businesses, and we believe our capabilities make us one of the very few players that can do this successfully.

Uncovering Global Equity Opportunities

Eileen Riley
Vice-President & Portfolio Manager
Loomis Sayles

Lee Rosenbaum
Vice-President & Portfolio Manager
Loomis Sayles

Moderated by:
Pamela Czekanski
Vice-President
Loomis Sayles

There is a lot of enthusiasm in the market, especially in areas such as special-purpose acquisition companies (SPACs), cryptocurrencies and renewable energy. What are your thoughts on these developments and how comfortable are you putting money in the market right now?

Lee Rosenbaum

- To the extent we're seeing enthusiasm in the markets, it's in part driven by incredibly low interest rates around the world.
- We're continuing to find opportunities to deploy capital based on our bottom-up process.
  - We have always been able find attractive opportunities regardless of the market or economic environment.
- My view on SPACs may be a little outside the consensus.
  - It wasn't so long ago that the investment community was remarking on the decreasing number of listings in indices around the world; now, through SPACs (and IPOs), investors have more choice.
  - I believe this is a positive, because it's how entrepreneurism and innovation can take hold and flourish.

- SPACs do need to be thoroughly assessed through a stringent due diligence process, but I think we may look back in 3, 5, or 7 years and say there were some reasonable ideas that came to the market and just needed time to mature.
- We currently do not hold any SPAC securities.

- Regarding cryptocurrencies, we think it's a bit early to make a judgement on whether they are a viable payment vehicle.
  - But there have been some developments that give us reason to watch this closely.
- We don't have any direct exposure to pure plays in clean energy.
  - We think clean energy has some promise, but it will require multi-government investment.
  - A couple of businesses that have been in the portfolio for different periods of time have secular third-order benefits from certain areas of clean energy, and have their own strategies for carbon footprint reduction and shareholder value.
    - To be clear, these businesses are not a driving part of the financial model today.

Can you speak to some of the new holdings in the portfolio?

Eileen Riley

- We have a long time horizon, so the portfolio tends to have low turnover, particularly when it comes to new-name turnover.
- A new name is Airbnb, Inc.:
  - We think this platform business is very well positioned to grow significantly and expand the market it's operating in.
  - It has a leadership position in its industry and over 90% of its website traffic is direct and unpaid.
  - We believe it has a long runway for intrinsic value growth, with the key driver being a combination of revenue growth and margin opportunities as the platform continues to develop and mature.
- Another new name is Cummins Inc.:
  - This is an extremely well-managed company that designs and manufactures engines and components for large trucks and machinery.
  - They have a very solid competitive position in their market and have been a leader in product development and research.
  - It's a global business with a regionally diverse end market.
  - A combination of revenues and margins are driving intrinsic value growth.

Do you have any exposure to cryptocurrencies in the portfolio?

Lee Rosenbaum

- We don't own any direct crypto in the portfolio.

Would you consider oil and gas exposure given the rising inflation environment?

Eileen Riley

- We don't have a hard-and-fast rule against owning oil and gas, and years ago we did own companies in this sector.
- We're looking to buy businesses that exhibit our alpha drivers of quality, intrinsic value growth and valuation.
  - Intrinsic value growth is driven over time by the compounding of free cash flows, and that has been difficult for the energy industry and particularly the exploration and production space.
  - So it really is an area of the market that is challenged in terms of meeting the requirements of our investment process.
  - We certainly won't invest in this space simply on the basis of a positive forecast for the commodity price.

What is your maximum position size and what is the geographic allocation within the portfolio?

Lee Rosenbaum

- Our maximum position size is 5% at cost.
- We've allowed position sizes to increase to over 5%, but from there we would trim from capital if warranted based on our scenario analysis.
- In our equity portfolios we do not make a top-down decision on geographic allocation.
  - o The geographic mix is a byproduct of our bottom-up security-selection process.
  - o Currently, about 75% of the businesses we own in the equity portfolios are domiciled in the U.S., but in terms of revenue generation they are very global in nature.
    - ■ Mastercard is a good example – it's domiciled in the U.S. but only about one-third of its revenue comes from North America.
    - ■ So if you look at revenue source rather than country of domicile, the U.S. number comes down from 75% to about 50%.

What is the role of cash in the portfolios?

Eileen Riley

- Our equity portfolios are designed to be fully invested so there is only a small amount of cash at any given time.
- The same applies to our Global Allocation mandate, though in this fund we sometimes have an allocation to short Treasuries within the U.S. fixed-income sleeve.
  - o This allocation acts as a reserve to be deployed when more attractive opportunities present themselves.

How are environmental, social and governance (ESG) factors incorporated in the equity portfolios?

Lee Rosenbaum

- Loomis Sayles is a signatory to the United Nations Principles for Responsible Investment (UNPRI) initiative.
- Our Director of ESG ensures we have the tools and data sets to continue to invest in this area.
- Our view has been consistent over the last nine years, with ESG as one of the seven key attributes that make up our quality alpha driver.
  - o We believe that looking through the lens of ESG offers an additional means of understanding the potential strength of a business or changes in its quality characteristics.
  - o This applies to every company in the portfolio, and we use third-party resources to supplement our analysis.

What's the typical holding period for names in the equity portfolios?

Eileen Riley

- In general, the time horizon is about five years, though we have held names for shorter as well as significantly longer periods.
- We take a long-term view, but we like to capitalize on short-term market volatility to add new names or adjust position sizes.
- The drawdown in the early part of 2020 was a major opportunity.
  - o It's the type of scenario where you should expect to see higher turnover from us, and that's exactly what happened.
  - o These conditions often allow us to buy a stock that we've liked for a long time, but that previously didn't meet our valuation requirements.

What has been working well in the portfolio over the past few months, and have you taken any profits recently, particularly from technology names?

Lee Rosenbaum

- At a high level, what's been working are what Eileen and I call short-duration equity businesses – companies that in our vernacular have a very narrow competitive advantage period for cash flow generation.
  - o This would generally correspond to businesses with low price-to-earnings ratios.
- The more cyclical areas of the market have also been benefitting over the last few months as part of the reopening trade.
- On the flip side, the longer-duration businesses – companies with a longer competitive advantage period for cash flow generation – have generally been struggling over the last few months.
  - o That includes certain areas within the technology sector and less cyclical businesses.
- We continue to own all the internet platform companies that have been mainstays of the portfolio.
  - o There have been some opportunities to bump up their weightings, in contrast to a few years ago, when we were trimming in certain cases.
- A number of the companies we own are able to do share buybacks during periods of volatility, thanks to the strong cash flows that form part of our quality alpha driver.
  - o Repurchasing shares at a discount builds intrinsic value, which has the potential to enhance the return profile of the strategy over time.

Can you walk us through an example of your process at work, from the idea generation phase to the sell decision?

Eileen Riley

- Let's look at home construction company NVR, Inc., which we owned for several years and sold fairly recently.
- From a process perspective, we have analysts with area expertise, and this company falls into the consumer space.
- We have a very collaborative and iterative process, with Lee and I working very closely with the analysts.
- The thesis on NVR revolved around their somewhat unique position within home building.
- Their focus is on the mid-Atlantic region of the U.S.
- We really liked their approach to land acquisition.
  - o Most builders buy land and keep a land bank; NVR's approach involves optioning on future land purchases.
  - o This allows them to generate significant, durable free cash flows.
- There were various points where we took the position size down, and at other points the market gave us an opportunity to increase our weighting.
- We exited based on valuation, determining there was little upside left and seeing better opportunities elsewhere.

Why do style factors not play a role in your investment decision-making process?

Lee Rosenbaum

- To the extent that we're going to constrain ourselves, we want those constraints to be around our investment philosophy and process.
- From there we want to be able to look at as wide a range of businesses as possible.
- We think being constrained on the types of businesses that we're going to be interested in is very appropriate, and that's why we've identified our three alpha drivers to guide the team in how we're selecting securities.
- But we don't want to be constrained by arbitrary style boxes developed by someone else.
- We have a style-agnostic view of a business when we're starting our research on it, which simply means we're not looking to categorize it as value or growth.

- We fundamentally believe that growth is just one part of the overall value equation, and that if you don't understand the growth of a business, whether it's positive, neutral or declining, you don't fully understand the valuation.

Can you discuss the Peloton recall and its effect on the stock?

Eileen Riley

- I think the decline in the stock recently has been driven by a combination of two things: one is the broader rotation, and the other is the very stock-specific issue related to the recall of their Tread+ and Tread products.
- I think we should clearly distinguish between these two recalls.
  - o The Tread product has fairly insignificant distribution in the U.S., Canada and the U.K.
  - o The recall was related to a minor assembly issue that has a fairly simple solution.
  - o Based on what the company has said, the solution timeframe is in the area of 6–8 weeks.
  - o We think this situation reflects the growing pains of a developing company that is expanding very rapidly.
- The Tread+ recall is certainly a more concerning issue, particularly because it involved the tragic death of a child.
  - o We're going to continue to watch how this recall unfolds.
  - o It's not clear to us how many people will actually respond to the recall; some may choose not to if they don't have small pets or children in the home.
  - o We don't expect this particular product to be back on the market anytime soon.

How are you protecting the portfolio from rising inflation?

Lee Rosenbaum

- We're not overtly taking a view on inflation in the equity strategy, but were inflation to continue to rise, we think there are a couple of different attributes of individual securities and the portfolio overall that would position us well for that environment.
- As part of our quality alpha driver, we like businesses that are price makers and not price takers.
- We have businesses that are able to put through price increases when raw materials or other inflationary costs are moving up.
  - o Sherwin-Williams, the dominant global coatings business, and Linde Corporation, the dominant global industrial gas company, are two good examples.
  - o In both cases, not only have they historically shown the ability to put through price increases, they've also been able to maintain those increases after inflation ebbs, and that accretes to shareholders.
- The other way that we can insulate the portfolio against the potential for inflation is by owning businesses with excellent balance sheets.
  - o The portfolio has a collection of balance-sheet-driven businesses (e.g., Danaher Corporation and S&P Global Inc.) with the ability to continue investing organically, and to use windows of opportunity to deploy excess leverage and take on debt in an inorganic way.

Global Fixed-Income Investing in 2021

Brian Kennedy
Vice-President & Portfolio Manager
Loomis Sayles

David Rolley
Vice-President & Portfolio Manager
Loomis Sayles

Elaine Stokes
Executive Vice-President & Portfolio Manager
Loomis Sayles

Moderated by:
Adam Elliott
CEO, President & National Sales Manager
iA Clarington Investments

Have you made any changes to the portfolio in response to rising inflation expectations?

Brian Kennedy

- We have, and the flexibility built into our Multisector Bond mandate is serving us very well right now.
- We've touched every quadrant of the credit cycle – expansion, downturn, credit repair and recovery – in the last 12 months, so we need to be nimble.
  - As we've shifted into different quadrants of the cycle, we've had to shift our positioning.
- Our duration is currently sitting at about 4.6 years – about 1.6 years short of the benchmark.
- We're focused on idiosyncratic risk and are moving towards areas such as convertible bonds, which are tied into the underlying equity price.
  - A good example is Teladoc Health, Inc., which we think has good momentum on the equity side.
- We also have an emphasis on high yield, but we're moving more towards the rising stars – bonds that we think can cross over from BB to BBB.
  - This accounts for about 7% of the portfolio.
- We've reduced our higher-quality, interest-rate-sensitive investment grade exposure as well as our cash position.

Do you see the issue of inflation as a short- or long-term concern?

David Rolley

- Long-term surveys of U.S. inflation expectations continue to be remarkably stable at around 2%.
- But if you look at the marketplace and some of the high-frequency measures, you'll see a lot of volatility – it's 2.5% now and the last 0.6 has come very quickly.
  - Part of this has to do with the mini-boom in world trade and commodity prices, as well as the headline numbers, with CPI in the U.S. recently going over 4%.
- The U.S. Federal Reserve (Fed) has told us they expect inflation will spike this spring and then subside.
  - That's probably true, but our concern as bond managers is that it's not clear where inflation will be when it does subside.
  - I think we will probably find that even after things normalize in 6–9 months' time, there will be a little more price pressure in the economy than we've been used to in the past 10 years.
- Supply chains are currently operating at distress levels.
  - Surveys of purchasing managers show them talking about delivery times moving from 60–70 days to 80–90 days, and sometimes longer.
  - You have the Suez Canal blockage, port congestion at Long Beach, the Colonial Pipeline attack, a serious chip shortage in the auto industry, and just today, a Mississippi river closure.
    - Everywhere we look we see supply chains that really do not have a lot of resilience, causing prices to drift higher.

- In circumstances like this, you want to get a little more defensive on your duration and you need to be more patient.
- In our non-U.S. portfolios we hold a lot more high-quality short-maturity governments and high-quality banks.
- We're waiting to drive our risk budgets out at either higher yields or wider spreads; ideally, it will be both at the same time.

Can you provide us with a positioning update for the IA Clarington Loomis Global Multisector Bond Fund?

Elaine Stokes

- As Brian mentioned, our duration is short relative to the benchmark by about 1.6 years.
- We're well diversified within the sectors we have exposure to.
- We have about a 10–12% allocation to liquidity (Treasuries plus a bit of cash), with the understanding that there is a lot of potential for trip-ups in an environment of unexpected supply shortages.
- We're going to go through a very volatile news feed over the next couple of months and that could provide us with some opportunity.
- We've taken the investment grade credit portion of the portfolio down about 10% because of the interest rate risk we're seeing.
- We've also taken advantage of some amazing security-specific rebounds.
  - This time last year we were buying fallen angels, which we've been able to sell because there's not much value left.
- We've added to and diversified our high-yield allocation.
  - With the shutdown pushing the default cycle forward, we expect extremely low default rates over the next couple of years.
  - But we are really picking our spots – overweighting consumer cyclical and non-cyclical, communications, technology, health care, pharmaceuticals and other areas that we view as having a secular wind at their back.
  - With yields where they are, it is especially critical to avoid picking the losers.
- We have also increased our allocation to the securitized space, specifically asset-backed securities.
  - As we get later into the cycle and later into the recovery, securitized will likely rebound.
- It has been a very volatile four months and there has been more activity in the portfolio than usual.

Can you discuss the steps you take to avoid picking the losers?

Elaine Stokes

- It all comes down to our research process, which is the foundation of everything we do at Loomis Sayles.
- Nothing makes it into the portfolio without being looked at very carefully by a research analyst, and we certainly won't overweight a security without a research analyst spending a significant amount of time digging very deep into every aspect of the enterprise value.
- Our approach is similar to that of an equity manager – really understanding the business, its growth prospects and assets.
  - When you have good assets, it really limits the downside potential, which helps you avoid the losers.
- We're also very cognizant of valuations across the various asset classes and make sure we buy the bonds with the best structures.
  - We like to buy the low-dollar-priced bond when we can because it can go up the most, and it can fall the least if there's a problem.
  - We definitely want to avoid overpaying for a security.

How do you balance your view of inflation stabilizing in the long term with the short-term likelihood that it will be higher for a few months?

David Rolley

- The Fed's long-term inflation target is 2% – not 4% or 9%.
  - Their idea of an overshoot is 2.5%, not 3% or 4%, so we're not worried about the U.S. turning into Weimar Germany.
- We think about what a reasonable future range for U.S. Treasuries would be, and then we look at the credit opportunity set; we then do the same thing for other national markets.
  - We look to the Loomis Sayles macro research team to have a very sophisticated view on the policy dynamics and even what you might call the sociology of inflation for over 40 countries.
  - Coming out of that, you can find some attractive inflation-adjusted yield opportunities.
- The inflation question for an international fund manager is a lot bigger and in some ways a lot deeper than it is for a U.S.-only manager, because the psychology around inflation can be very different from country to country.

Brian Kennedy

- At our core, we are fundamental managers, so we lean heavily on our research capabilities.
- In this environment a key point of emphasis in our research is identifying companies that have the ability to raise prices for their goods and services when they need to.

Are there any narratives circulating in the financial press that you fundamentally disagree with?

Elaine Stokes

- Yes, the first one is the idea that active management is dead.
  - You don't have to look very far to see the value active management can bring.
  - Compare the performance of the technology sector to other sectors, or the industries participating in the reopening of the economy versus those that are not.
    - Identifying these trends and investing in them offers tremendous potential to deliver on our goal of generating alpha.
  - Another example is what we're doing with convertible bonds.
    - We're not adding to all convertibles, but rather only the ones with a strong credit story; this is not something you can do with a passive approach.
- The other narrative I would take issue with is this idea that everything is going to go back to normal post-COVID.
  - We don't really know what this 'normal' will look like.
  - Major trends already underway pre-COVID moved forward by 10 years.
  - A lot of consumer habits have changed, with more of an emphasis on quality of life versus increasing consumption.
  - On the supply chain side, there will likely be a questioning of the 'just in time' approach to inventory, as well as a move towards increased supply chain diversification.
  - People have also been moving away from the big metropolitan cities, reversing a major trend; we have to ask what impact this will have on the global economy.
  - I think the people who are waiting for everything to go back to the way things were pre-pandemic will get a rude awakening when they find out that 'normal' looks very different post-COVID.

Do you see any risk of a repeat of the 'taper tantrum' we saw back in 2013?

David Rolley

- Remember that the Fed is not just buying Treasuries; they're also buying mortgages, and I am anticipating a bit of a taper tantrum on the mortgage side.
- At this point, it looks like the mortgage market, compared to Treasuries, doesn't have a lot of intrinsic value and is being pretty much supported by Fed purchasing flows.
- We'll probably see spreads widen in mortgages compared to Treasuries when the Fed starts to step back, and there's an argument that they should just stop buying mortgages now because the housing market doesn't need it – it's on fire.
- On the Treasury side, I'm a little more constructive, and the reason is the shape of the yield curve.
  - o The curve has already steepened in anticipation of a sell-by date on Fed quantitative easing.
  - o The market is pricing in a start to tapering in early 2022, and the beginning of rate hikes in early 2023, which is actually earlier than Fed guidance.
  - o The risk is that they see some new headline numbers in the summer and decide to start tapering sooner – that'll give you a rate reaction, but I don't think it will be as big as it was in 2013 because everyone is waiting for it.

How would you describe your core management style?

Brian Kennedy

- We are bond pickers and our aim is to collect a basket of our best ideas.
- The flexible nature of our strategy enables us to go to a lot of different markets to accomplish this.
- We're not looking to a benchmark for positioning; we're looking to provide a total return wherever we are in the cycle and use all the sectors of the bond market that we're allowed to use within the strategy.

What is your approach to currencies?

Elaine Stokes

- In the Multisector Bond mandate we take small, one-off currency positions.
- For example, we bought some Mexican peso, which has attractive potential given that it is very much tied to U.S. prospects.

David Rolley

- The Global Allocation mandate is hedged to the Canadian dollar on the fixed-income side.
- We're quite constructive on Canada in a world of post-pandemic reopening.
- I wouldn't be at all surprised if there's another dime in this Canadian dollar rally.

How well do you think the Fed has responded to the pandemic?

Elaine Stokes

- Overall, I would give the Fed a pretty high mark.
- At the beginning of the pandemic the markets stopped functioning; the Fed needed to get them back up and running or it would have cost the government a lot more money.
  - o The Fed did some things I never thought they would have done – who would have guessed they would buy high-yield bond ETFs?
- Keep in mind they couldn't do everything themselves, and were quite vocal about the need for fiscal measures.

Introducing the IA Clarington Loomis U.S. All Cap Growth Fund

Adam Mushaweh
Vice-President
Loomis Sayles

Moderated by:
James Gauthier
Head of Product Research & Oversight
iA Private Wealth

What's unique about the approach behind this fund, and why should advisors consider recommending it to clients?

- The lead portfolio manager, Aziz V. Hamzaogullari, developed this strategy and the process behind it in 2006.
- The team has had no turnover and our highly collaborative culture is built on the open exchange of ideas and perspectives.
- We employ a seven-step research framework, which focuses on three key pillars: quality, growth and valuation.
  - Quality: This is our starting point – if a company doesn't meet our strict quality criteria, we pass over it and move on, regardless of how fast we think it might grow or what its valuation is.
    - The reason is that your growth and valuation assumptions are pretty much moot if competition can move into the company's operating environment, which will eat away at margins and returns.
    - We want to know that a company will be intact over the next five, 10, 15 years.
  - Growth: We're looking for companies with structural growth drivers stemming from changes in the way businesses operate or changes in consumer behavior (e.g., the shift from cash and cheque payments to digital payments via credit and debit cards).
  - Valuation: We only invest in high-quality growth companies when they're trading at significant discounts to our estimate of intrinsic value.
    - This provides us with a margin of safety in a downside scenario.

Turnover in the fund is quite low. Can you explain what would trigger a sell decision?

- Driving that low turnover is the rarity of a company meeting our quality, growth and valuation requirements.
  - Less than 1% of companies meet our criteria.
- It normally takes some kind of idiosyncratic or macro-driven volatility event to create a valuation scenario that translates into a buying opportunity.
  - Last year the COVID-driven downturn created buying opportunities that enabled us to add six companies, which is above average for us.
- Over time, the market comes to realize the true value of the companies we like to buy, and as investors pile back in, the price moves towards intrinsic value.
  - It usually takes about a year or so for us to scale out of a name as this occurs; and as the price increases, the upside potential/reward is decreasing.
- We reallocate the capital towards other companies that are trading at bigger discounts to intrinsic value and have better risk/reward opportunities.
- In a minority of cases the sell decision is simply a result of a mistake in our investment thesis, or there is a change in key circumstances that invalidate our assumptions, such as a misstep on the part of company management.

Many view Apple as the greatest company in the world, but you do not own it because it does not meet your quality criteria. Can you elaborate?

- It doesn't exhibit the sustainability we require in terms of market share leadership.
- Almost 60% of Apple's operating profits come from cell phone manufacturing, and if you look at that space, you can see what can happen – where are PalmPilot, Nokia, Motorola and Blackberry today?
- We're seeing Android take market share as well as manufacturers from India and China.
- Switching costs in the cell phone market are very low for the end user – you can walk into a store and 10 minutes later walk out with a new phone.
- If you look at the names in our portfolio, they're long-term market share leaders – companies like Oracle, Facebook, Amazon and Google.
- Apple certainly has surprised us, but we've been able to find other investment opportunities with very attractive alpha potential.

Does the team incorporate environmental, social and governance (ESG) factors into the investment process?

- From the very beginning, we've always incorporated ESG considerations into our decision-making process – we don't believe ESG is a fad.
- In our quality assessment we look at the culture of the company and how are they treating their people and the environment.
  - If we feel that a company is not going to be able to maintain market share leadership due to poor environmental or social policies, it's not going to make it through our first qualitative review.

What are your thoughts on potential regulatory risk for the big technology companies?

- It certainly is a risk that we're monitoring closely, but we believe these companies have the resources to weather any changes to the regulatory landscape.
- We are students of history, and if you look back at Microsoft in the 1990s, they were run through the ringer in the U.S.
  - They had to testify before the Senate and were sued by all 50 state attorneys general, and ended up having to tweak aspects of their business model.
  - But they had the resources to deal effectively with the outcome and continued to drive shareholder value amid negative headlines.

What is your investment thesis for Boeing?

- It's a very high-quality company that operates in a duopoly with Airbus.
- Manufacturers backed by the Chinese government tried and failed to get into wide-body airline space.
- It's a very difficult-to-replicate model, even with unlimited time and capital.
- When it comes to growth, Boeing is not an Amazon, Google or Facebook, but it does meet our requirement for future cash flow growth (at least two times GDP).
- On the valuation side, it was trading at $400 prior to the pandemic, which did not offer an attractive risk/reward opportunity; but when it dropped all the way down to $120 in March of last year, it was a great entry point.
- To be clear, this is not a "reopening" play for us – we've been watching Boeing for years and finally got the valuation opportunity we were looking for.
- We think air travel will return – just the way it did after 9/11 – and that it will happen faster than people expect.

Can you discuss the portfolio's diversification characteristics?

- Even though we only have 30–45 names, we're diversified across many different business drivers, resulting in a portfolio with potential to perform well in all types of environments.

- We have names as varied as Boeing and Disney; we also have some of the more typical growth stocks.
- We're careful not to overexpose ourselves to any single factor.

Aziz likes to say that he and the team take a private equity approach to public market investing. Can you elaborate on what this means?

- A key differentiator for our team is this private equity approach.
- A lot of managers in the growth space are stock traders with 100 names in the portfolio and 80–100% turnover.
  - o If you do the math, that means they're making a decision a day.
  - o How can you truly understand the fundamentals of a company to the degree that we want to if you're making a decision a day?
  - o We think that's not a good way of managing investors' money.
- We take a deep, long-term, fundamental approach – very similar to what private equity investors do.
- Also like private equity investors, we take large stakes in a small number of companies over a long time horizon.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

Gary H. Attack, BBA, CFP®, RFP, RRC® | CERTIFIED FINANCIAL PLANNER® professional

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For definitions of technical terms, visit iaclarington.com/glossary or speak with your financial advisor.

*Source: Loomis Sayles, as of December 31, 2020. Includes the assets of Loomis, Sayles & Co., L.P., and Loomis Sayles Trust Company, LLC. Loomis Sayles Trust Company is a wholly owned subsidiary of Loomis, Sayles & Company, L.P. Loomis Sayles is the trade name of Loomis, Sayles & Company, L.P. Effective February 23, 2015, the sub-advisor of IA Clarington Loomis Global Allocation Fund changed from Aston Hill Asset Management Inc. to Loomis, Sayles & Company, L.P. and IA Clarington Investments Inc. IA Clarington Loomis Global Allocation Fund was formerly IA Clarington Global Allocation Fund. The change was effective June 29, 2020.

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