GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q2-23 Investment Letter (No. 64)

July 25, 2023

OVERVIEW

Dear Clients and Friends,

We are pleased to provide this quarterly report for the period ended June 30, 2023. This report will be divided into three sections: (1) What's New, (2) Market Recap, and (3) Commentary.

WHAT'S NEW

FIRST HOME SAVINGS ACCOUNT (FHSA) – NOW AVAILABLE!
We are pleased to announce that our custodian, Credential Qtrade Securities Inc., is now offering First Home Savings Accounts (FHSA). FHSA are a new registered savings account designed to help first-time homebuyers save for a down payment on their first home on a tax-free basis, ***up to certain limits.***

Once you've opened a FHSA, you can contribute up to $8,000 per year, up to a ***lifetime maximum of $40,000***.

The contributions are tax-deductible, which means that you can claim them as a deduction on your income tax return, which can help reduce your tax bill. Additionally, any income earned within the account will grow tax-free.

When you're ready to purchase your first home, you can then withdraw the funds from your FHSA tax-free and you do ***not*** have to pay the funds back.

To qualify for a FHSA – you must fit the below criteria:

- be 18 years of age or older
- be a first-time home buyer – *you have not owned a home in the last four years*
- be a resident of Canada
- have a SIN

It is possible to use the First Home Savings Account (FHSA) in conjunction with the Home Buyers' Plan (HBP) feature within a Registered Retirement Savings Plan (RRSP).

If you have any questions, would like more information, or would like to open a FHSA, please do not hesitate to contact our admin department at 1-888-436-9955 or clientexperience@gold-im.com.

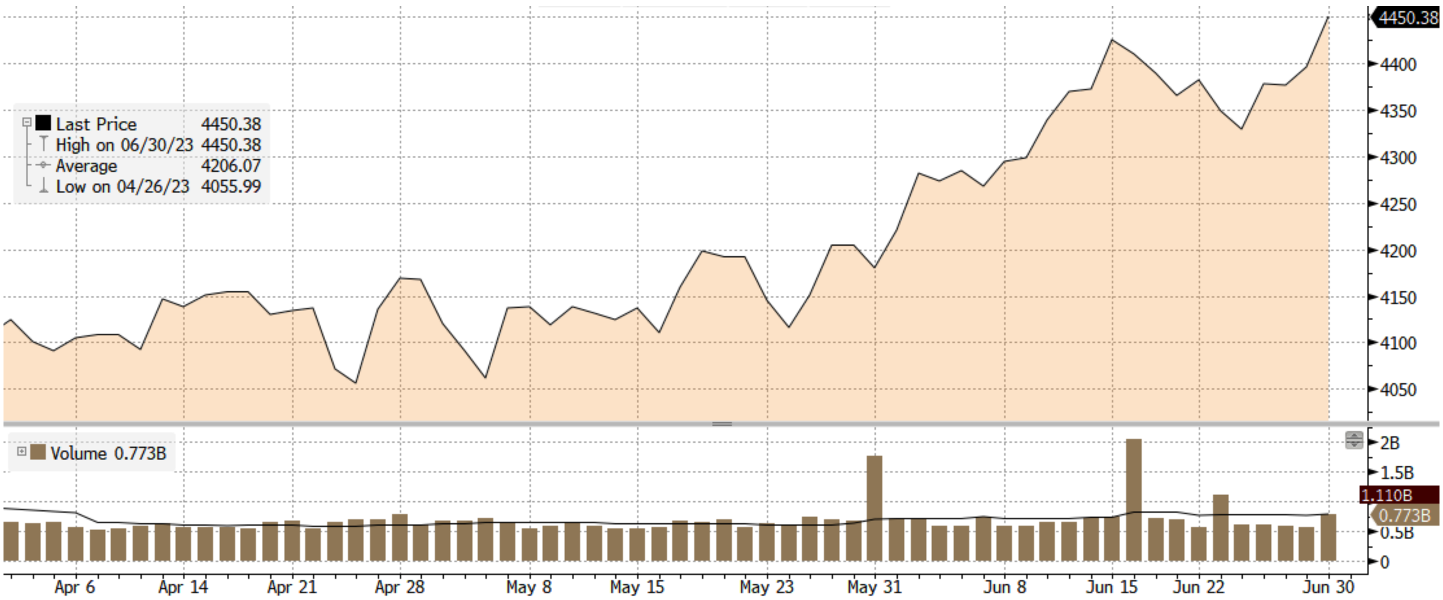
EDUCATIONAL ASSISTANCE PAYMENTS INCREASED

We are pleased to announce that included in the 2023 federal budget is an increase for RESP EAPs (Education Assistance Payments). Starting this year, full time students can withdraw up to $8,000 as opposed to the previous $5,000 and part-time students can now withdraw up to $4,000 from the previous $2,500. These limits are only applicable on a student's first withdrawal from an education plan. After the first withdrawal there are no maximum withdrawal limits.

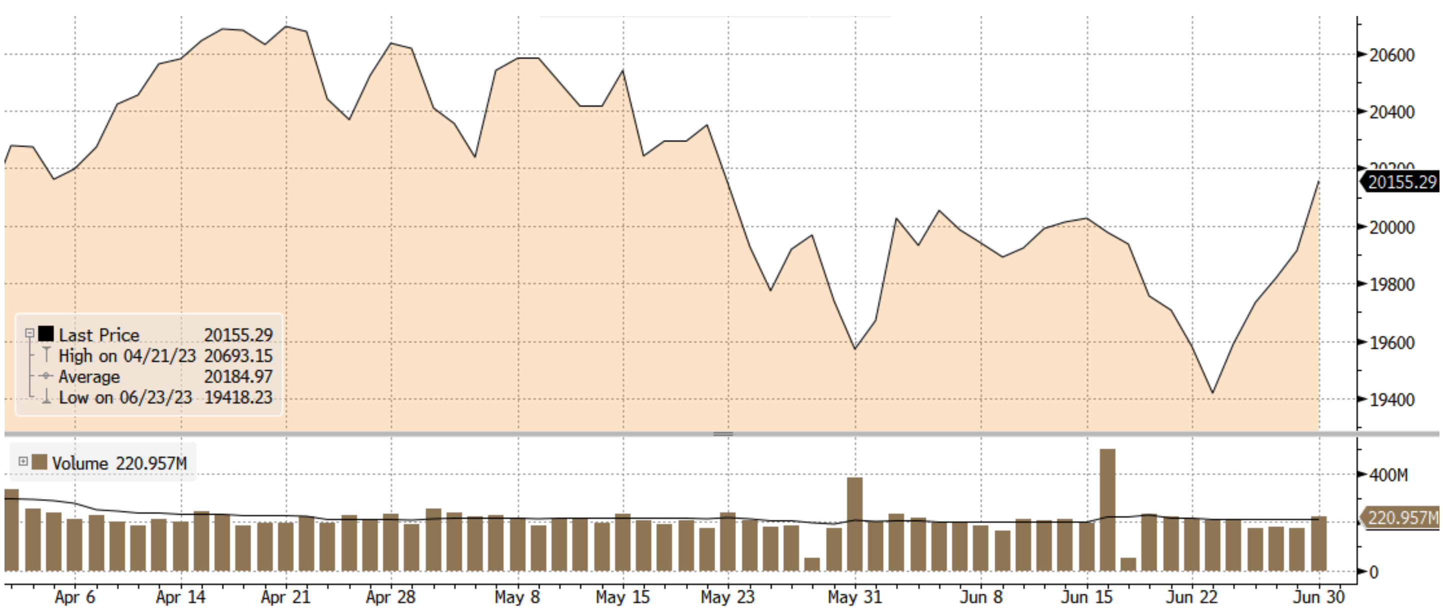
If you have any questions regarding the new RESP increase amounts, please do not hesitate to contact our Admin department at 1-888-436-9955 or clientexperience@gold-im.com.

MARKET RECAP

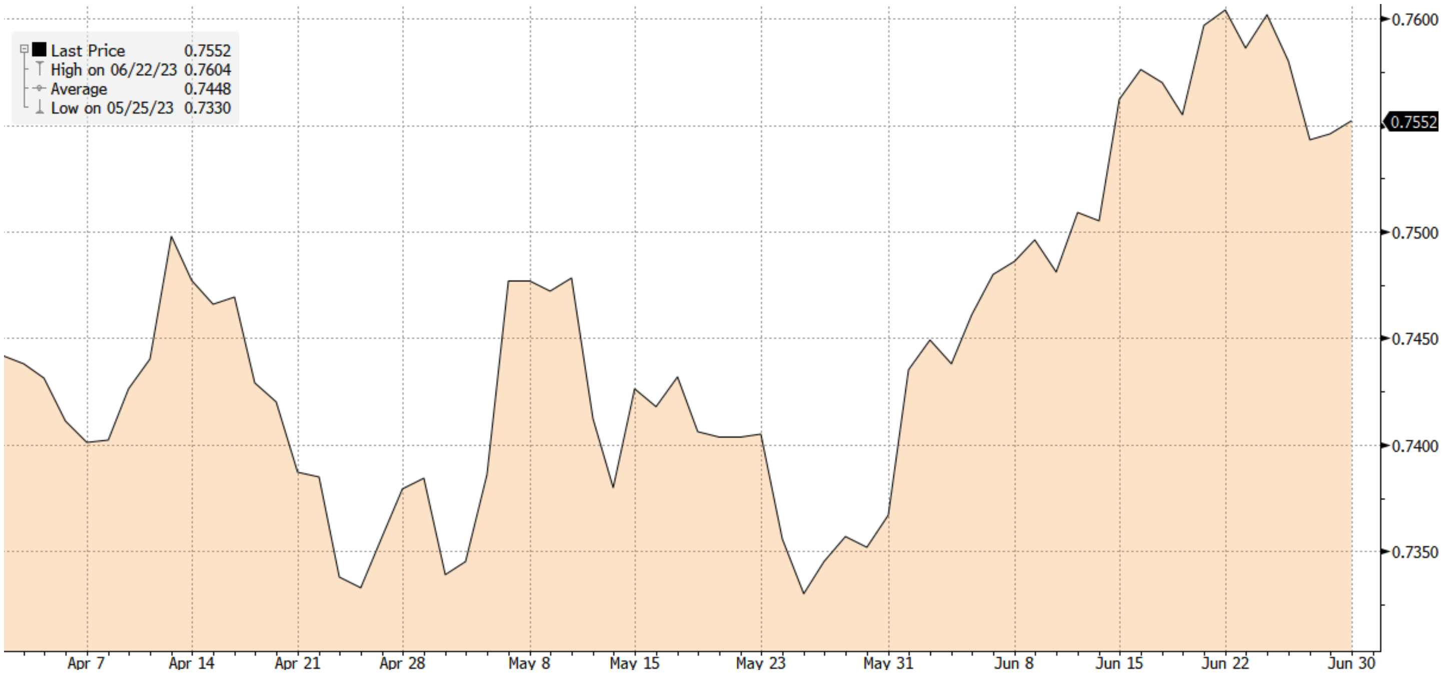
The S&P 500 Index (in USD) gained 8.49% for the three-month period ending June 30, 2023.



The S&P/TSX Composite Index gained 0.23% the three-month period ending June 30, 2023.



The Canadian Dollar quoted in USD (CADUSD) increased by 1.9% for the three-month period ending June 30, 2023.



COMMENTARY

Part 1. For Sale – Gently Used Canadian Bank

We were well into writing this quarter's newsletter when a news item popped up that we just had to talk about. Quebec based Laurentian Bank has put itself up for sale.[1] News broke on July 11, 2023, and as of the morning of July 13 the shares are up 30%, or $10.00, to $43.50/share.

Laurentian is the eighth largest bank in Canada by asset size. However, it is comparatively small compared to the "Big 6" Canadian banks with just $51 billion of assets and 57 branches.[1] Even with the jump in share price after news broke, Laurentian's market capitalization is tiny at CAD$1.85 billion. Compare this with the capitalizations of Scotiabank at CAD $77.9B, TD Bank at CAD $150.3B, and Royal Bank at CAD $174.9B.[2] Any one of its potential suitors can simply show up with their cheque books to pay for the acquisition.

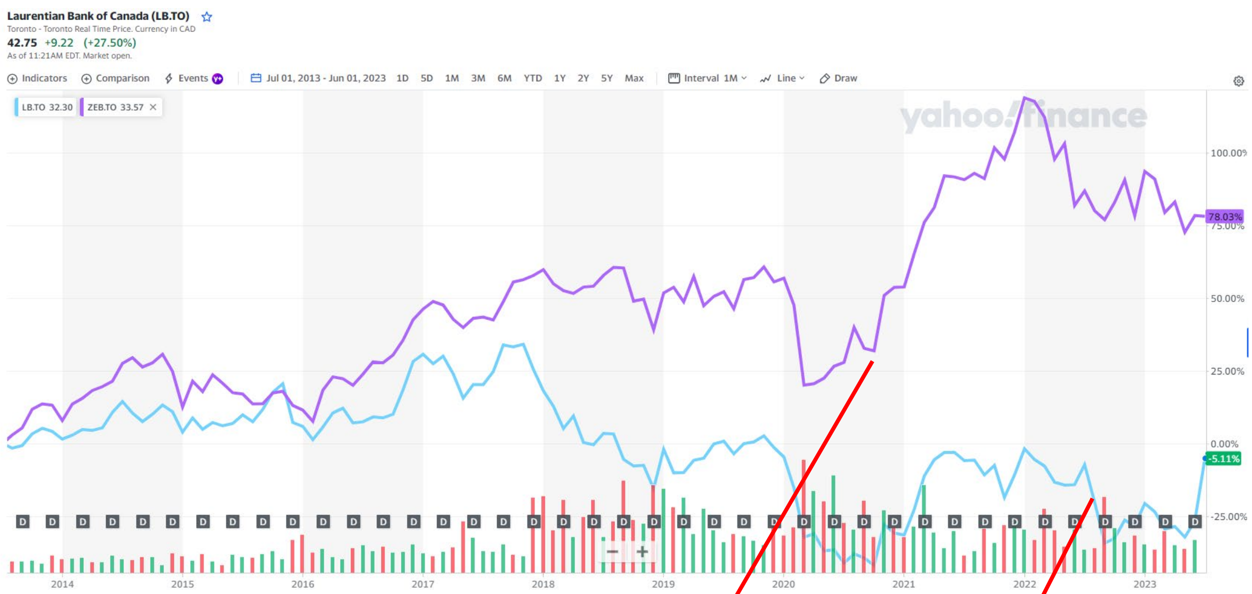
Laurentian has struggled to grow its business over the past decade without success. There was a sudden departure of its CEO in 2020 and an executive from Scotiabank was hired. Clearly even with an outside hire, Laurentian has struggled to turn its fortunes around.

A reflection of Laurentian's problems was a 40% cut in its dividend in 2020, from $0.67/quarter to $0.40/quarter. A dividend cut from a Canadian bank is almost unheard of, the previous time was when National Bank cut its dividend 32 years ago in 1992.[3] COVID-19 was used as the excuse for the Laurentian dividend cut but none of the main Canadian banks cut their dividends. Furthermore, post-COVID, Laurentian never raised its dividend back again.

Laurentian Bank's problems have been known for many years. The chart on the following page is a *tale of the tape*. It is the share price of Laurentian compared to the Exchange Traded Fund ZEB, which is an equal weight of all Canadian banks. Over the past 10 years to June 1, 2023, $1.00 in Laurentian returned -5.13% while $1.00 in ZEB returned 78.03% over the same time period (excludes dividends).

[1] https://www.theglobeandmail.com/business/article-laurentian-bank-sale-bids
https://financialpost.com/fp-finance/banking/laurentian-bank-starts-strategic-review-possible-sale
[2] Yahoo Finance 12Jul23
[3] https://www.cbc.ca/news/business/laurentian-bank-earnings-1.5589900
https://www.bnnbloomberg.ca/laurentian-bank-slashing-dividend-40-in-rare-move-for-canadian-lender-1.1442846#

Chart 1 – Laurentian Bank vs Canadian banks: 10 Year Price Performance to June 1, 2023



Source: Yahoo Finance, July 12, 2023

ZEB (equal weight Cdn banks) +78.3%   Laurentian -5.11%

Conclusion. GIM has not directly purchased Laurentian Bank for our clients. But what do we think? Well, we think this is good news. What we have purchased for clients, when it suited their risk tolerance, is Canadian Western Bank ("CWB"). CWB is also a regional bank like Laurentian but is based in Western Canada, headquartered in Edmonton.

CWB is solidly profitable and cheap to the point of silliness. The Price/Book value is 0.70x, which means in theory you can buy the entire bank at today's price of 70 cents on the dollar of book value and get at least $1.00 back by selling the pieces of the bank on the open market. Compare this to the Royal Bank which trades at Price/Book premium of 1.7x. CWB pays a solid 5.0% dividend a year and as a testament to its business it raised its dividend by 3% on May 26, 2023. The best news for us… the market capitalization of CWB is CAD $2.5B even after the Laurentian news, a minnow compared to the other big Canadian banks.[4]

We believe CWB must surely be receiving a parade of investment bankers looking to broker a sale. Canadian banks have been on an acquisition streak in the past 12 months. Royal Bank is in the midst of its takeover of HSBC Canada for CAD $13.5B and it still seeking regulatory approval for this.[1] TD almost purchased Memphis based First Horizon Bank for USD $13.4B, but it was cancelled early May 2023 citing regulatory uncertainty.[5] BMO recently closed on its US $16.3B acquisition of California based Bank of the West.[1]

CWB has successfully weathered recessions and rising interest rates, the pandemic and the boom/bust of the oil & gas cycles and it has not had the operational problems that plagued Laurentian Bank. With a market capitalization of only CAD $2.5B and trading at below book value, CWB is a tasty morsel that instantly gives a strong Western Canadian footprint to any acquiror. This has been one of the investment reasons we have purchased CWB for clients.

Part 2. "Lucy, you've got some 'splaining to do!" [6]

Does anyone remember Desi Arnaz's character Ricky Ricardo from I love Lucy? Hint: It was the start of the golden age of television when all the shows worth watching were in black and white.

We do not often make material adjustments to our portfolios. But this time we managed to do a whopper. Clients who are deployed in our all-equity model GIM900 Income50 will have seen a number of sales and new purchases, with the net number of equity holdings dropping from 50 to 35 names. Our new GIM900 is now called Income35.

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[4] Scotia iTrade quotes 12Jul23
https://www.marketbeat.com/stocks/TSE/CWB/dividend/#
[5] https://www.cbc.ca/news/business/td-bank-first-horizon-1.6831855
[6] I Love Lucy

Here are some portfolio characteristics before and after.

Table 1 – GIM900 Income50 vs Income35

GIM900	Old Income50	New Income35	Comments
P/E	11.82x	13.47x	Pro-forma as of Q1 2023
P/B	1.46x	1.70x	
P/S	2.12x	2.84x	
Dividend Yield	4.61%	4.11%	
Number of securities	50	35	

Source: Gold Investment Management and Yahoo Finance

We started talking internally about making these changes very early in 2023. The stock market was in a bear phase through 2022 as central banks around the world were aggressively raising interest rates. Investment markets oscillate between fear and greed, and the markets were in the fear stage. When at both extremes, markets can become irrational, which gives us excellent buying opportunities during the *fear* extreme or selling opportunities during a *greed* extreme.

During a bear market, or fear extreme, the market opens its wallet and tells everyone paying attention *"take my money"*. So, we did just that for our clients. We always believed our GIM900 Income50 was a very high-quality portfolio of about 50 names, but we saw an opportunity to go even higher quality without overly paying for this privilege.

- We paid 0.24x turns on book value (P/B multiple). In other words, the remaining/new names are slightly more expensive on book value.
- We paid 1.65x turns on earnings (P/E multiple). We bought slightly more expensive P/E.
- We gave up only 0.5% on dividend yield (Dividend/Share Price).
- We went from 50 to 35 names.

We ended up with an even higher quality portfolio that is slightly more expensive and with these benefits…

1. We eliminated some duplication of names in a sector – for example, we used to hold Pembina Pipeline and Enbridge, Pembina is now gone.
2. We eliminated smaller capitalization names that were at risk of a dividend cut, such as TransAlta Renewables.
3. We reduced some U.S. dividend names and replaced them with Canadian dividend payers. For taxable accounts there is a 15% withholding tax at source for foreign holdings, which reduces net dividends.
4. Finally, we tilted the entire portfolio to having a higher degree of inflation mitigation by selecting companies that we believe have odds of increasing their dividends over the long term. For example, we added CN Rail which raised its dividend by 8% in Q1 2023[7] – a nice pay hike for shareholders, which mitigates the high inflation we experienced in the past year.

Summary. Once in a while the market becomes short term focused or irrational. We love being on the other side of a trade when this happens. Investing is a long-term proposition and patient investors can reap enormous rewards. The last bear market was at the start of the COVID-19 pandemic, and it was event driven and very short term. This time the bear market was caused by rising interest rates, an economic cycle that investors have repeatedly seen. After the current consolidation phase for stocks and bonds, we expect an eventual recovery and bull phase again, which will reward prudent investors.

Part 3. Jobs & Bear Markets

We're supposed to be in a recession. But we aren't, not really. What's going on?

Inflation has been high, and the Bank of Canada ("BoC") has finally gotten behind raising interest rates. The goal is to slow the economy down which in turn is supposed to get inflation under control.

We have had 18 months of rising interest rates including a 0.25% hike by the Bank of Canada on July 12, 2023. The economy is supposed to slow down and usually this means a recession, classically defined as 2 consecutive quarters of negative GDP growth. Economists are now pushing out the recession to the last quarter of 2023 with a slight drop in GDP – perhaps we may actually see the proverbial and mythical *soft landing* that is so often talked about but almost never achieved when central bankers hike interest rates.

[7] https://www.marketbeat.com/stocks/TSE/CNR/dividend/

Every cycle is a little different and what is unusual about this cycle is the number of jobs. There are lots of jobs. Unemployment in Canada is sitting at just over 5% – basically everyone who wants a job has a job. It may not be your ideal job, but there is work.

Follow through on employment. It is not just Canada. We see exactly the same trend in the U.S. The recession for both countries has been delayed to Q4 2023 and any economic contraction will be a modest -0.5% for each quarter. We aren't trained economists and we approach economic data with an investment lens. But we see jobs available across North America, which in turn points to wage growth as employers have to offer more to retain employees and to keep up with the cost of living. At the end, this results in a combination of inflation being hard to tame because wages are still good and there are lots of employed people still spending money. So, interest rates will have to stay high for a longer period of time. But on the flip side, there is an enormous silver lining the North American economy will stay robust and this may just be the fabled economic *soft landing*, namely a shallow recession, which we seldom experience when interest rates go up.

Table 2 – Economic Forecast Canada & USA

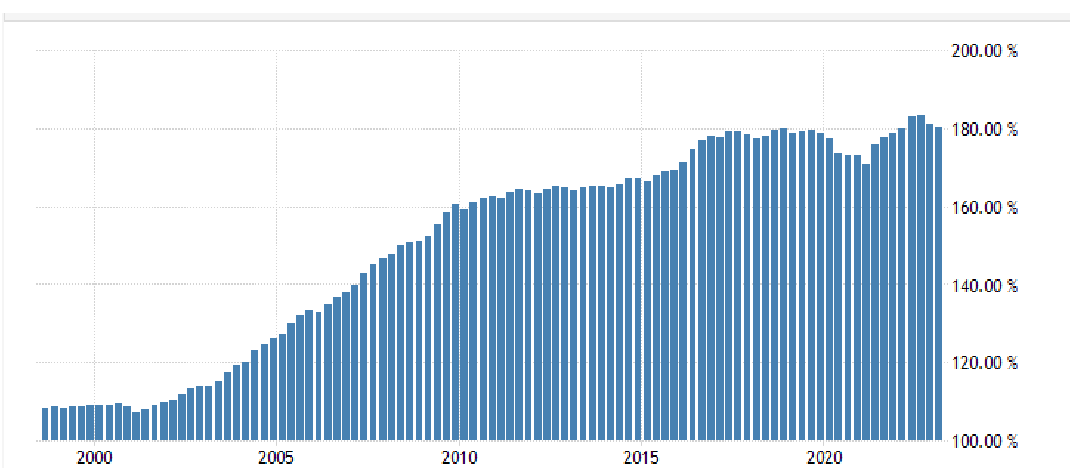
CANADA	Q1 2023	FQ2 2023	FQ3 2023	FQ4 2023	Notes
Real GDP (Q/Q %)	3.1%	1.5%	0.5%	-0.5%	GDP less inflation; **Soft landing?**
CPI (Y/Y %)	5.1%	3.6%	3.3%	3.1%	Food inflation May 2023 +8.3% Y/Y
Unemployment %	5.0%	5.2%	5.5%	5.7%	Q2 is actual
BoC Rate %	4.50%	4.58%	5.00%	5.00%	Q2 is actual, average for each quarter
U.S.	**Q1 2023**	**FQ2 2023**	**FQ3 2023**	**FQ4 2023**	**Notes**
Real GDP (Q/Q%)	2.0%	1.5%	0.5%	-0.5%	**Soft landing?**
CPI (Y/Y %)	5.8%	4.1%	3.4%	3.2%	Food inflation May 2023 +6.7% Y/Y
Unemployment %	3.5%	3.5%	3.7%	4.1%	
Fed Funds %	4.63%	5.04%	5.38%	5.38%	Q2 actual, average for each quarter

Source: BMO focus, July 14, 2023

Summary. Canadian households have to put up with the twin problems of high inflation and high interest rates for longer than anyone would like. But the positive from this economic cycle is there will be work available for anyone who wants it.

Being able to earn income will to be particularly important this cycle as well because Canadian households' debt to disposable income is still near an all-time high of 180.5%. This means that for every $1.00 of after-tax income there is over $1.81 of debt from mortgages, car loans and other types of debt.

Chart 2 – Canadian Household Debt: Disposable Income – 25 Year Trend



Source: tradingeconomics.com/canada/households-debt-to-income

30 years of falling interest rates until early 2022 allowed Canadians to take on more and more debt. Fortunately, the pain of rising interest rates is being somewhat offset by solid employment statistics.

Part 4. Conclusion

1. Client accounts in balanced or all-equity will have either direct or indirect exposure to Canadian Western Bank. CWB is inexpensive and continues to do well. It is headquartered in Alberta and the Western Canadian economy continues to do well in a period of high inflation. In fact, the 2023 Calgary Stampede has seen its second-best attendance ever, not bad for a supposed recession.[8] Oil & gas is steady with WTI oil in the $70/barrel range. Agriculture and basic materials such as fertilizers are in strong demand with good prices. CWB services Western Canadian clients and has also benefited from positive resource prices and good local economy. CWB has also expanded geographically to Ontario.

2. We further took advantage of market behavior to further enhance the quality of our model GIM900. We believe the market had temporarily mispriced some names we really like, and we were able to do a switch from 50 to 35 names at a very modest increase in valuation.

3. Households are in for a continuing period of belt tightening from the combination of high inflation and high interest rates. If our central banks target employment, then this will continue for most of the calendar year and into the next year as job numbers are still strong. The offset is the remaining good availability of work, and we probably won't see unemployment tick higher until late this year, if at all. The net takeaway for this economic cycle is we may, just may, have a rare *soft landing* as the economy slows down without causing major problems such as large-scale business bankruptcies or high unemployment.

4. Finally, investment markets have been good through 2023 so far as the markets anticipate coming out of this shallow recession in 2024. But we caution that there has been volatility as the market digests each new piece of economic data that comes out. All client accounts, even lower risk balanced mandates, have seen more volatility in the past 18 months and this is to be expected as we enter the latter stages of the interest rate hiking cycle.

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Thank you for entrusting us with your investments. As always, we welcome your questions and comments. You can contact GIM by telephone: 1.888.436.9955, fax: 1.866.541.7947 or email: invest@gold-im.com

Yours truly,

GOLD INVESTMENT MANAGEMENT LTD.

[8] https://calgary.ctvnews.ca/attendance-record-stands-as-2023-calgary-stampede-statistics-released-1.6482460

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