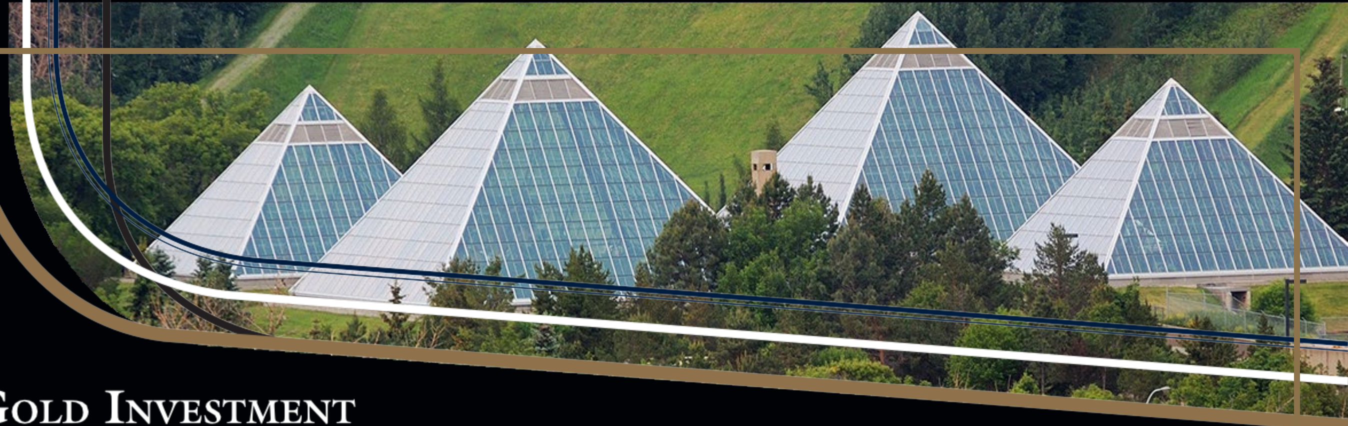


GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q2-24 Investment Letter (No. 68)

July 23, 2024

OVERVIEW

Dear Clients & Friends,

We are pleased to provide this quarterly report for the period ended June 30, 2024. This report will be divided into three sections: (1) What's New, (2) Market Recap and (3) Commentary.

WHAT'S NEW

BUDGET 2024 – NEW CAPITAL GAINS TAX RULES

The capital gains inclusion rate has been increased from 1/2 to 2/3 for corporations and trusts. It will also be increased for individuals from 1/2 to 2/3 if capital gains realized in the year exceed $250,000. This measure came into effect for gains realized on or after June 25, 2024.

Capital losses may be applied against capital gains at the same inclusion rates. Losses may be used in the current year, carried forward indefinitely, or carried back up to three years. There may be adjustments in the inclusion rates for carried forward or carried back losses, depending on the varying inclusion rates for the year the loss was realized and used in.

The Lifetime Capital Gains Exemption amount has been raised from $1,016,836 in 2024 to $1.25 million. This is applicable to sales and dispositions that occur on or after June 25, 2024. Each year the amount is indexed for inflation, and it will be adjusted again in 2026.

BUDGET 2024 - NEW RRSP HOME BUYER'S PLAN RULES

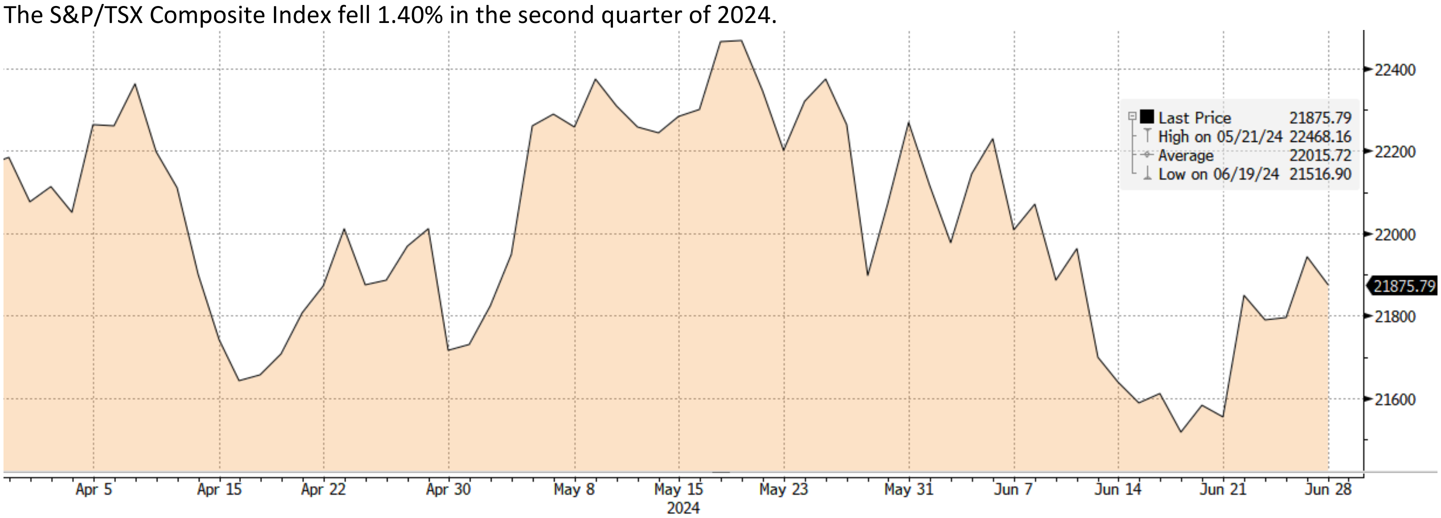
The RRSP Home Buyer's Plan allows investors to withdraw funds tax-free to use towards the purchase of their first home, or a home for a disabled individual. The withdrawal limit has been raised from $35,000 to $60,000 per person. This change is effective for any withdrawals made after April 16, 2024.

The withdrawn amount still needs to be repaid into the investor's RRSP over 15 years (or the annual minimum repayment will become taxable income for that calendar year). The timeline for repayments to begin has also increased. Now, the 15-year repayment period begins in the 5th year following the year when the first withdrawal was made. For any investors that made withdrawals recently – between January 1, 2022 and December 31, 2025, the repayments will be deferred by an additional 3 years to match the new rules.

MARKET RECAP

The S&P 500 Index (in USD) gained 3.85% in the three-month period ending June 30, 2024.

The S&P/TSX Composite Index fell 1.40% in the second quarter of 2024.



The Canadian Dollar quoted in USD (CADUSD) decreased by 0.72% for the quarter ending June 30, 2024.

COMMENTARY

Part 1. Chinese Government & Economic Data

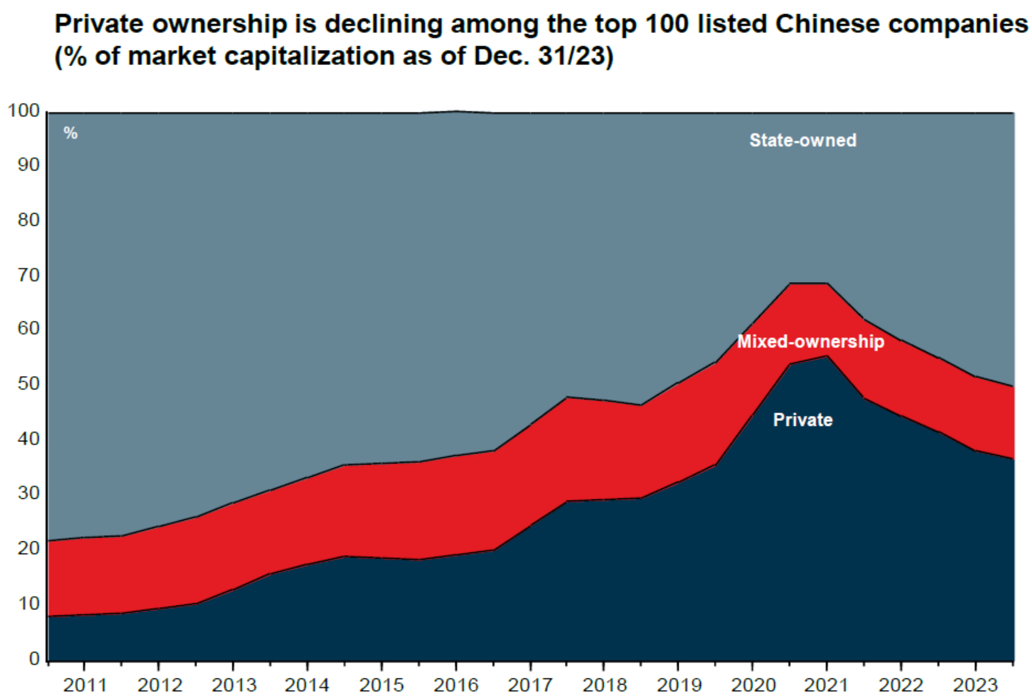
We wrote in our Q1 2024 newsletter about the re-onshoring of supply chains from Asia – specifically China – to North America, with Mexico as beneficiary. We did not examine many of the economic factors that support our view that investing in China has increased in riskiness. Now we will complete our thoughts on the investment landscape in China.

State control: President Xi Jinping has tightened his control of private corporations since he came into power in 2012. As equity investors, we can only buy shares of private companies. Historically, it has typically been the entrepreneurship of privately owned companies that have driven growth and innovation, not government entities.

Unfortunately, the market size of private firms amongst China's 100 largest publicly listed companies has declined dramatically in the past 2 years as government entities have increased their ownership of these companies. More government control usually signals lower innovation, higher costs and subsequently slower or weaker earnings.

The chart below shows this disturbing trend. Note that "mixed ownership" is defined as the state owning 10-50% of the company, which effectively gives the government control. Private ownership means the state owns less than 10% of the company.

Chart 1



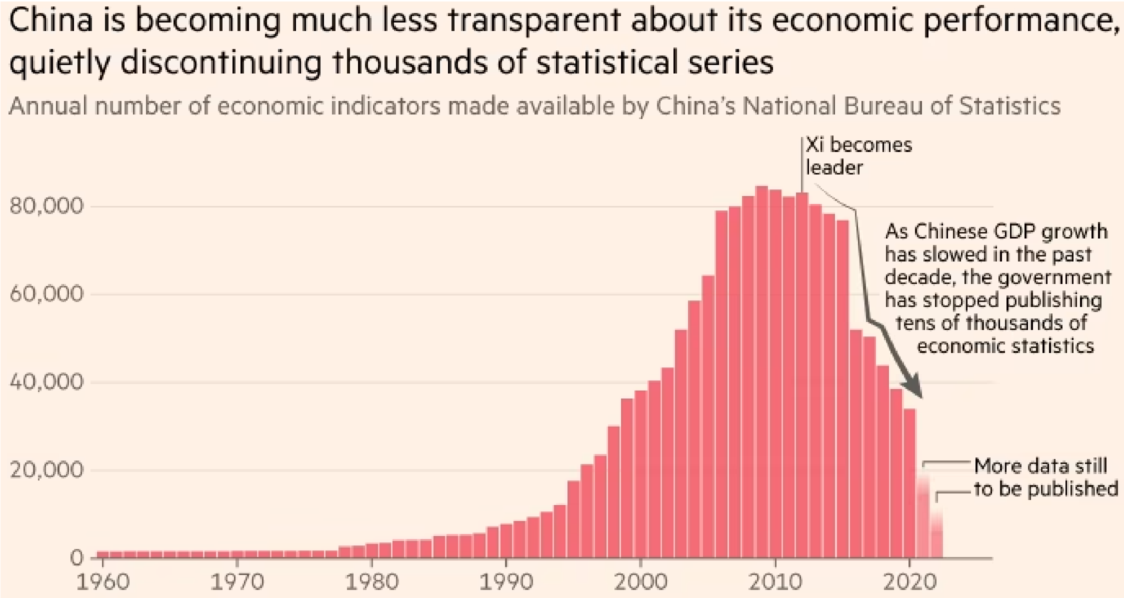
Source: National Bank, Geopolitical Briefing, June 6, 2024

There have been recent high-profile failures of property developers like Evergrande and Country Garden but those are largely domestic problems. What piqued our interest a little more were successful technology companies like Alibaba and Tencent that have been targeted by the Chinese authorities to restrict growth and force these companies to provide private data to the central government. Additionally, Chinese authorities scuttled the going-public event for Alibaba's subsidiary Ant Group (financial services, including Alipay). [1]

[1] https://en.wikipedia.org/wiki/Ant_Group

Economic transparency: Concurrently, with increased government control there has been reduced transparency regarding economic performance. This will serve to make international investors more uneasy. Without good data it will be difficult to judge the economic soundness of a country. The next chart shows that, unfortunately, economic statistics made available have plunged since Xi Jinping has become leader (General Secretary of the Chinese Communist Party) in 2012.

Chart 2



Source: www.ft.com/content/43bea201-ff6c-4d94-8506-e58ff787802c

Trade barriers: China is an exporting nation and both Presidents Trump and Biden have increased tariffs on Chinese imports, most recently on electric vehicles, steel and aluminum, batteries, minerals, solar panels, minerals and finished machine goods. [2] In this regard, there is clear bipartisan consensus on making Chinese products more expensive to import.

Chart 3

Tariff Raises on China Hit EV and Medical Industries

Below, we show the current and new tariff rates, as well as the implementation years for both, for a range of Chinese imports, as of May 14, 2024.

Import	Current rate	New rate	Implementation year (current rate)	Implementation year (new rate)
Electric vehicles (EVs)	25%	100%	2018	2024
Semiconductors	25%	50%	2018	2025
Solar cells	25%	50%	2018	2024
Syringes and needles	0%	50%	N/A	2024
Some steel and aluminium products*†	7.5%	25%	2019	2024
Lithium-ion EV batteries	7.5%	25%	2019	2024
Lithium-ion non-EV batteries*	7.5%	25%	2019	2026
Battery parts*	7.5%	25%	2019	2024
Some personal protective equipment (PPE)*†	7.5%	25%	2019	2024
Rubber medical and surgical gloves*	7.5%	25%	2019	2026
Natural graphite and permanent magnets	0%	25%	N/A	2026
Other critical minerals	0%	25%	N/A	2024
Ship-to-shore cranes	0%	25%	N/A	2024

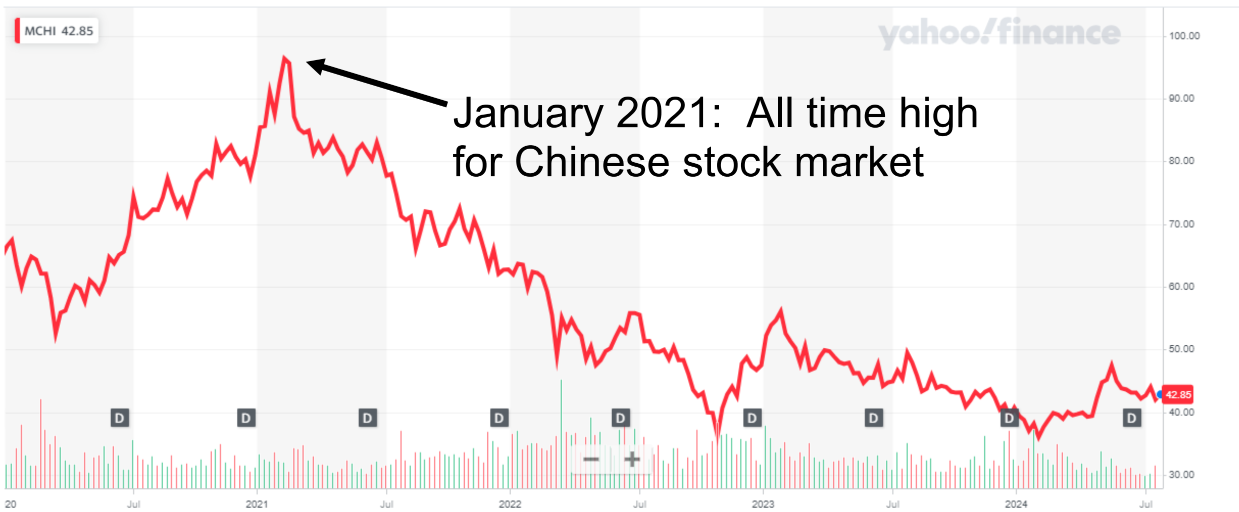
Source: www.visualcapitalist.com/comparing-new-and-current-u-s-tariffs-on-chinese-imports/#google_vignette

[2] https://www.cnn.com/2024/05/14/politics/biden-tariffs-chinese-imports/index.html

Summary Part 1: The combination of political control, less transparent economic data, and rising trade barriers will make China less desirable for investors. When coupled with what is likely a weakening economy plus poor domestic home sales, the Chinese stock market has been in decline since 2020. Investors that have committed significant resources to emerging markets, especially to China, will find it difficult to extricate from that region.

The MSCI All Country World Index ("ACWI") is an index of large and mid-capitalization companies around the world, accounting for about 85% of the world's investable public companies. The U.S. is 64% of this index and China is less than 2.5%. [3] We recommend investors in China have no more than the ACWI weight in order to mitigate the riskiness of investing in that market. The next chart is the largest China-specific ETF, the iShares MSCI China ETF. It clearly shows investors have been pulling away since 2021.

Chart 4 – iShares MSCI China ETF ("MCHI")



Source: Yahoo Finance, July 22, 2024

Summary Part 2: We almost never comment about our peer group's investment selections. However, in this case every working Canadian – including us – pays into the Canada Pension Plan (CPP), so we all have a vested interest in how it performs.

At its fiscal year end on March 31, 2024, CPP had $632.3 billion of assets under management.

According to CBC and Reuters, management disclosed having 9.8% of CPP assets in China as of December 2023. [4,5] China is an emerging market. Emerging markets are significantly riskier than developed markets and 9.8% is a massive overweight of China as compared to its 2.5% global weight. The 9.8% weighting amounts to ~$62 billion, which is an astonishing value. No matter how one looks at CPP's investments, such a large allocation in the face of the falling Chinese stock market (chart above) is most certainly not good news.

To its credit, CPP's 2024 annual report states its exposure to the Chinese currency, the *Renminbi*, has fallen to 5%.[6] This tells us only the risk of owning a foreign currency; currencies can be hedged using financial derivatives, but the ownership of the underlying asset may remain unchanged.

What we do have is this comment from CPP's 2024 annual report (**emphasis** ours).

> *"Emerging markets underperformed this year, with losses in China detracting from results. China continued to be a challenged market in fiscal 2024 as **global investors pulled back from the country and national equity indexes suffered double-digit declines in a year when global equities saw double-digit gains**. Latin America generated positive results where investments in public markets outperformed the broader market."* [7]

---

[3] https://www.etftrends.com/china-insights-channel/msci-rebalance-china-exposures/#
[4] https://www.benefitscanada.com/canadian-investment-review/alts/expert-panel-cppib-taking-steps-to-face-shifting-investment-landscape-in-china/
[5] https://www.cbc.ca/news/politics/canada-china-committee-report-pension-investments-1.7060669#
https://www.reuters.com/markets/canadas-largest-pension-fund-trims-staff-it-puts-china-deals-hold-sources-2023-09-01/
[6] CPPIB 2024 Annual Report (page 36)
[7] CPPIB 2024 Annual Report (page 54)

Currently CPP is administered nationally (except Quebec). We live in Alberta where the provincial government has mused about taking CPP into the province like Quebec does. Our neighbors have lawn signs up sayings "hands off our CPP".[8] To this we just ask, are you sure about that? As we were finishing this newsletter, the Toronto Star penned an article on CPP's recent underperformance which, according to them, was so exceptionally poor that *all* the value-add ever created by CPP from active investment management was wiped out. The **emphasis**, again, is ours:

> *"This past year (fiscal 2024) was especially brutal. CPP Investments underperformed its reference portfolio — a mix of 85 per cent global stocks and 15 per cent Canadian bonds — by almost 12 percentage points. The monetary value of this miss is equivalent to a huge loss of $64.1 billion. It also resulted in the fact that* ***all the added value (beyond its benchmark) ever created due to CPP Investments' active management style was completely wiped out****."* [9]

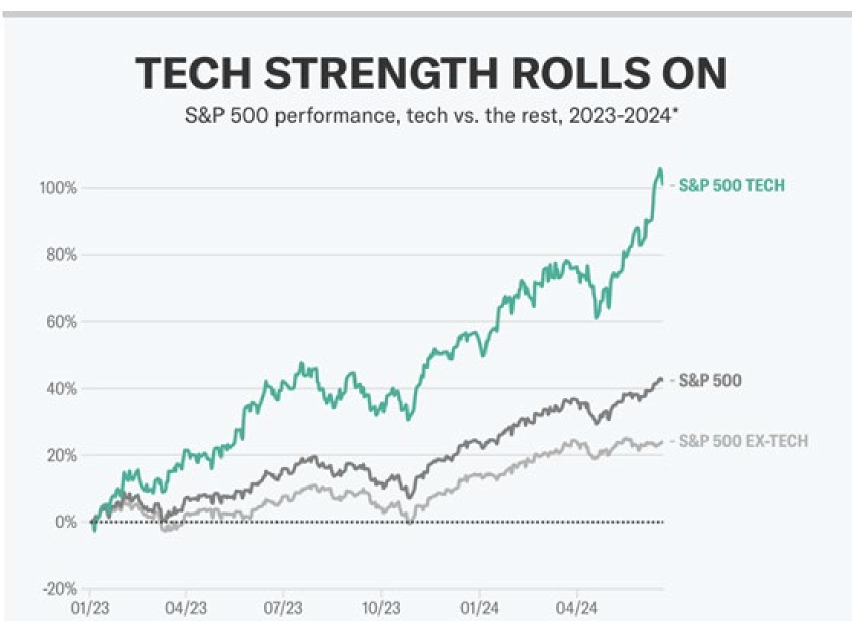
Chart 5 – Hands Off Our CPP

Source: www.albertasfuture.ca/hands-off-our-cpp

Part 2. Market Leadership & Perils of Chasing Prices

This chart is courtesy of Yahoo Finance's Morning Brief of June 25, 2024. Since January 1, 2023 to June 24, 2024 the S&P 500 is up 42%. That is all due to the technology sector, which is up over 100%. If we strip out the technology names, the S&P 500 is up 24% over the past 1.5 years – still respectable but nothing like the mega-capitalization technology names of Nvidia, Microsoft and Apple.[10]

Chart 6 – S&P500 since January 1, 2023



Source: Yahoo Finance, Morning Brief, June 25, 2024

---

[8] https://www.albertasfuture.ca/hands-off-our-cpp

[9] *"CPP Investments spends billions of dollars to outperform the market. The problem is, it hasn't."* Toronto Star, July 13, 2024 (updated July 15, 2024)

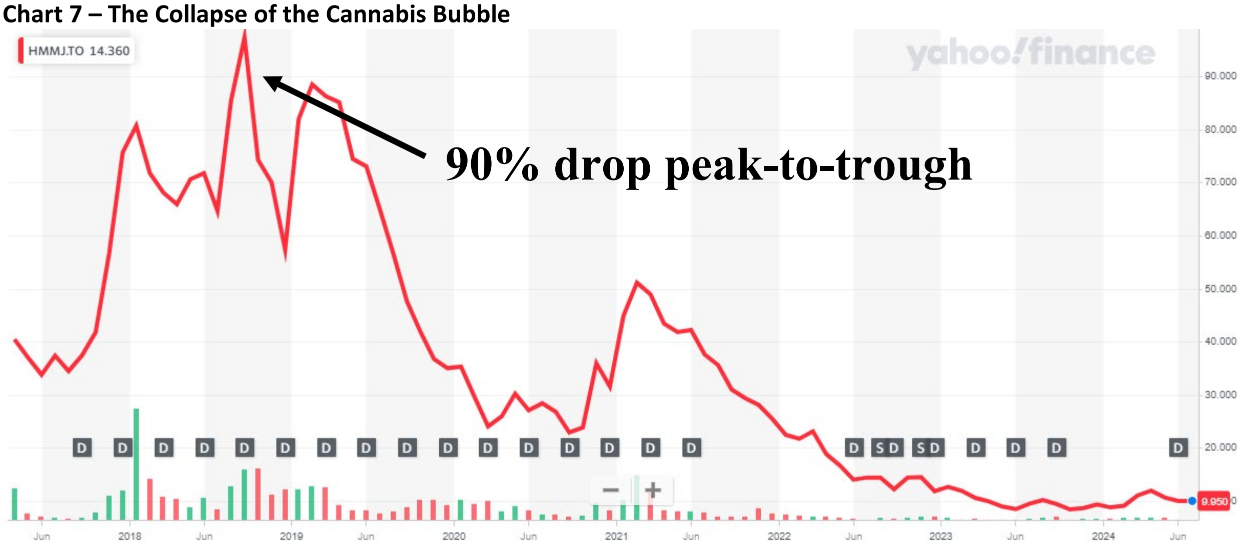
[10] Yahoo Finance, Morning Brief, June 25, 2024

One rationale given for the leadership of the technology sector is the growth and demand for Artificial Intelligence (AI). In our opinion, however, there is now a large element of mania in technology names. Chasing prices higher means the buyer is relying on selling at a higher price to someone, with little or no regard to the fundamental valuation of the security.

In the past few years, we saw the mania for marijuana stocks and then cryptocurrency after. We remind you that over the long term the market always reverts back to fundamentals and if there is no good financial or strategic reason for a security to trade at a high price, it will eventually move down.

A Canadian cannabis ETF is Global X Marijuana Life Sciences Index ETF (HMMJ). At the height of the marijuana bubble in 2018 it peaked at $97.40, and it currently sells for $9.95 – an eye watering 90% drop.

Chart 7 – The Collapse of the Cannabis Bubble



Source: Yahoo Finance, July 4, 2024

As far as cryptocurrencies go, we have two comments about risk. The first is that notwithstanding Bitcoin's current value may be worth USD $64,000 today, the volatility of its price is literally off the charts. When assessing returns, an investor must also consider risk (volatility). An investor will need to have almost perfect timing to buy and sell.

Chart 8 – Bitcoin Price Since Inception (US$)

Source: Yahoo Finance, July 22, 2024

The second risk to consider is that cryptocurrencies have already been failing. A few of the high profile failures in which investors are facing almost a total loss from the crypto or the exchange/trading platform are: FTX Token (FTT) and FTX Trading Ltd. (we get a 2 for 1, a failed crypto and a failed exchange); LUNA Stablecoin; Three Arrows Capital (3AC); Celsius Lending; Silk Road Cryptocurrency; Mt. Gox exchange; Ronin Network; and the Canadian Quadriga crypto exchange that failed when its founder mysteriously died while on his honeymoon in Asia.[11, 12]

---

[11] https://www.cbc.ca/news/business/osc-quadriga-gerald-cotten-1.5607990

Summary: We go back to the first chart in this section, Chart 6. There are immense perils in buying an asset just because it is going up. That is how manias and bubbles form. The volatility (a measure of risk) and the subsequent crash could be ferocious. Most investors do not get out in time.

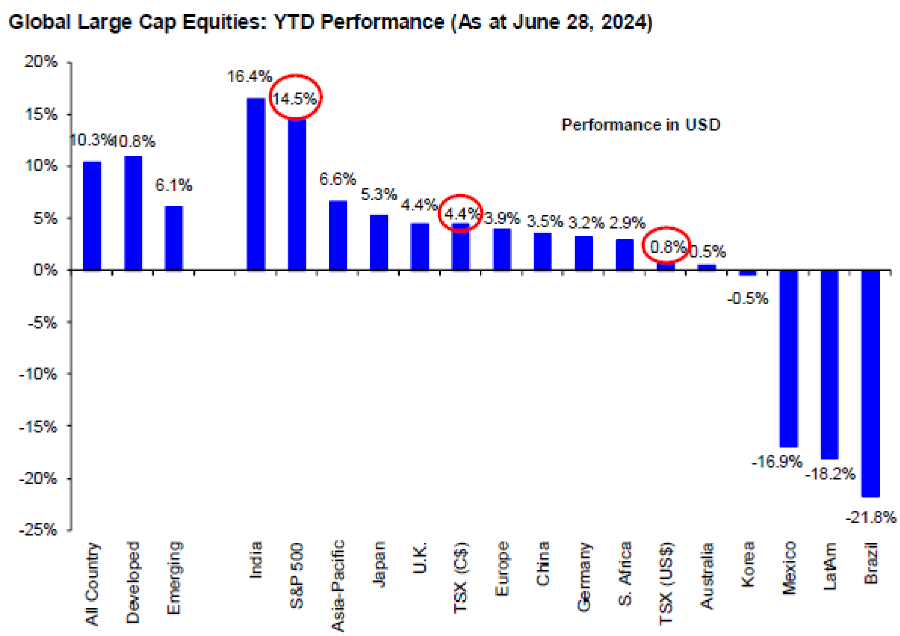
Even though the technology sector is up over 100% since January 2023, the rest of the S&P 500 has still not moved much in price, and it still offers good value. We have been buying many industrial, financial, real estate and health care names as they represent a growth-at-a-reasonable price ("GAARP") bargain. This is what we call an uncrowded trade, we have lots of elbow room to buy at the price we like.

Over the long term we expect the market will become rational, bid down expensive names we don't own and bid up the cheap names we do own.

Part 3. Summary – Presidents Come and Go....

The first half of 2024 saw the markets up. Developed markets were up 10.8% (in U.S. dollars). Canada is up 4.4% (only 0.8% in U.S. dollars). [13]

Chart 9



Source: Scotiabank Global Equity Research, The Chart Book, July 2024

Presidential Cycle: The U.S. Presidential election is in November 2024 and there is a known phenomenon called the "Presidential Cycle". According to CFRA's June 22, 2024 Sector Watch: Since World War II, in every year there is a Presidential election, on average the S&P500 is up 4.0% in the first half of the year, with the first half of 2024 up 14.5%. The second half of the year has an average 3.5% positive returns. At times when the S&P 500 up performance is amongst the top 10 in the first half of the election year, the S&P 500 achieves even higher results in the second half at 5.2% and 90% of the time the second half is up. We can confidently say the first half of 2024 is clearly a "top 10" event at +14.5%.

---

[12] https://www.securities.io/top-crypto-fails/

[13] Scotiabank Global Equity Research, The Chart Book, July 2024

Chart 10 – S&P500 During Election Years

Year	1H of year %	2H of year %	Comments
1944	11.2	2.3	First 6 months: S&P500 up 4.0%
1948	9.4	-9.2	and occurs 71% of the time
1952	5.0	6.5	
1956	3.3	-0.6	Second 6 months: S&P500 up 3.5%
1960	-5.0	2.1	and occurs 80% of the time
1964	8.9	3.7	
1968	3.2	4.3	
1972	4.9	10.2	
1976	15.6	3.0	
1980	5.8	18.8	
1984	-7.1	9.2	
1988	10.7	1.5	
1992	-2.1	6.8	
1996	8.9	10.5	
2000	-1.0	-9.2	
2008	2.6	6.2	
2012	-12.8	-29.4	
2016	2.7	4.7	
2020	-4.0	6.7	
2024	14.5	??	**Playing the odds**: When the S&P500
			first half year returns are in top 10,
Average	4.0	3.5	the second half of year is up average
% Time Positive	71	80	5.2% and occurs 90% of time

Source: CFRA U.S. Equity Research, Sector Watch, July 2, 2024

Summary: Investing is also about understanding statistics and knowing when they tilt in your favor. The table above clearly shows the odds of good second half performance of the S&P500 is in favor. *This is regardless of whether the President-elect is Democrat or Republican*.

Part 4 – Concluding Comments

We have positioned all clients to take advantage of a probable good market for the rest of the year. All clients are fully invested. Clients with bond holdings have this asset positioned for gradually declining interest rates. When suitable, clients in equities with direct holdings own reasonably priced securities with good long-term prospects. Unless suitable, we have stayed away from any faddish security that we regard as overvalued or in a bubble, we have stayed with cheaper, uncrowded trades. We have mostly avoided China and have found favorable investments in other parts of Asia, namely Taiwan and Japan.

==

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.

DISCLAIMER

Gold Investment Management Ltd. ("GIM") is registered as a portfolio manager in the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia and as an investment adviser with the U.S. Securities and Exchange Commission. This material is provided to you for informational purposes only. For greater certainty, the information contained herein should not be construed as a recommendation of any specific model portfolios or investment actions. Any third-party information contained herein has been compiled from sources believed to be reliable, however, GIM makes no representation or warranty, express or implied, as to its accuracy or completeness. Any market prices and estimates in this report are for informational purposes only. The opinions contained herein are effective as at the date of the report and GIM does not assume any responsibility for advising the reader of any subsequent change of opinion. Any indications of past performance contained herein is not indicative of future results and any information with regard to the performance of GIM's investment portfolios is presented gross of fees which will vary from mandate to mandate. For additional information please visit our website: https://gold-im.com/legal/.