HIGHSTREET™ ASSET MANAGEMENT | 20 YEARS

CLIENT NEWSLETTER

MARCH 31, 2020

Message from the Managing Director, Private Client

As I write this quarterly communication to you, we are inundated with news of the latest developments in the COVID-19 crisis. We have all probably heard enough of the details and then again, the narrative keeps changing daily and indeed is getting more serious as I write. Hence, we continue to listen and research for more information on the virus constantly.

Since I first wrote to you on March 16th, at Highstreet we have settled into a "working from home" routine that we are all getting used to. Plenty of conference calls internally and externally, listening to press conference updates from our political leaders and of course trying to stay safe and look after our loved ones.

We miss our colleagues and our clients but with technology today, it is bearable and workable. Our relationship managers are always at the end of the phone should you want to discuss anything related to your investments with us, or simply just feel like talking. We are trying to reach out proactively to you and many of you will have listened to the Highstreet Conference Call on March 26th, featuring Mark Stacey and Greg Valliere. We anticipate having another call with a similar structure mid-April. As always, the Highstreet Pooled Fund Investment Team continues to work diligently to manage through these uncharted waters.

The outbreak and rapid spread of the coronavirus across the globe has had an unprecedented impact on financial markets. A market that suffers a 20% correction is called a "bear market" and in the past a normal bear market takes 20 months. The current bear market took about 15 days to go down 20% and saw all markets move lower by 30% from record highs in less than a month. The sell off was quick and there have been several large reversals. To put it in perspective, the week of March 16th was the worst week since 2008 and March 24th was the best day since 2008.

Although the market sell-off feels like 2008, central banks have proactively reduced interest rates which lowers the cost of borrowing for consumers and companies and have also created a framework for packages that will replace the income of those affected and backstop companies/industries that were facing bankruptcy.

Given these volatile times in the markets, a refresher of the Highstreet Balanced/Conservative Balanced Fund positioning is warranted. To step back, as stock markets have been generating strong returns over the last few years, the Highstreet Pooled Fund Investment Team has been diversifying risk and reducing the risk of the asset mix. Since 2017, the Highstreet Pooled Fund Investment Team has been steadily reducing U.S. and Canadian equity exposure and diversifying to Global equities and the Highstreet Dividend Income Fund. In 2019, the Highstreet Pooled Fund Investment Team further reduced risk by decreasing the equity exposure and increasing bond exposure in both the Highstreet Balanced/ Conservative Balanced Funds.

As the markets rallied to new highs this year, stock holdings were becoming a larger part of the portfolios and in mid-January (a month before the correction) the Highstreet Pooled Fund Investment Team rebalanced the Funds back to the target asset mix and entered the correction with the asset mix at:

1) **Highstreet Balanced Fund:**
   55% Equities and 45% Fixed Income
2) **Highstreet Conservative Balanced Fund:**
   37% Equities and 63% Fixed Income

This is the benefit of a dynamic asset mix as the Highstreet Balanced/Conservative Balanced Funds were the most defensively positioned in the history of the firm's 20 years. As the events have unfolded the Highstreet Pooled Fund Investment Team have proactively rebalanced to target by reducing fixed income and increasing equities. The Highstreet Pooled Fund Investment Team is constantly monitoring the teams' proprietary quantitative tools to understand the risk/reward between the asset classes and as the sell-off continued, the tools suggested that stocks were becoming more attractive vs. bonds. Just as the Highstreet Pooled Fund Investment Team reduced equities ahead of the correction, part of the risk management process is to proactively rebalance equities back to target. The proactive rebalancing that the Highstreet Pooled Fund Investment Team has done has resulted in both the Balanced and Conservative Balanced Funds asset mixes being inline with their respective target asset mix. As of close on March 31, the Highstreet Balanced Fund is down 8.90% and Highstreet Conservative Balanced Fund is down 5.88%.

Although the Highstreet Pooled Fund Investment Team always aims to minimize losses during any market correction, when compared to history and competitors, we believe the Highstreet Balanced/Conservative Balanced Fund have so far navigated the crisis very well. The Highstreet Pooled Fund Investment Team continues to monitor the asset mix but at this point, we have not changed the target asset mix in either the Highstreet Balanced/Conservative Balanced Funds.

In closing, we are grateful for your continued support and your belief in the Highstreet's investment philosophy – that a consistent and disciplined approach will stand the test of time. We wish you and your families good health as we get through these historic times.

Warm Regards, Michael Hodgson

[1] Source: AGF Investment Operations as of March 31st 2020 in CAD. Period: December 31 2019 – March 31 2020, gross of management and administrative fees. The above rates of return are historical and are not intended to be indicative of future returns. Returns include the reinvestment of income and capital gains.

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As always, we would love to hear from you. If you have any questions, concerns or comments do not hesitate to reach out to your relationship manager.

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