Huggan White Wealth Management

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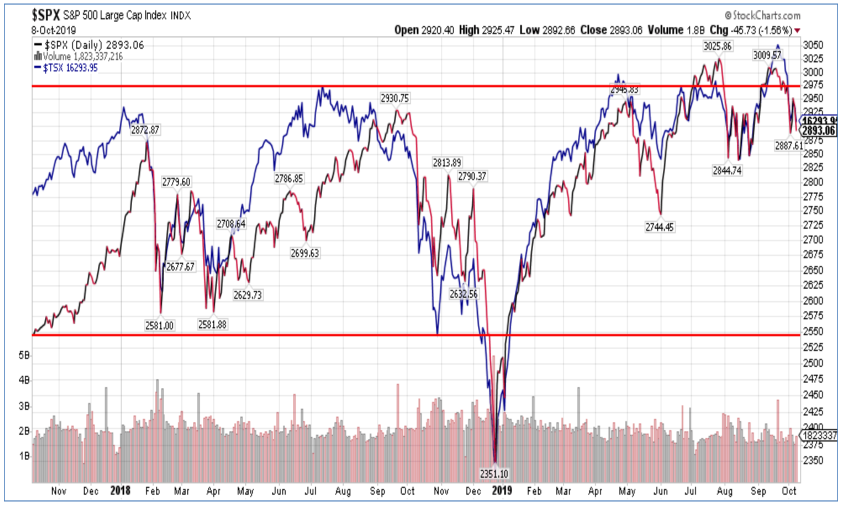
PIMG Portfolio Management Report

Third Quarter 2019

"Focusing on What We Own Is Far More Important"

In the third quarter the markets continued to exhibit their pattern of two steps forward, one and a half steps back. This has been the trend for the better part of the last two years as both Canadian and US markets have been breaching new highs but haven't been able to provide any real follow through. The result has been a market that has provided lots of excitement but has left investors little to show for it. As the markets continue to consolidate (market jargon for moving sideways), we are encouraged by companies within our portfolio that are making investments for long term growth. We are also pleased with the numerous companies we own that continue to reward shareholders with dividend increases and share buybacks in the face of short term uncertainty. With the constant barrage of negative news and ever concerning geopolitical events, we take comfort in the generally positive outlook from the companies we have chosen to invest in.



Looking beyond the ever dreary front page of the paper, we see a different story being told by many of our portfolio holdings. Some of the best performing companies in our portfolios are those that are making big decisions to allocate capital in pursuit of long term growth. We are also comforted by the fact that while the market hasn't made much of a move over the last two years, many of the holdings within our portfolio have continued to increase their dividends and reward long term owners. This *dividend growth* strategy has been proven to be a good strategy in previous sideways markets and it's helping us again as concerns over near term growth pushes investors towards companies that are more shareholder friendly. Two examples of these positive developments are in recently purchased Aecon Group and a longer held name Intact Financial.

In the third quarter we invested in Aecon group, an Ontario based construction and infrastructure development firm. This company traces its roots back to 1877 and has been involved in the construction of some of Canada's most notable infrastructure projects such as the CN Tower, Vancouver Sky Train and the Montreal Trudeau International Airport. Aecon continues to win pieces of major civil contracts and recently announced record revenues, earnings, and most importantly work backlog. They have a pristine balance sheet and sport a ~3% dividend that has grown at 11%/year over the last seven years. While an economic slowdown would certainly limit their "bid universe" for future projects, they have plenty of work to do over the coming five years to keep them busy. As shareholders, we look forward to a growing stream of dividends as they continue to complete their $6.8B dollars' worth of outstanding projects.

Another holding that has been a standout performer in portfolios recently is Intact Financial. This Montreal based insurance company is one of Canada's largest personal and casualty insurers. If you have assets in Canada that need insurance, chances are high you're paying Intact for coverage. On August 15th Intact announced it was acquiring The Guarantee Company and associated Frank Cowen Corp for consideration of approximately $1 billion. This acquisition adds an attractive surety business, significantly increases Intact's specialty division, and enhances their cross-border expertise. The acquisition is expected to be accretive to Intact's earnings immediately and we applaud the bold decisions being made to grow the business for the long run. We also appreciate the 2.25% dividend that has grown at over 9%/year since 2008. As the saying goes; *fortune favors the bold,* and we expect this major acquisition to continue rewarding shareholders in the years and decades ahead.

Consistent with our message from last quarter, economic data remains mixed as the global economy is still growing but at a slowing rate. Globally, politics remain dysfunctional and it seems as though any improvement on that front is a ways off. There remains an endless flow of humanitarian concerns unfolding around the globe and the media does a great job packaging this with maximum impact and delivering it in real time to your pocket. As such, it's not surprising to see investors continue to favor cash and bonds that promise to provide little in return. Remember that much of the last decade was consistently marred with geopolitical conflicts, weak expected growth, expensive valuations, growing debt burdens and countless other legitimately scary one-time events. However, the markets have fared well and as many of these issues have been dealt with or improved, the markets moved higher. A decade from now, most of these issues that seem so alarming today will be forgotten by most. This isn't to make light of the many challenges that the global economy faces but rather to suggest that, as in the past, we will likely deal with these issues and any short term volatility created should be viewed opportunistically. When it comes to investing, it's almost always best to ignore the news cycle, particularly when it's political, and believe in the long term ingenuity of human progress.

In summary, we will be using any weakness within our core names to add exposure as our thesis has not changed. One smart analyst we follow noted recently, *"I know the "Apocalyptor's" will have a field day calling the end of the bull given the current backdrop. It's not, it's just another mini-deleveraging from recent highs. The themes driving this longer term advance remain intact (high equity risk premiums, low real rates, easy monetary policy and central bank support).* That is a view we completely agree with and continue to manage portfolios accordingly.

Thank you for your trust and confidence in allowing us to manage your financial affairs.

We will keep you updated.

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