

MWG Portfolios: Portfolio Weighting Changes August 2018

Our portfolio actions for the month of June were as follows:

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:	EADSY, ADS.N, BSX.N	ITP.TO, NWL.N
Increased:	TFX.N, AVGO.O, BMWYY	
Reduced	PFE.N, FB.O, RCL.N	
Sold:	MDT.N, COST.O	QCOM.O, CIX.TO

August Market Commentary

The global economy outside of the U.S., while continuing to grow, has begun to soften. A strong US dollar has sparked turmoil in emerging markets, with Turkey and Argentina experiencing rapid depreciation in their currencies in August. The main concern among investors is whether these problems will spread to other emerging market regions and the asset classes directly affected by debt and currency headwinds. Time will tell if the current level of concern regarding global growth is warranted.

In Canada, new clouds continue to invade the investment climate with the quashing of Canada's Trans Mountain Pipeline Expansion ("*Canada's*" because the federal government bought the existing pipeline and expansion project at fair market value of \$4.5B from U.S. pipeline firm Kinder Morgan's Canadian subsidiary). As Canada re-enters the NAFTA negotiations from the outside looking in following the USA-Mexico agreement, we question if the market will view the execution of a deal as a referendum on Trudeau's Canada from an investment perspective. Trudeau maintains that no deal is better than a bad deal, but the stock market likely does not feel the same way.

In the short term, share prices move on company performance versus expectations as long-term earnings growth and the repricing of assets can take longer to reward investors. This was never more relevant than this past earnings season as, in general, companies that merely met high expectations saw their share prices weaken while companies with low expectations that showed minor improvements versus expectations were rewarded with strong share price rallies. Our view is the US market is more bifurcated than earlier in the economic cycle which will always come with short term rotation trade from high performers into underperformers.

The S&P returned 3.0% for the month and is now up 8.5% on the year. Meanwhile, the tech-focused NASDAQ returned 5.7% in August and is up 17.5% YTD. The TSX, on the other hand, fell 1% on weakness in the energy and resources sector and is just slightly positive on the year. The Canadian dollar continues to trade in a range between US\$0.75-0.80, closing August at US\$0.77.

Global Equity Growth Fund:

The Fund's NAV increased 1.8% in August reaching \$12.87, up 12.4% YTD. We maintain an 80% weighting in U.S. and international equities, which has helped drive performance this year.

During the month, we made several weighting changes in the portfolio. We added new positions in Boston Scientific (please see our August monthly research note for more details) at a 3% weighting, Airbus SE at a 2.5% weighting and Alliance Data Systems, a payment and credit card services provider and the owner of the Air Miles Loyalty Program in Canada, at a 2% weighting. We also increased our weightings in Broadcom to 3%, doubled down on Teleflex (1.5% weighting) after an earnings miss and raised Gilead, BMW and Linamar half a point. Our Apple weighting also increased on account of its recent strong performance.

To fund the purchases, we exited our Medtronic (at US\$90.61 for a 17% gain) and Costco (at US\$230.46 for a 17% gain) positions as the shares rallied to new highs, preferring the growth potential of BSX and TFX in the medical technology space as well as Home Depot and DollarTree in the consumer space. We also reduced our Pfizer and Royal Caribbean weightings into strengthening share prices. We sold some Facebook at US\$181.52 and decreased our target weighting to 4.5% as the outlook remains mixed following additional privacy concerns in Europe and we are unsure of the costs to be incurred by Facebook for the increased scrutiny of its users. Despite these setbacks, we still like the Facebook business model and believe the company can grow revenue significantly.

Income Growth Fund:

The Fund's NAV per unit increased 2.0% for the month and is positive on the year at +0.9%. The portfolio is currently yielding 6.7%, with a 79% weighting in Canada. The Fund benefitted from softening expectations for interest rate hikes and strong earnings results from companies with large weights in the portfolio. Notably, Chemtrade and American Hotel Income Properties both returned over 10% in the month as their quarterly reports surpassed low expectations.

We started new positions in Intertape Polymer and Newell Brands. Intertape Polymer is a company that is consolidating the packing tape market and has been very aggressive with acquisitions and investing in efficiency over the past few years. The company is poised to benefit from these investments with strong free cash flow growth, which will should translate into higher dividend growth. Newell Brands is an underperforming stock we also own in the Global Growth Fund; The shares are very cheap, and we believe the company is facing a transient retail market that should balance as the U.S. economy improves.

To fund these purchases, we sold our positions in CI Financial and Qualcomm. Qualcomm has been a good performer and we sold our position, with an average cost of US\$54.57, at US\$66.87. The company still faces a difficult operating environment and noise relating to potential management buyout and ongoing royalty litigation with Samsung and Apple. We expected CI Financial to benefit from rising equity markets and hence rising asset values and commissions. However, poor fund performance led to increased redemptions and a dividend cut. We believe the company will need to restructure and may see additional price pressure. Hence, we sold our position at a loss at \$21.67 (our average cost was \$27.28).

As always, we appreciate your referrals so if you know someone that can benefit from our services, please do not hesitate to give us a call.