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SECOND QUARTER 2021

Index	Q2 2021	YTD
S&P/TSX Composite (C$)	8.5%	17.3%
S&P 500 (US$)	8.6%	15.3%
S&P 500 (C$)	7.0%	12.2%
MSCI EAFE (US$)	5.2%	8.8%
MSCI EAFE (C$)	3.7%	5.9%
FTSE TMX Universe Bond Index (C$)	1.7%	-3.5%
C$ / US$	1.2575 to 1.2394 (1.5%)	1.2732 to 1.2394 (2.7%)

**** Index returns are total returns, including dividends.***

RECAP OF THE QUARTER

Equity prices across most global markets continued to surge to new highs in the second quarter of 2021. Buoyed by an abundance of liquidity enabled by central banks, as well as optimism about economic recovery as countries begin to emerge from pandemic lockdowns, investors continued to jump back into stocks with abandon. So far, the three main equity indices that we track, the TSX, S&P 500 and MSCI EAFE, have all reached or surpassed previously recorded highs.

The gains have been strongest in sectors where stock prices were the most battered last year, such as financials, energy, and travel and entertainment. Since many of these stocks are conventionally placed in the Value camp, this has been a primary driver of the outperformance of Value-centric indices relative to their Growth counterparts. Year to date, the Russell 1000 Value Index returned 17% compared to 13% for Russell 1000 Growth Index, a marked departure from the two indices' comparative returns over much of the past five years.

As the economic recovery has gained steam, the yield curve has also steepened. Long-term government bond yields, meandering below 1% for most of 2020, have surged above 1% this year. At the end of the first half of 2021, the 10-year U.S. Treasury yield was 1.47%, up over 0.5% from where it was at the end of last year. Similarly, the 10-year Government of Canada yield finished at 1.39%, up from 0.67% at the end of 2020.

Over the past five years, our reluctance to lock ourselves into mediocre returns for long periods of time has mostly penalized us as long-term yields moved ever lower. This year, however, our lower duration was a main driver of the outperformance of our fixed income portfolios compared to the benchmark. Our preferred share holdings, many of which have floating rate or rate-reset provisions, have performed particularly well as investors anticipate higher rates in the future.

Nevertheless, despite the recent run-up in yields, we still believe that long-term bond yields generally remain highly unattractive, especially considering current rates of inflation and the outlook for inflation in the future.

INFLATIONARY CONCERNS

As the world's economies have reopened, pent-up demand bolstered by huge consumer savings and fiscal support has been met with snarled supply chains and labour shortages in a wide range of sectors. The combination of increased demand and limited supply has created inflationary pressures in many different products and services. These pressures may be transient in nature, as the Federal Reserve believes: the result of supply chains being caught off guard by a temporary upsurge in consumer spend. But they may also be longer-lasting, should expectations for prolonged inflation set in.

As always, we do not pretend to have a crystal ball on macroeconomic factors. However, we strive to be prepared no matter which scenario prevails. Importantly, we believe that many assets would yield meager, even negative, returns after adjusting for inflation. As mentioned, although yields have surged compared to where they were last year, the 10-year U.S. Treasury and Government of Canada bonds still yield just 1.47% and 1.39% respectively - well below the 5% where inflation is currently tracking and also below the 2% that the Federal Reserve itself has set as their long-term goal. These bonds, if purchased at today's prices and held to maturity, have a high probability of yielding a negative real return after inflation is factored in.

Meanwhile, some North American stocks have traded up to absurd valuation multiples, partly because of the assumption that interest rates would remain low forever. As a whole, the Russell 1000 Growth index trades at 45 times its trailing 12-month earnings – well above its historic average of 25 times and equating to an earnings yield of just 2%. Such a rate may look marginally better compared to long-term government bond yields, but will look a lot less so should government yields rise even modestly.

FINDING OPPORTUNITIES INTERNATIONALLY

As U.S. equity prices continue to surge upward, we have increasingly found more opportunities in international equity markets where valuations have not yet reached such heady levels. Three of these opportunities are the Hong Kong-listed companies CK Hutchison, Kerry Properties and Ping An Insurance Group, which we will detail in brief below.[1]

CK Hutchison is a major conglomerate controlled by Li Ka-shing, long known as Hong Kong's wealthiest man. It owns a collection of diverse businesses around the world, including a major health and beauty retail chain in Asia, one of the largest mobile telecommunications companies in Europe, and ports and infrastructure assets around the world. CK Hutchison shares currently trade at just six times expected earnings for this year and at a nearly 50% discount to a conservative estimate of its net asset value. Importantly, management has recognized the disconnect between the underlying value of its assets and its stock price, and recently announced

[1] *Some clients may not own these securities due to timing.*

large share repurchases using the proceeds from the sale of their European telecom tower assets. The sale of these assets alone fetched over $HK 80 billion, or more than one-third of the company's total market cap.

Kerry Properties is a major property developer and investor, with office, retail and residential real estate in Asia as well as a host of other businesses, including Shangri-La Hotels and a large logistics arm. On the private market, its collection of retail assets would be conservatively valued at $HK 70 per share, nearly triple its current stock price. The company's management has appeared to become more cognizant of the glaring discount in recent months, announcing the sale of a majority stake in its logistics business in a deal valued at $HK 18 billion, half of the company's current market cap. With the large influx in cash from this deal we expect the company to increase returns to shareholders substantially.

Ping An Insurance Group originally became known as one of the largest life and property and casualty insurers in China, but has evolved to a company providing a full range of financial services, including banking and asset and wealth management. The group has consistently generated strong returns on equity ranging from the high teens to low 20s and over the last twenty years has compounded its book value per share over 70-fold, or at a 25% CAGR. Despite this strong record of value creation and a long runway for growth in China's rapidly developing financial services sector, Ping An trades at less than nine times earnings and 1.4 times book value.

REMAINING DISCIPLINED

Our mandate remains the same as always: to find suitable investments that offer sufficient returns over the long term. As investment opportunities meeting our criteria run drier in domestic markets, we believe that our ability and willingness to examine opportunities in international markets provide us with an advantage in achieving our goals.

Above all, we aim to remain disciplined regardless of the market environment. As stewards of the savings accumulated by you over a lifetime, we will not buy things simply because others have done so, or relax our standards for investment. Instead, we strive to judge investments' fundamentals and long-term prospects through a sober lens, and remain highly sensitive to the price that we pay, ensuring that our investments have an adequate margin of safety.

Thank you for your continued trust and confidence.

The Evans Team