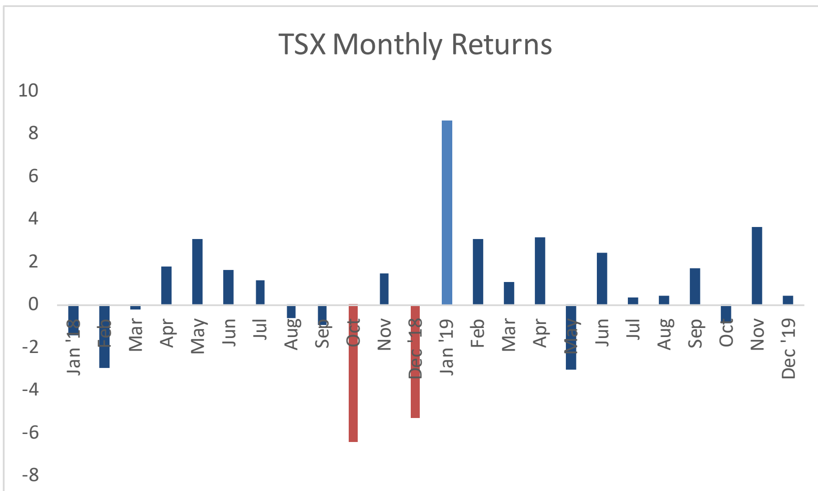
2019 Year in Review

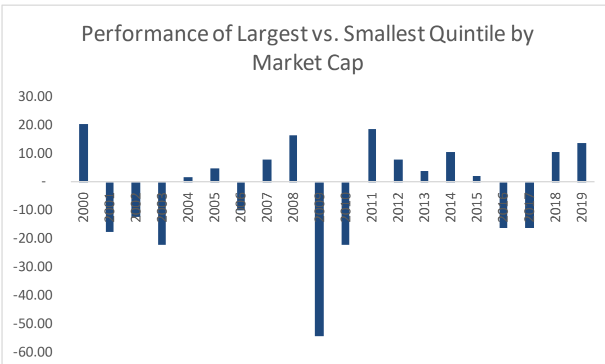
The Canadian and US equity markets were exceptionally strong throughout 2019. Virtually every sector in Canada ended the year positively – most notable being the Information Technology and Utility subsectors. The index's largest component, the financials sector, was also the primary contributor in 2019, up over 20% and responsible for 1/3 of the total year's return. While measuring returns over the last 12 months may look impressive (up over 20%), investors with a longer time horizon are reminded that the annual compounded return over the past 2 years has only been 5.8%. The components of this total return were attributed to 2.6% of capital appreciation and 3.2% of dividend yield.

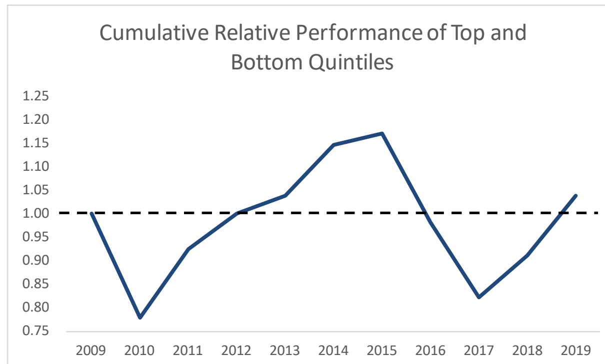


Earnings growth remains a good barometer for index performance over the long term. Since 2009, TSX earnings have grown from $537.95 to $983.09 in 2019 (up 82%) in line with index performance over this period which was up 80% (the previous decade earnings grew from $340.10 in 1999 up 58% versus the market up 65%). Over the past decade (2009 - 2019), TSX annualized compound returns were 6.9%; composed of 3.8% capital gains and 3% dividends. This compared with the previous decade (1999 - 2009) returns of 5.6%; made up of 3.4% capital gains and 2.2% dividends. The evidence suggests that dividends are increasingly relevant for an investor's total return over a cycle.

Our Waypoint All Weather Strategy's returns have benefited from investing in high dividend paying non-resource equities in Canada with a focus on management alignment and healthy balance sheets. Owning well-run businesses, with a track record of good returns on invested capital and cash flow discipline to fund dividends, has been our winning strategy; however, 2019 was a year where investors favoured the liquidity found in large cap stocks over business fundamentals. This resulted in a significant divergence between expected fund performance and broadly referenced indices.

For 2019, the top quintile of the TSX index by market cap outperformed the bottom quintile by over 10%. In addition, the TSX composite outperformed the TSX Small Cap by 7% and, the broadest measure of this divergence is the 14% outperformance of the top 20% of all Canadian listed companies versus the bottom 20% (top quintile +28% versus bottom quintile of +14%). Generally, the data shows that companies found in broad indices performed better than those excluded. Several factors could be the cause of this outcome, such as, the increased use of index ETFs, decrease in Canadian focused investment funds and the general desire for near-term liquidity. Although this was an unfavourable outcome for 2019, these divergences tend to occur over the short term and correct themselves throughout the cycle.





The magnitude of 2019's divergence can be compared with three prior periods over the past two decades. We observed similar behaviour at market peaks in 2000 and 2008. The other period occurred in 2011 which coincided with a 20% correction followed by a flat market for approximately two years.

In these instances, investors were valuing liquidity over business fundamentals to escape any market drawdowns. This year appears to have created the opportunity we have observed in the past when price and value diverge – as evidenced by the fundamentals.

Today, the smaller cap portfolio offers investors a higher dividend yield, similar growth prospects and less balance sheet leverage for a significant discount. We construct the All Weather Fund to take advantage of this *divergence*, with the belief that the two will eventually *converge*, much as we have observed in the past.

	Dividend Yld %	LTM ROC %	P/B	Net Debt to Equity %	Internal EPS Growth %
Quintile 1 (Large)	3.0	8.7	2.2	88.0	7.8
Quintile 2 (Small)	4.7	5.6	1.1	32.0	8.7
AWF	5.0	8.8	1.3	76.0	8.0

Generally speaking, investors tend to be most optimistic after a year of strong results, therefore, heading into 2020, our conviction remains that we are investing in the later period of the investment

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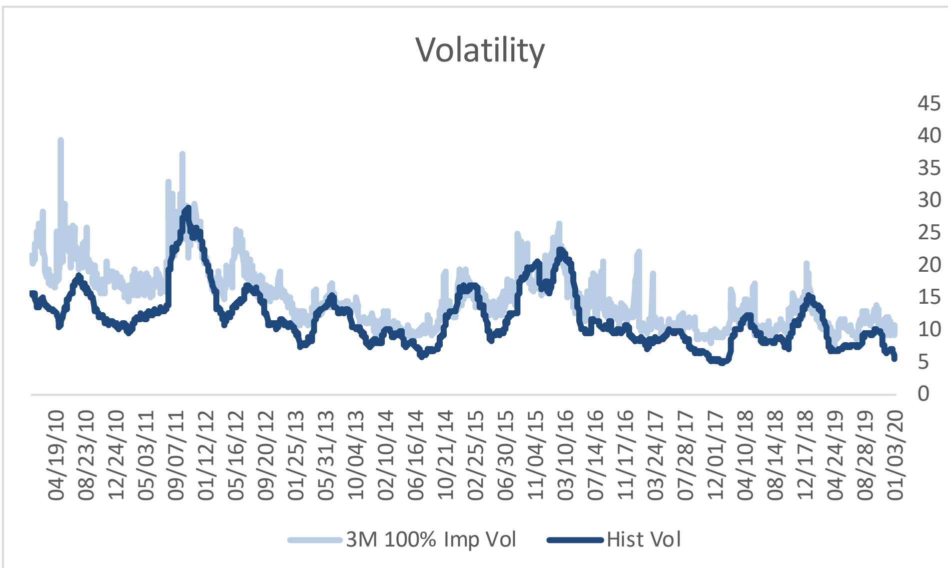
cycle. We do not profess to be market timers but know that late-cycle drawdowns are often much more severe in magnitude than those intermediate corrections.

Volatility remains historically cheap in the Canadian market and despite the geopolitical and election risks already evident in 2020, these gauges remain at or near the historic lows.

Low levels of volatility has been a headwind on performance since most of the options protection we have purchased has absorbed our dividend income. We continued to purchase these instruments with the view that they act as a form of insurance for our investors' capital. In our view, the biggest risk an investor faces is one where capital is permanently impaired, no longer able to compound, or unavailable to maintain one's lifestyle. Our options strategy manages this risk while allowing our clients to maintain investments in high quality, dividend paying companies.



Although 2019 proved to be a challenging year for the All Weather Fund, we remain confident that over the long term, our investment strategy will prove successful.

Being "Left Out"

A good example of one of these investments that was "left behind" in 2019 was Airboss of America Corp. Airboss is North America's second largest custom rubber compounder located in both Canada and the US. The company produces proprietary rubber compounds for a variety of applications including automotive, military, agricultural, mining and general industrial end markets. Much of the products produced are "consumed" therefore requiring repeat orders from customers. The company was negatively impacted by a variety of cyclical factors over the past three years resulting in a stock price that declined from a high of $25 in 2015 to a low of almost $7 in 2019.

Airboss meets our key investment criteria: (1) management and insiders own approximately 25% of the company and have continued purchasing stock along the way, (2) the balance sheet remains conservative with less than 2x the companies cash flow carried in debt and (3) a dividend yield of almost 4% which management has consistently raised.

The company currently has a market capitalization of USD $170M USD and has generated approximately USD $30M of operating cash flow in the past year. At 5.5x operating profit we believe this company is empirically cheap and largely misunderstood by investors.

There are several recent transactions in the rubber compounding industry that validate our estimates of intrinsic value for Airboss. The company's largest competitor, Hexpol Group, recently purchased a company very similar in size to Airboss for USD $232M.

Hexpol Group has made many acquisitions over the past 10 years all of which suggest that Airboss's rubber compounding business is worth a similar value (an almost 40% premium to current prices not including any value for the defense and anti-vibration businesses).

In addition, Airboss owns much of its real estate. Its main rubber solutions facility is located on a prime 18-acre site in downtown Kitchener, Waterloo and is likely to have substantial redevelopment value. There is a significant opportunity for Air Boss to monetize this asset and move production to a new location in the future.

Finally, the company's defense business has been awarded several valuable contracts and has just recently completed a JV with a well-regarded partner. These contracts are expected to begin in 2020.

Despite strong management alignment and validation of asset value, the stock ended 2019 flat. The combination of index exclusion, lack of research coverage and small market cap size left this stock orphaned. We, however, believe that investors are likely to see +$20 share price once again and that this has provided Waypoint investors with an excellent opportunity.

Business Updates

We are always looking to add high quality people to the Waypoint team. Going into 2020, we are fortunate to add two new colleagues, Lucas Atkinson and Michael Lindblad, to our Waypoint family.

Lucas joins us as Head of Trading. He was formerly with Front Street Capital for eight years where he was a trader focused on Canadian stocks and options. Prior to that, he was with BMO Asset Management for 8 years. Lucas expands our capabilities on the investment team by focusing on trade execution, systems and company diligence.

Michael is joining us as Vice-President Wealth Management. Michael spent the past nine years with Vertex One where he helped build and expand the company's presence in Ontario. Michael has considerable experience working with investment advisors and introducing them to alternative investment products.

We would like to thank all our investors for their continued support and as always, please contact us with any questions and/or comments.

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