



**Michael Preto**, B.Comm., CFP®, CIM  
Investment Advisor, Portfolio Manager  
HollisWealth, a division of Industrial  
Alliance Securities Inc.  
Insurance Advisor  
Hollis Insurance Agency  
Direct Tel: 604-895-3329  
[michael.preto@holliswealth.com](mailto:michael.preto@holliswealth.com)



**Jason Del Vicario**, B.Sc., CFA  
Portfolio Manager  
HollisWealth, a division of Industrial  
Alliance Securities Inc.  
Insurance Advisor  
Hollis Insurance Agency  
Direct: 604-895-3367  
[jason.delvicario@holliswealth.com](mailto:jason.delvicario@holliswealth.com)

**Heidi Marsall**  
Associate Investment Advisor  
Direct Tel: 778-484-5455 (Kelowna)  
[heidi.marsall@holliswealth.com](mailto:heidi.marsall@holliswealth.com)

**Rozita Tehrani**  
Executive Assistant (to Mike & Jason)  
Direct Tel: 604-895-3349  
[rozita.tehrani@holliswealth.com](mailto:rozita.tehrani@holliswealth.com)

**Sabrina Del Vicario**, B.Comm.  
Client Services Associate  
Direct Tel: 604-895-3324  
[sabrina.delvicario@holliswealth.com](mailto:sabrina.delvicario@holliswealth.com)

Suite 700-609 Granville Street,  
Vancouver, BC V7Y 1G5  
Office: 604-895-3349  
Toll: 1-800-665-2030

## Portfolio Update

April saw positive returns for all three Hillside Wealth portfolios.

All three of our model portfolios posted excellent returns in the month of April and are up nicely year-to-date. We feel that the short-term range of outcomes is wide and find ourselves with a ‘barbell’ mix of assets. On one hand, we hold assets that we feel will rise during a falling (bear) equity market such as cash, government bonds and precious metals; while on the other hand, we continue to have meaningful exposure to stocks that meet our strict selection criteria. We continue to be data-dependent and will look to increase or decrease our exposure to risk assets should the markets give us a clearer signal.

## A Finance Geek’s Trip of a Lifetime

This month, Jason shares his journal from his Bucket List trip to Toronto and Omaha.

As our regular readers know, I’ve been a fan and follower of Warren Buffett, the “Oracle of Omaha”, since my early 20s. Attending a Berkshire Hathaway (BRK) AGM has been on my Bucket List for what feels like forever.

When I saw that the Constellation Software (CSU) AGM in Toronto, my appearance on Business News Network’s Market Call, and the BRK AGM were all scheduled within days of each other – it was as if the stars were aligned. Considering Warren Buffet is currently 88 years old, and his business partner of sixty years, Charles Munger, is 95 – I couldn’t risk putting this off for another year!

Below is a journal of my trip; I hope you enjoy it!

*May 2, 2019: Attended CSU AGM at 8:30am EST.*

The CSU AGM was held at downtown Toronto’s Carlu, a historic venue which was known as “Eaton’s Seventh Floor”. The photos I took weren’t great mostly due to the lighting but here is a pic of the meeting followed by a blurred close-up of Mark Leonard (CEO) and others.



**Left:** The unique panel configuration at the Constellation Software’s 2019 AGM. **Right:** Close-up of the usually private Mark Leonard, CSU’s CEO.

My comments:

- 1) I was surprised (but pleasantly so) that the meeting was not particularly well attended. Here is a company that has stopped doing analyst calls, is the #1 performing stock on the TSX over the past decade and is easily the best group of capital allocators in Canada. If one is interested in learning about what and how they do what they do, this is really one's only chance. There were ~500-600 people in the room but over half were CSU employees. The reason I say that I was pleasantly surprised is due to the fact this stock/company continues to fly under the radar of 'the street.'
- 2) Mark Leonard never talks to media and you can't find so much of a photo of him online (if you're bored, Google his name... there is VERY little information available). Physically he is an imposing figure. Best guess he's 6'6" and pushing 250 pounds. He has a long white beard lending his look to more of a band member of ZZ-Top (!) than the CEO of a very successful company. To further confuse the matter, he has a pleasant English accent!
- 3) This was the first AGM I have ever attended for two reasons: 1) lack of opportunity, as we don't have a lot of corporate HQs in Vancouver; and, 2) I have found that hearing from and talking to management is counterproductive. I could ramble on why this is the case but simply put I've never spoken to a CEO who hasn't had anything but wonderful things to say about their company!
- 4) With that said, the format of the meeting was unique. There was a panel of three asking questions of the panel of ten managers as noted above in first photo. The questions were grouped into categories and were based on questions that shareholders, analysts and the public had sent to their Investor Relations e-mail inbox. Some of the categories included 'deal making climate', 'capital allocation', and 'SaaS (software as a service).'
- 5) By now, I'm familiar with what CSU does and how they do it but what I got most out of this gathering is an understanding of the culture and people central to CSU's success. For those who don't know, CSU is basically a roll up company of software companies; they have acquired over 200 companies since 1995. They have different 'verticals' meaning they own companies in different sectors within the software space. Point-of-sale software is one common example of vertical market software. Other examples include applications for scientific analysis, medical needs and manufacturing. CSU organizes these verticals into separate business units and each unit is run by a head/manager. It was interesting to see the heads interact and field questions. CSU prides itself on being 'hands off' in terms of micro managing the business units and they also encourage unit heads and heads of underlying software companies to hunt and seek out acquisitions. They also bring 'best practices' to the acquired companies helping them run more efficiently. While Mark is clearly the straw that stirs the CSU drink, the business heads were keen to field questions and encouraged by Mark to do so. It is also obvious that while there is comradery amongst the heads, there is also a level of healthy competition; akin to the relationship between two goalies on an NHL team.
- 6) We own a sizeable position in the CSU debenture. This debenture has been an excellent position for us; not only does it pay an attractive yield (~7%) but it has also appreciated in price. However, the debenture has a callable option that makes us nervous. If CSU exercised the early call option we would be given \$100 five years after the call date. Given it currently trades at ~\$127 this would severely impact our return. One of the questions put to management centered around why they don't employ more debt in their capital structure. Mark addressed this in a way that gave us insight into their thoughts on the debenture and comfort that they won't be calling it early. He said that while CSU could borrow up

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to ~\$7B, the cost and restrictions to do this (lenders would surely include covenants) would be such that this wouldn't be to the benefit of creating long term shareholder wealth. He then went on to say that if they did need to borrow a bunch of money for a large acquisition they would revert to the debenture route. As our longer-term investors may recall, the debenture funds were raised from existing equity holders. This is a fantastic way to raise capital as it 'stays in the family', CSU pays no investment banking fees and the funds don't carry restrictive covenants. If CSU were to call their current debenture issues prematurely, this source and potential source of capital would vanish. In short, while they could easily call and pay off the debenture from internal cash flows, we believe that they are using this as a tool for future use and see the 'cost' of the interest as a necessary expense to maintain this access to capital. Mark has stated that one of his regrets was not being more aggressive during the 2008 downturn. Our best guess is CSU will be much more aggressive at acquiring businesses in the next downturn and will fund these purchases from a mix of cash on hand and future debenture issues.

In summary, I was pleased to have many of my thoughts and impressions of the CSU management team confirmed. They are bright, work hard and laser focused on acquiring excellent software businesses and creating shareholder value. We wish them well and remain happy shareholders.

*May 2, 2019: Appeared on BNN's "Market Call" at 12:00pm EST.*

I was on for an hour answering questions from viewers and Anita Sharma (click [here](#) for a link to the show).

I enjoy doing these shows. Of note from this one was the speculative sense I got from callers and the interviewer. For the better part of 3 years now I've been constantly asked about the cannabis sector as well as crypto currency; two areas where we've seen speculative interest of late. One of the criticisms of this bull market is that we haven't really had a period of euphoric rise which usually precedes a downturn. If you watch the show, you'll see that it was done at the same time 'Beyond Meat' (BYND) shares began trading. The stock shot up 160% and has continued higher; all this while the company has yet to turn a profit. We also note the likes of Uber, Lyft and other unprofitable companies are due to file their IPOs soon. This smells a lot like the late 90s. This is something we'll continue to monitor.



**Above:** Jason with BNN host Anita Sharma before going on air

*May 2, 2019: Interviewed by Robin Speziale at 4:00pm EST.*

I've started to create a network of people who analyze companies and the markets the way we do. There aren't many of us in Canada and it's really interesting to note that they come from all walks of life. I've found like minded investors who are analysts, portfolio managers, blog writers and book writers. Robin is an interesting fellow. He works full time as a management consultant and writes books and maintains a website on the side. We are briefly mentioned in his latest book which can be downloaded for free [here](#). Robin peppered me with questions for an hour discussing our process and my personal journey leading me to become a PM. I enjoyed our chat and look forward to maintaining this friendship.

*May 3, 2019: Flew from Toronto to Omaha via Detroit.*

I've never been to Omaha. Omaha is as close to the center of the US as you can get. It sits on the Missouri river. The Missouri borders Nebraska to the west and Iowa to the east. Omaha is a mid-western city of 1 million inhabitants. Let's be clear, my interest in visiting Omaha is solely due to it being the home of Warren Buffet and Berkshire Hathaway (BRK).

The Berkshire Hathaway AGM is more than just a meeting – think of it more as a conference or trade show, filled with a variety of offerings from social events and shopping (at BRK owned companies). It almost has a festival-like feeling, which my wife has dubbed ‘the finance geek’s Coachella’.

*May 3, 2019: Shareholder Shopping Day - 5pm CDT*

Imagine BC Place floor being occupied by all sorts of companies from candy to railroads to private jets. Berkshire Hathaway is a conglomerate of a bunch of different businesses. It is similar to Constellation Software but CSU is only focused on software companies. Buffet and Munger have bought a wide range of companies and they were open for business. Below are the BNSF and Netjets ‘booths’.



**Above:** Two of the various Berkshire Hathaway owned companies at the AGM: BNSF (left) and Netjet (right).

Let’s just say I didn’t buy a jet or a locomotive... but I did enjoy walking around and getting a sense for the scale of their massive operation.

*May 4, 2019: BRK AGM – 6am CDT*

This is the main event. People start to line up at 4:30am to secure seating at the meeting. The meeting is held at the CHI center which seats 19,000 people. More if you include the floor seating. Our Uber drivers said some people even camped out overnight to avoid having to pay for hotel or AirBNB. To say they have a cult following is an understatement. I woke up at 5:35am and got in line at 6am. Below is a photo of the lineup... yes, all the people in front of me were there before 6am!

I should also note that this was the side entrance; I’m told the ‘main’ entrance had an even longer line. At any rate, the doors opened at 7am and I was able to get a seat up in the nosebleeds which really was fine. The audio and video projections were such that nothing was lost by being so far away.



**Left:** The line-up outside the BRK AGM at 6 am. **Right:** He finally made it! Jason holding his BRK Shareholder credentials at the 2019 AGM.

I met people from all over the world and was a bit surprised to see as many kids and babies (!) as I did. I'm not sure what people were thinking bringing children to an 8-hour AGM?!

Warren and Charlie sit at a table sipping Coke from 8am to noon. We broke for lunch for an hour and then they were back answering questions from 1-3pm. They conducted the formal part of the AGM at the end from 3-4pm. Prior to the AGM anyone was invited to send questions to the three media representatives who in turn asked them of Warren and Charlie. There were also a few microphones around and members of the audience could also ask questions. Warren spoke 97% of the time while Charlie would only chime in when he had something to add. He never said any less or more than he needed to and received about 97% of the laughs. Let me remind you they are 88 and 95 years old. Incredible that they can sit and pleasantly answer questions for 6 hours!



**Above:** Warren Buffet (L) and Charlie Munger (R), some Coca-Cola and See's Candy peanut brittle at the 2019 AGM.

I could bore you with all the financial related questions but the gold from this event came from questions about life. Below are some of the nuggets I wish to share:

- 1) A 13-year-old from San Francisco said his Dad made him watch, and read, everything and anything about BRK. He said that much of what he reads speaks to delayed gratification (save and invest over spend). He wanted to know what Warren thought about this concept, and Buffett's answer was very interesting. Warren said that he knows many rich people (more than most), and from his experience, more wealth beyond a certain point doesn't translate to being happier. He said that exercising delayed gratification to reach a point where you are financially comfortable and/or independent is prudent, but he thinks it's okay to back off beyond that.
- 2) Another audience member asked Warren for advice on becoming a portfolio manager. Like many of the questions, Warren would speak first and often for quite a while. He would then end and look to Charlie 'anything to add?' Often Charlie would offer up a one liner or simply say 'no.' But his reply to this question was very interesting. He told a story of Mozart being asked for advice on writing a symphony. Mozart replied, "You are too young to write a symphony." The man said, "you were writing symphonies when you were 10 years of age, and I am 21." Mozart said, "Yes, but I didn't run around asking people how to do it." A cheeky reply and I hope the person asking the question didn't take it the wrong way. The point is, all the advice in the world can't replace finding one's own way in their chosen vocation.
- 3) After another long-winded answer (I don't remember the question) Charlie chimed in and started to talk about Lee Kuan Yew. He noted that he was the founding prime minister of Singapore whom Charlie considers the greatest nation-builder ever. He passed away in 2015. Munger: "If you want one mantra, it comes from Lee Kuan Yew. ... Figure out what works and do it. You just go at life with that simple philosophy from your own national group, you'll find it works wonderfully well. Figure out what works and do it."
- 4) Someone asked 'what do you value most in life?' Warren without hesitation answered 'love and time... both of which no amount of money can buy.'

Both Warren and Charlie are voracious readers. I was left thinking that can't be a fluke they are so switched on in spite of their advanced age. I'm sure there is gobs of scientific research noting that keeping one's mind sharp especially in old age will prolong one's life. They are two shining examples of this. Yahoo! Finance did run a live stream of the meeting and if you're interested in hearing more, please click [here](#). Warning, it is 7 hours long!

*May 5, 2019: Invest in Yourself 5km run – 8am CDT*

They really jam a lot of activities into the weekend and I was determined to participate in as many of them as I could. So I climbed out of bed at 6:30am and made my way back to the CHI Center and joined 3,000 others in a 5km jaunt around downtown Omaha. I ran on the “Guru Focus” team which is a data service I subscribe to. Below are photos of the start and our team. I’ll spare you the ‘after’ photo of me 28 minutes and 38 seconds later!



**Left:** A crowd of 3,000 participants await the start of the Invest in Yourself 5K Run. **Right:** Jason and the Guru Focus team.

The reason I’m the only one without a bib number is because I missed picking up my race package on the Friday night!

*May 5, 2019: Walk through Omaha, past Warren’s house and steak dinner at Gorat’s – 3-7pm CDT*

Whenever I visit somewhere new I like to walk around. I decided to walk for 2 hours from north Omaha (my AirBNB) through central Omaha (past Warren’s house) and to south Omaha (Gorat’s Steak House). For any of you who follow Buffet, this is his favourite steak house. Below are some pics from my walk. The blossoms were in bloom and while it was warm and a very long walk especially after the 5km run, I really enjoyed this ‘down time.’ Incidentally Warren still lives in the same house he bought for \$31,500 in 1958. It is now valued at \$800k and represents ~0.001% of his net worth.

As it were, Warren, Charlie and Bill Gates were dining at Gorat’s Steak House at the same time we were. We were asked then told NOT to take photos so I didn’t (many did and it was not a nice scene). They were but 50 feet from us enjoying their meal while two massive body guards stood nearby.



**Left:** Jason outside Warren Buffett’s home. **Right:** Outside Gorat’s, Warren Buffett’s favourite Steak House (and where he, Charlie Munger AND Bill Gates were inside having dinner that night!)

May 6, 2019: Fly home!

Given the Omaha detour, I was away from home and our family longer than usual, but I'm happy I went. Many thanks to Sabrina who stayed home and kept the zoo (our 4 little boys!) allowing me to do this once in a lifetime trip!

Since my trip I've been asked what I learned by listening and seeing the likes of Mark, Warren and Charlie in person. To be honest it's difficult to put it into words but here's an analogy that might help. Think about something you are really into. For some it might be the Beatles, Roger Federer or, (god forbid!) the Canucks. You grow up listening to the albums, watching Wimbledon and collecting Pavel Bure hockey cards; and talking with your friends about your passion.

But having the opportunity to catch your favourite band, tennis player or hockey team in person is mesmerizing. That's how I felt. I felt inspired and in awe to be in the presence of these investing and capital allocating legends. I will continue to follow and learn from these masters and feel that this can only help us in delivering on our objective of putting our clients in a position to outperform.

## April Performance Results

An overview of our three portfolios to date.

Performance to April 30 <sup>th</sup> 2019	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	Inception**	Added Value vs. Benchmark**
<b><u>HILLSIDE MODERATE GROWTH*</u></b>	<b>9.77%</b>	<b>3.15%</b>	<b>9.86%</b>	<b>8.03%</b>	<b>10.67%</b>	<b>10.56%</b>	<b>+8.21%</b>
<i>MG Benchmark<sup>1</sup></i>	<i>6.57%</i>	<i>1.17%</i>	<i>4.58%</i>	<i>4.05%</i>	<i>5.35%</i>	<i>2.35%</i>	
<b><u>HILLSIDE GROWTH*</u></b>	<b>14.57%</b>	<b>6.16%</b>	<b>7.7%</b>	<b>1.63%</b>	<b>11.12%</b>	<b>9.73%</b>	<b>+3.43%</b>
<i>HG Benchmark<sup>2</sup></i>	<i>12.22%</i>	<i>3%</i>	<i>9.32%</i>	<i>10.13%</i>	<i>10.18%</i>	<i>6.3%</i>	
<b><u>HILLSIDE INCOME &amp; GROWTH*</u></b>	<b>7.22%</b>	<b>2.24%</b>	<b>7.34%</b>	<b>6.88%</b>	<b>8.26%</b>	<b>7.72%</b>	<b>+5.84%</b>
<i>IG Benchmark<sup>3</sup></i>	<i>6.12%</i>	<i>0.86%</i>	<i>4.78%</i>	<i>3.75%</i>	<i>3.8%</i>	<i>1.88%</i>	

*Past performance is not an indication of future returns.*

*\* Performance is presented gross of fees.*

*\*\*Inception: Sept 2, 2014. Results beyond 1 year are annualized.*

*<sup>1</sup> MG Benchmark: 30% TSX | 35% Universe Bond | 20% S&P Pref | 15% TSX Small Cap*

*<sup>2</sup> HG Benchmark: 50% TSX | 25% S&P500 | 25% TSX Small Cap*

*<sup>3</sup> IG Benchmark: 25% TSX | 55% Universe Bond | 20% S&P Pref*

*Source: SIACHarts.com*

The performance presented in this portfolio report is hypothetical and does not represent a specific client account. Details regarding actual returns of an investment account are available from the client's advisor.

This information has been prepared by Michael Preto who is an Investment Advisor, and Jason Del Vicario, who is a Portfolio Manager for HollisWealth® and does not necessarily reflect the opinion of HollisWealth. HollisWealth® is a division of Industrial Alliance Securities Inc., a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. The information contained in this newsletter comes from sources we believe reliable, but we cannot guarantee its accuracy or reliability. The opinions expressed are based on an analysis and interpretation dating from the date of publication and are subject to change without notice. Furthermore, they do not constitute an offer or solicitation to buy or sell any of the securities mentioned. The information contained herein may not apply to all types of investors. The Investment Advisor can open accounts only in the provinces in which they are registered. Hillside Wealth Management is a personal trade name of Michael Preto and Jason Del Vicario. For more information about HollisWealth, please consult the official website at [www.holliswealth.com](http://www.holliswealth.com).

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Performance is calculated using month-end market values of the model portfolio. Since we use a model portfolio to calculate performance there are no client-initiated cash flows (deposits/withdrawals) to account for. Performance is calculated by dividing the change in the model portfolio's market value by the model portfolio's market value at the beginning of the performance period. Also, all income generated by the portfolio's holdings are held within the model portfolio in cash and is accounted for in the portfolio's month-end market value - this results in a total return measure of the model's performance.

Returns for periods less than 1 year are shown as periodic returns while returns for periods greater than 1 year are annualized. Returns do not include fees and actual returns experienced by an investor may differ from those shown. Past performance is not a guarantee of future results.