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Looking Back After Five Years

Mike reviews how Hillside Wealth has grown over the past 5 years.

Life has changed a lot over the last 5 years. In September 2014, my daughter Julia was a newborn, her brothers Evan and Kai were 4 and 5. Julia was doing usual baby stuff; cooing, smiling (maybe) and feeding. Kai and Evan were just getting their feet underneath them on the ski hill, catching shiners off the dock and banging on toy musical instruments.

Professionally, I had just arrived at HollisWealth and was busy settling in with our new investment dealer. **Hillside Wealth** had not yet started; however, Jason had begun managing money under our current methodology at his previous firm: owning concentrated positions of high-quality companies that consistently produce above average profitability metrics.

Five years later, **Hillside Wealth** is a major part of our lives and we're thrilled with how it has grown. There are two key ingredients to the recipe: **efficiency** and **passion**.

The **efficiency** component comes from us being Portfolio Managers (PMs) which allows us to trade discretionarily on your accounts. This means that when we recognize an opportunity or risk, we can make the necessary trade(s) to address the situation on your and the rest of our clients' accounts quickly and simultaneously.

Having discretionary authority to make trades without having to call each client and get verbal approval is something that we've worked hard to achieve. Roughly 90% of advisors do not have the necessary credentials, experience or assets under management to be PMs. It's one thing to have the ability for increased efficiency, and it's another to use it effectively. Think of it like a carpenter who uses a hand saw when they could be using a skill saw – it doesn't do them, or the home owner, much good.

Discipline generates exceptional results. We knew that if we wanted exceptional results for you, we needed to be extremely disciplined when it came to portfolio management. We made a conscious decision to ensure that we moved all our clients not only onto our managed platform, but into one of our three model portfolios so that we knew exactly where everyone's assets were invested at any given moment.

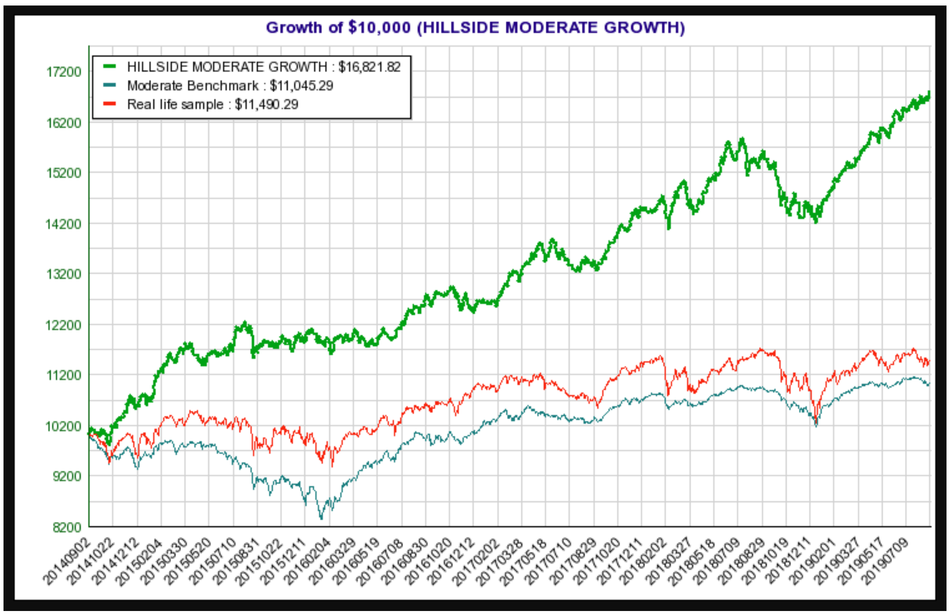
Before we reached this milestone, each client account was invested in similar investments, but if we needed to buy or sell a security it had to be done client-by-client, account-by-account, and it took forever. This trading environment meant that we couldn't use individual stocks as the main investment vehicle for our clients. For example, if it was time to sell Valeant and buy Constellation Software, it would take months to speak directly with each client, place each trade, and make notes on each file. By the time all of that was done, the trade idea (to steal a line from Roger Waters) was a distant ship's smoke on the horizon.

Now your accounts are watched daily, contain our best ideas and changes can be made to your and all of our other clients' accounts simultaneously with everyone getting the same price. This environment makes life better for all those involved at **Hillside Wealth**; we became more efficient and passed those efficiencies onto our clients.

Passion is an ingredient that you can't buy or manufacture. This makes it scarce and valuable. We are passionate students of the markets: we never stop reading, analyzing or researching. We follow everything about the markets and from the brightest minds that have ever worked in finance. We're also compassionate when it comes to working with our clients; this isn't new in the last 5 years, mind you. We want nothing but the best for the people who have chosen **Hillside Wealth** to lead them into the financial future. To have the passion without the efficiency or efficiency without the passion would make **Hillside Wealth** average. Having both makes **Hillside Wealth** special.

When we receive a referral from existing clients (which is currently where all our new clients come from), we typically see a portfolio invested in mutual funds and Exchange Traded Funds (ETFs) and the referral has little idea what their retirement will look like. The mutual fund or ETF typically holds 80-200 positions and the portfolio will have 5-8 funds, meaning they have somewhere between 400 and 1000 positions buried in their portfolio, many of which are duplicated from one fund to the next. Their fees are typically 1.75%-2.5% and structured in a way that their portfolio is not tax deductible for non registered accounts. We show them how we can reduce their fees, make them tax deductible on a non registered account, clean up their portfolio and show them what they need to do to have the retirement they want.

One recent referral fit this bill almost to a tee, except rather than being 5-10 years out from retirement, they were 20 years out. They were paying an average fee of 2.46%, had $500,000 invested and were earning a rate of return of around 3% compounded annually in a balanced portfolio with a similar asset allocation to our Moderate Growth model portfolio. Here's a graphical comparison of their portfolio vs our moderate growth model:



> *"To have the passion without the efficiency or efficiency without the passion would make Hillside Wealth average.*
>
> *Having both makes Hillside Wealth special."*

Source: SIACharts.com

Had they been with us for the last 5 years, they'd be ahead by over 6% compounded annually; on a $500,000 portfolio over 5 years that is a difference of $189,000. If we look at what they'd have 20 years from now under these same assumptions, they'd be ahead by $3.2m by going with the Moderate Growth Model. Past performance doesn't give us the right to carry that forward into the future, we completely understand that, but complacency can be very expensive.

Although much has changed over the last 5 years, a lot also remains the same. We've always believed that you deserve the best service we can deliver. We are pro-active, and when we do have to react to something, we react quickly. We want to enjoy working with all our clients and we want them to enjoy working with us. Taking great care of you will always be a priority for **Hillside Wealth** , which means we need to tell you what you need to hear, not necessarily what you want to hear. We will continue to deliver clear and candid advice.

Back in 2014, Jason and I were each on our own managing $30m in client assets. Together at **Hillside Wealth**, we manage $140m; this is all to say that when people have the freedom to do what they love and what they do best, they put themselves and those that they are working for in a position to succeed, and earned success is satisfying. We want to continue to improve and grow **Hillside Wealth**.

I can tell you that today, Julia is a force and does all the things her brothers did 5 years ago, and September 4th was her first day in kindergarten. Kai and Evan are downloading piano music from the internet and playing some of their favourite tunes themselves, catching and netting 20lb salmon all on their own (with my verbal encouragement of course), and skiing better than I could have ever imagined possible at their ages.

So as fast as 5 years can pass, a lot can change in our lives, both personally and professionally. We have big plans for **Hillside Wealth** and 5 years from now we look forward to updating you on our business and how it's evolved. We welcome your feedback and thank you for reading.

Portfolio Update

September 2nd, 2019 marked our 5-year performance anniversary for our flagship managed portfolios: Hillside Moderate Growth, Hillside Income & Growth, Hillside Growth. Jason looks at our performance over this time.

This will be **a long letter** and I've decided to parse it into three sections. Each section is designed to appeal to readers with differing levels of sophistication and interest in our work. It is also my goal to have each section stand alone; in short, if you read only one of the three sections, you'll have a firm understanding of our approach. Naturally, we invite you to read all three sections but appreciate that not all our readers care to know our 5-year Sharpe ratio value.

READER TIP: Click on underlined text to jump to the applicable section!

Section A: Our Beliefs and Commitments. This section should appeal to all but will particularly resonate with our clients who don't have a keen understanding or interest in the capital markets or portfolio management.

Section B: Our Process and Results**.** We will remind our readers of our process. This section will appeal to clients who follow what we own and are interested in the application of our investment approach. We will outline the financial metrics of companies that we feel make exceptional investment choices.

Section C: Returns and Statistics

We will present return information and statistics that will appeal to… finance geeks like me!

I'm going to leave the personal touches until next month's newsletter. We had a fabulous summer at our cabin on Bowyer Island (Howe Sound) and I look forward to sharing with you our adventures and how we built an off the grid smart cabin!

Section A: Our Beliefs and Commitments

I spent the better part of 15 years managing money according to portfolio management conventions. Here are a few such 'accepted wisdoms' in our industry and academic curricula:

1. The market reflects a flow of perfect information and price discovery. Trying to beat the market is foolish.
2. More diversification is better; always be exposed to as many sectors, asset types and geographies as your asset base will allow.
3. Portfolio management should be a collaborative team approach.

Mid-2014, I tore up the rule book. I had had enough of managing money in a way that was producing average to below average results. During the 'meh' years of managing money, I spent a lot of time reading and researching the very best money managers. A clear picture to producing outsized and index beating returns emerged and is now the central premise of our approach: **if we can identify and isolate companies that possess above average financial metrics, own them in concentration and watch them like hawks, we should, over a reasonable timeframe, achieve superior performance when compared to an underlying index or composite benchmark.**

Below we share a few of our philosophies as they pertain to our investment management process:

1. **Courage builds independence**: there are but a few money managers in Canada who emphasize margins and returns on equity than the traditional metrics of EPS (earnings per share) and P/S (price/sales). Whenever I explain our process to someone, invariably the first words out of their mouths are: 'why doesn't everyone do this?' The simple answer is there is comfort in crowds and consensus thinking. If a portfolio manager (PM) hugs an index, it is, by definition, impossible for them to meaningfully outperform the index but at the same time they are unlikely to lose their jobs. There is comfort and safety in group thinking. We are laser focused on putting our clients in a position to outperform. To outperform, we need to be courageous and have the professional independence required to execute our strategy. Many firms require their advisors and PMs to 'stay in their lanes' and invest in an 'approved list' of securities and/or hug an index. Hollis (and Industrial Alliance) provide us the vital and necessary independence; this may not be obvious to our clients but it is well worth noting because this is also the exception not the norm. As a reminder one of the key reasons Mike and I chose to move to Hollis from our previous dealers was due to us being able to offer unfettered and unbiased advice and solutions to our clients.
2. **Data drives decisions:** We employ a scientific approach to our work. We test hypotheses, quantify results and use data to drive our portfolio management techniques. We have spent a great deal of time and effort in developing our process. My computer is a trove of Excel spreadsheets, corporate financial statements and ranking lists. While some PMs visit corporate headquarters and speak regularly with management, we have not found this to be an effective use of our analytical efforts. Rather, we find that studying the financial metrics and trends in those metrics to be a far more effective. While it's true that there have been a few companies that have 'cooked their books' over the years (think Enron, Worldcom, Nortel) this is rare. The norm is the financials of a company offer direct insight into the effectiveness of management and their business model. To help in the analysis of these results, we have collaborated with a group of students at BCIT who have helped us build a custom software solution. This solution helps automate a lot of the monotonous analytical work we do and allow us to focus on digging deeper into the companies that meet our criteria. We are very excited to have this new tool in our arsenal!
3. **Discipline consistently generates exceptional results:** In business as in life, it is easy to become distracted or sidetracked. Over the past 5 years, it has become abundantly clear to us that our number one job is to consistently execute our strategy. This means adhering to a strict schedule of running our stock screens, maintaining our database of attractive securities and making necessary adjustments. Producing exceptional results that are robust and repeatable requires strong discipline. This is due to the nature of how we win in this game. **Imagine** two different PMs who both generate exceptional results over a 5-10 year period of time. PM1 does this by generating a small number of big wins while PM2 achieves the result by generating a large number of small wins. Which would you prefer? We prefer the latter. More small wins is also a lower risk strategy than the fewer large win approach. In order to produce a large number of small wins, it becomes obvious that one must have a disciplined approach!

In short, your wealth management team is bold and provocative in our thinking. We have a process that successfully identifies attractive investment opportunities. We have systems in place that ensure we approach our work with discipline and consistency. We have a dealer that gives us complete freedom and independence in executing our simple agenda: producing the very best risk adjusted returns for our clients. We are pumped for the next 5 years!

Section B: Our Process and Results

Below we provide a detailed summary of our process and results.

1) Results
2) Our Selection Process
3) Our Composition versus the S&P/TSX
4) Diversification

1. Results

Below is a table of our target returns, asset allocation ranges and actual returns for the past 5 years. Greater detail can be found in Section 3.

Portfolio	Min Fixed Income	Target ROR	Actual ROR
HILLSIDE MODERATE GROWTH*	**30%**	**5-7%**	**11.02%**
HILLSIDE GROWTH*	**0%**	**>10%**	**9.74%**
HILLSIDE INCOME & GROWTH*	**50%**	**3-5%**	**8.61%**

** Performance is presented gross of fees and annualized.*

Below is a detailed table of our 5-year performance numbers compared with corresponding mutual fund categories.

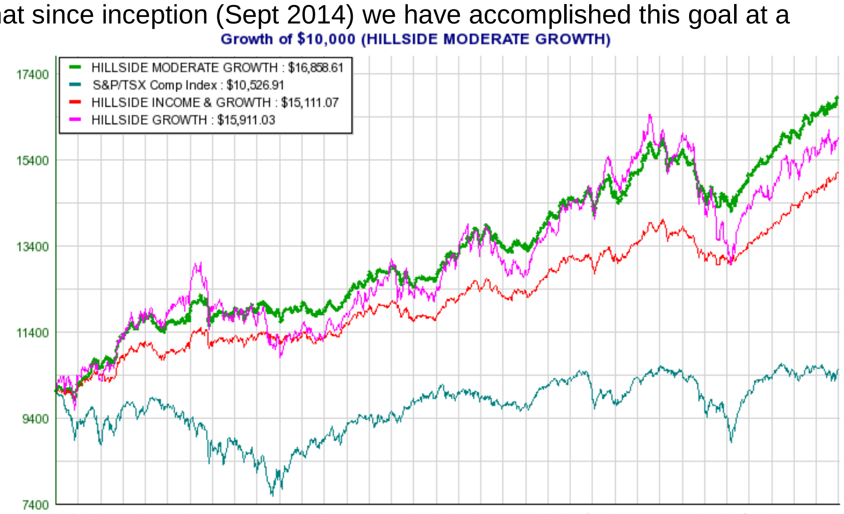
Portfolio	Fund Category	Our Return*	Best Fund	Average Fund	Worst Fund
HILLSIDE MODERATE GROWTH*	**Canadian Equity Balanced**	**11.02%**	**10.04%**	**4.40%**	**-2.38%**
HILLSIDE GROWTH*	**Canadian Focused Equity**	**9.74%**	**13.46%**	**5.79%**	**-4.73%**
HILLSIDE INCOME & GROWTH*	**Canadian Fixed Income Balanced**	**8.62%**	**5.08%**	**3.72%**	**-2.52%**

** Performance is presented gross of fees and annualized.*
*** When compared with corresponding mutual fund categories:*

- *Hillside Income & Growth compared with 'Canadian Fixed Income Balanced' fund category: 216 funds*
- *Hillside Moderate Growth compared with 'Canadian Equity Balanced' fund category: 191 funds*
- *Hillside Growth compared with 'Canadian Focused Equity' fund category: 201 funds*
- *Source: www.morningstar.ca & www.cifsc.org*
- *F Class Fund Performance is used.*
- *All return figures are compounded 5 year returns to August 30, 2019.*

It should be noted that we are not a mutual fund company nor are our portfolios structured as mutual fund trusts. The Canadian mutual fund industry is large. There are thousands of mutual funds and hundreds of fund companies managing over $1.4 Trillion in assets. We therefore believe this is the most obvious space for us to compare our performance. Let's look at a graph of the performance of our three portfolios versus the S&P/TSX Index (below right).

The results noted above are a testament to our process and by extension the group of exceptional companies we own. Let there be no confusion: our job is to identify and own high quality businesses and put our clients in a position to outperform. We are pleased to be able to report that since inception (Sept 2014) we have accomplished this goal at a level that has exceeded our expectations. It was never our goal to beat every comparable mutual fund in the corresponding categories; frankly most fund/portfolio managers are pleased if they achieve top quartile (25%) performance. Yet, here we are 5 years later and two of our portfolios have done just that.



Source: SIACharts.com

This is great and all but what does this mean?... what can we glean from these results as we move forward? To us, it's simple and best illustrated with a brief history of how we got here: We developed a theory/hypothesis based on ~20 years of study of the greatest investment managers of yesterday and today. We tested the theory (mostly with our own money) and were encouraged by the results. We then took the leap and began to run our client money using the same process. To us, our results are proof that we are on the right track. At the risk of sounding complacent (because we are assuredly NOT!) we need to focus on keeping it simple.

2. Our Selection Process

We have a simple process that allows us to narrow down the universe of companies we are interested in. Through extensive research we've identified the single most important financial metric; the 'profit marker' of a company if you will: **return on equity (ROE).** Over time the ROE of a company will be closely related to the performance of the company's stock (value of the company). We are therefore interested in companies that have a high level of ROE and have proven the ability to sustain this high level over extended periods of time. These companies are the true compounders of wealth.

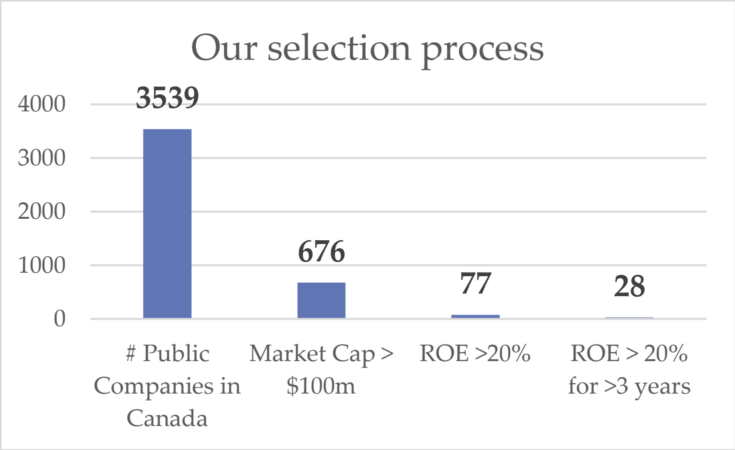
The ROE formula is a simple equation:

$$\frac{Net\ Income}{Shareholder\ Equity}$$

We've found that understanding this formula in the context of a rental property is more familiar:

$$\frac{Net\ Rental\ Income}{Home\ Equity\ (value\ of\ home - outstanding\ mortgage)}$$

The average ROE of the market is 7%. Our screen is simple: we are looking for companies with a market cap greater than $100m, cash ROE over 20% and the company has delivered these returns for at least 3 years in a row. **In short, we are looking for companies that are on average at least 3 times more successful at creating shareholder value than the general market. It therefore seems to reason that if we solely focus on companies that possess above average financial metrics that we should be able to outperform the stock market over reasonable periods of time.** We've been successful in this endeavor and have no reason to believe this outperformance cannot continue. We are comfortable communicating our screen to the investment, investor and advisor communities because, while on the surface it seems simple, in practice it is not. The 'secret' in our process is converting the reported ROE to the 'cash ROE.' Effectively we add back in non-cash items to derive this figure and it requires a fair amount of sophistication and work. Most portfolio managers miss this crucial step!



Our selection process (left) highlights the most recent result of our screen in Canada. The ratios are similar for the US market and any market for that matter.

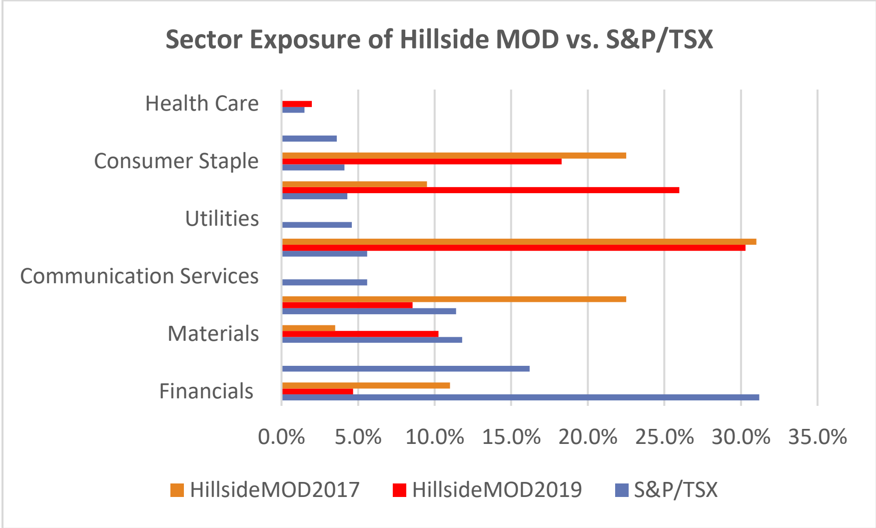
There are fewer than 0.8% of companies in Canada that pass our screen! If we only consider those with market capitalizations of more than $100m, we are interested in ~4% of those companies. As we often quip 'we are hunting with a sniper rifle, NOT a shotgun!'

3. Our Composition versus the S&P/TSX

The Canadian stock market is poorly diversified. Over 70% of the index constituents are in four sectors: financials, energy industrials & materials. Our process is agnostic when it comes to sector exposure. It goes without saying that we will never have all our exposure in one sector, but we will never try to shoe horn a stock into our portfolio simply because it's in a sector we feel we should have exposure to. At right is a table that compares our sector exposure in the Hillside Moderate Growth (HillsideMOD2019) portfolio versus the S&P/TSX index and our sector exposure on our 3- year performance anniversary (HillsideMOD2017).

A few observations:

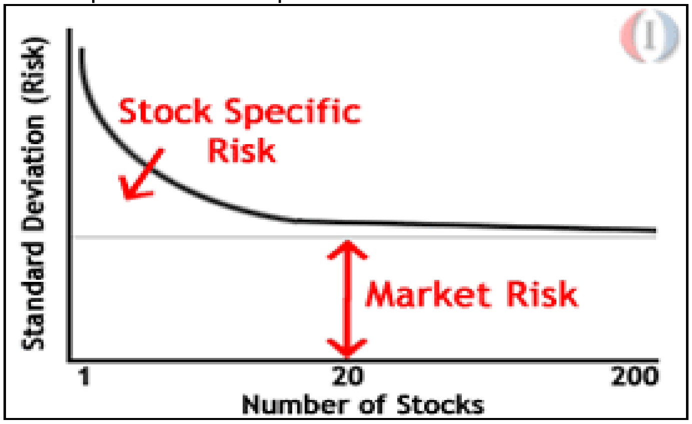
1. We have no exposure to 4 sectors: Energy, Real Estate, Communication Services & Utilities.
2. We are very underweight 1 sector: Financials.
3. We are very overweight 3 sectors: Consumer Staples, Consumer Discretionary & IT.
4. We are market weight 2 sectors: Industrials & Materials.
5. Our sector exposure hasn't really changed that much in the last 2 years. We have markedly less Industrial exposure and more Consumer Discretionary exposure but on the whole fairly consistent.



At the risk of stating the obvious, it is impossible to outperform a given index if your portfolio has the same composition as the index! As we can see above, we don't look like the index!

4. Diversification

There is a myth in the investment world that more diversification is better than less. Below is a fabulously powerful chart that helps illustrate the point that more diversification isn't always best.



Source: Investorpedia.com

There are two types of risk when investing in stocks:

1. ***Stock specific risk***: this is the risk specific to one company or a small group of companies. When Enron went under, this affected Enron shareholders but not necessarily shareholders of other companies.
2. ***Market risk***: this is risk that affects the broad market. In 2008, for example, almost all stocks dropped during the financial crisis. This risk is always present. The only way to diversify away this risk is to hold your money under a mattress!

We can see in the above chart that most of the stock specific risk is diversified away by the ~20th position in a portfolio. In fact, 96% percent of stock specific risk is gone by the time we reach the 20th position in a portfolio. There is only a further 4% of diversification benefit achieved between the 20th and 200th position in a portfolio! This means the ideal number of equity holdings in a portfolio is 15-25. This is very powerful because it means we do not need to relax our selection criteria such that more companies will drop through our screen.

Why is it that we have been led to believe that more diversification is better? For the very simple reason that the people telling us this (large fund companies and banks) have gobs of funds to invest and by default they MUST own hundreds of companies. We have the luxury of being (relatively!) small, nimble and picky. Be warned, there is A LOT of graphs, stats and data below. Some important points are highlighted with some colour provided.

Section C: Returns and Statistics

1. Detailed performance summary
2. Benchmark Changes & Discussion
3. Drawdown Analysis
4. Portfolio Statistics
5. Hillside Statistics

1. *Detailed performance summary*

An overview of our three portfolios to date:

Performance to Aug 31, 2019	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception**	Added Value vs. Benchmark**
HILLSIDE MODERATE GROWTH*	**15.91%**	**2.07%**	**10.76%**	**8.31%**	**9.93%**	**11.02%**	**11.02%**	**+5.93%**
MG Benchmark[1]	*11.31%*	*-0.74%*	*4.74%*	*5.14%*	*5.60%*	*5.09%*	*5.09%*	
HILLSIDE GROWTH*	**18.26%**	**0.39%**	**8.47%**	**0.09%**	**9.31%**	**9.74%**	**9.74%**	**+3.86%**
HG Benchmark[2]	*12.96%*	*-0.13%*	*1.53%*	*-0.25%*	*7.61%*	*5.88%*	*5.88%*	
HILLSIDE INCOME & GROWTH*	**14.59%**	**2.56%**	**11.43%**	**9.48%**	**8.19%**	**8.61%**	**8.61%**	**+3.86%**
IG Benchmark[3]	*10.54%*	*0.91%*	*5.10%*	*5.95%*	*4.92%*	*4.76%*	*4.76%*	

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.*
[1] *MG Benchmark: 100% Vanguard Balanced ETF*
[2] *HG Benchmark: 100% Vanguard All-Equity ETF*
[3] *IG Benchmark: 100% Vanguard Conservative ETF*
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.

Moderate:

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	2.53%	2.06%	1.69%	3.13%	0.12%	1.81%	0.98%	2.58%					15.91%
2018	1.39%	0.67%	-0.49%	0.81%	2.92%	1.50%	-1.80%	2.91%	-2.01%	-4.98%	0.34%	-0.28%	0.77%
2017	-0.45%	3.31%	2.94%	1.73%	1.45%	-2.05%	-2.00%	1.40%	1.86%	3.72%	2.01%	-0.17%	14.49%
2016	-0.73%	0.10%	0.77%	-2.16%	2.43%	0.12%	3.05%	2.05%	0.75%	1.05%	-2.35%	-0.25%	4.84%
2015	4.70%	2.22%	2.00%	-2.68%	1.54%	-0.11%	4.67%	-4.13%	1.21%	0.18%	1.14%	0.60%	11.62%
2014									1.11%	1.78%	4.76%	-0.11%	7.70%

11.02%	2.07%	0.6628
Compound Annual Growth Rate	Monthly Standard Deviation	Correlation to Moderate Benchmark

Source: SIACharts.com

We've yet to experience a negative year. The correlation is low, which is to be expected given we don't hug indices.

Growth:

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	6.14%	2.72%	-1.02%	6.14%	-1.94%	2.61%	1.12%	1.45%					18.26%
2018	1.72%	0.68%	1.20%	0.94%	3.69%	0.18%	-3.82%	5.69%	-2.60%	-8.28%	-3.20%	-2.90%	-7.18%
2017	-1.21%	5.75%	5.13%	-1.07%	3.30%	-4.36%	-3.09%	0.64%	5.05%	2.42%	3.75%	1.18%	18.30%
2016	-3.71%	0.02%	1.83%	-2.67%	4.00%	-0.03%	4.01%	0.61%	2.15%	3.91%	-4.08%	-1.59%	4.11%
2015	5.37%	3.38%	1.31%	-1.79%	2.87%	0.69%	6.95%	-7.35%	-1.10%	-0.17%	2.05%	-1.76%	10.16%
2014									3.77%	2.00%	1.20%	-0.31%	6.80%

9.74%	3.36%	0.6250
Compound Annual Growth Rate	Monthly Standard Deviation	Correlation to Growth Benchmark

Source: SIACharts.com

Income & Growth:

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2019	1.32%	1.50%	1.85%	2.26%	1.65%	1.32%	0.97%	2.85%					14.59%
2018	0.23%	0.42%	0.20%	0.12%	2.47%	1.41%	-1.59%	2.15%	-1.82%	-2.94%	-0.19%	0.28%	0.67%
2017	-0.72%	2.75%	2.11%	1.68%	1.05%	-1.93%	-1.58%	1.70%	1.02%	3.24%	1.90%	-0.17%	11.52%
2016	-0.32%	-0.16%	0.42%	-1.87%	2.27%	0.81%	2.69%	1.11%	0.75%	0.75%	-2.39%	-0.68%	3.37%
2015	5.00%	1.51%	1.16%	-2.86%	1.42%	0.19%	4.11%	-3.08%	1.19%	-0.18%	0.73%	0.74%	10.12%
2014									0.37%	2.31%	2.39%	-1.91%	3.15%

8.61%	1.72%	0.6354
Compound Annual Growth Rate	Monthly Standard Deviation	Correlation to Income & Growth Benc

Source: SIACharts.com

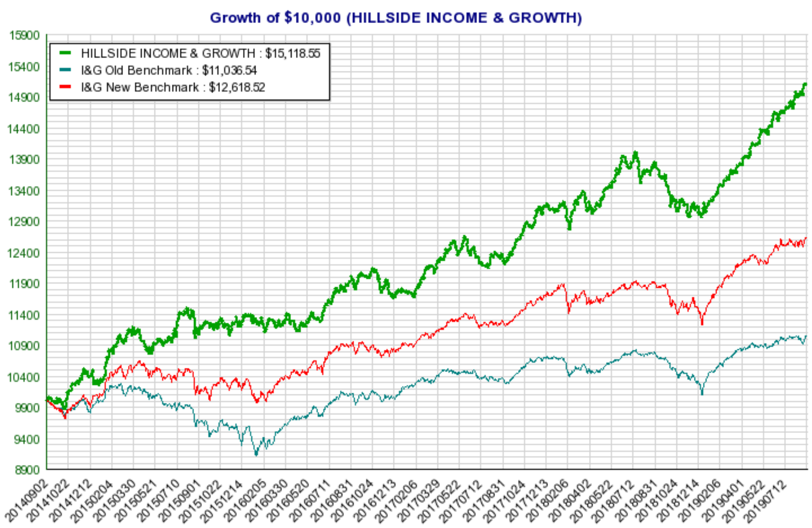
It's interesting to see the correlations of the three portfolios in a very tight 0.62-66 range

2. *Benchmark Changes & Discussion*

Formulating a representative benchmark is tricky. When we started managing money in 2014 using this new methodology, we built benchmarks that reflected how our portfolios were weighted in 2014. Over time, our portfolios have drifted away from these original weights rendering our current benchmarks less meaningful. If our portfolios were singularly focused (Japanese Equity or US Corporate Bond) the benchmarking would be simple. We'd measure ourselves against a broad Japanese Equity index or US Corporate Bond index. This however isn't the case. For example, in 2014 we did have 20% exposure to Canadian Preferred shares via CPD and now we have none. We therefore feel that we need broad indices in our benchmarks. In our opinion Vanguard is the best ETF company. They have recently launched their 'one fund solution' strategy which is an ETF of ETFs. For example, their 'Vanguard Conservative ETF Portfolio' holds 7 Vanguard ETFs. The asset split is 60% fixed income and 40% equity. This is a perfect match to our neutral positioning in the "Hillside Income & Growth" portfolio. Unfortunately, these 'one solution' ETFs have only been around since early 2018. However, the underlying ETFs of the 'one solution' ETFs have all been around since prior to our inception date of Sept 2, 2014. In short, we are changing the benchmarks as per below. We do not anticipate making further changes to our benchmarks ever again.

Hillside Income & Growth

Below is a graph comparing our "Hillside Income & Growth" portfolio to the old and new benchmarks:

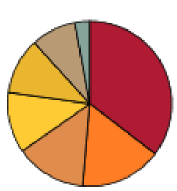


	OLD BENCHMARK	NEW BENCHMARK
CANADIAN UNIVERSE BOND INDEX	55%	0%
S&P/TSX CDN PREF INDEX	20%	0%
S&P/TSX CAPPED INDEX	25%	0%
VANGUARD CONSERVATIVE ETF	0%	100%

Source: SIACharts.com

The Vanguard Conservative ETF has 40% allocated to equities and 60% to fixed income as per:

Allocation to the underlying funds

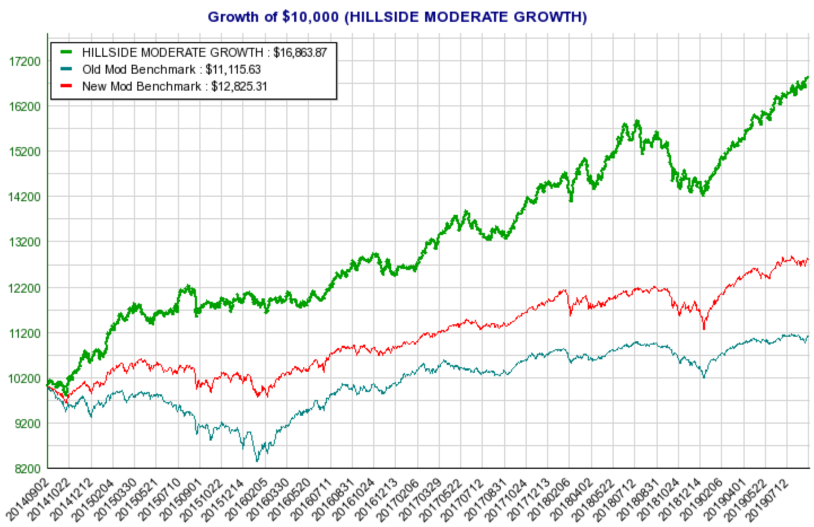


Vanguard Canadian Aggregate Bond Index ETF	35.4%
Vanguard US Total Market Index ETF	16.0
Vanguard Global ex-US Aggregate Bond Index ETF CAD-hedged	13.9
Vanguard FTSE Canada All Cap Index ETF	11.9
Vanguard US Aggregate Bond Index ETF CAD-hedged	11.0
Vanguard FTSE Developed All Cap ex North America Index ETF	8.9%
Vanguard FTSE Emerging Markets All Cap Index ETF	2.9

Source: https://www.vanguardcanada.ca/advisors/mvc/loadImage?country=can&docId=12394

One minor adjustment: the "Vanguard FTSE Developed All Cap ex North America Index ETF" (say that 3 times quickly!) has only been around since 2015. We are therefore substituting it with the "*Vanguard FTSE Developed All Cap ex U.S. Index ETF*" which has been around since 2013.

Hillside Moderate Growth

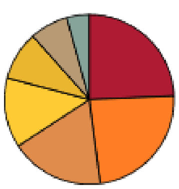


	OLD BENCHMARK	NEW BENCHMARK
S&P/TSX SMALL CAP INDEX	15%	0%
CANADIAN UNIVERSE BOND INDEX	35%	0%
S&P/TSX CDN PREF INDEX	20%	0%
S&P/TSX CAPPED INDEX	30%	0%
VANGUARD BALANCED ETF	0%	100%

Source: SIACharts.com

The Vanguard Balanced ETF has 60% allocated to equities and 40% to fixed income as per:

Allocation to the underlying funds



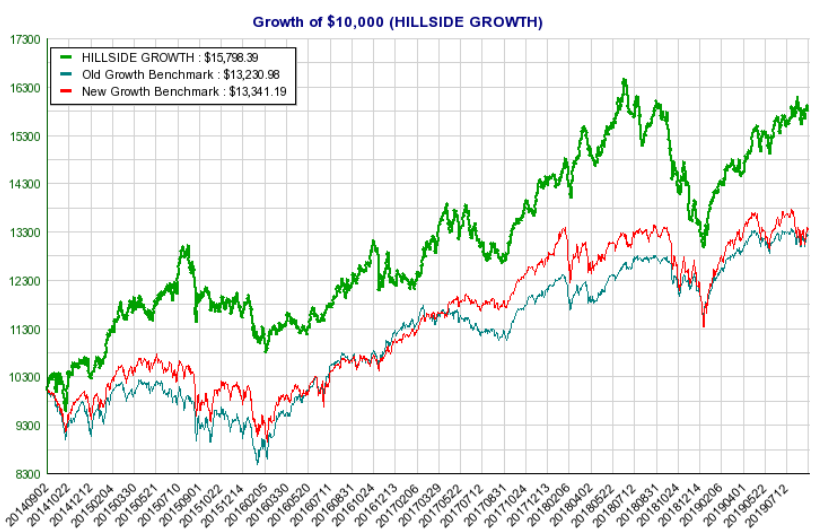
Vanguard US Total Market Index ETF	24.3%
Vanguard Canadian Aggregate Bond Index ETF	23.6
Vanguard FTSE Canada All Cap Index ETF	17.9
Vanguard FTSE Developed All Cap ex North America Index ETF	13.3
Vanguard Global ex-US Aggregate Bond Index ETF CAD-hedged	9.3
Vanguard US Aggregate Bond Index ETF CAD-hedged	7.3%
Vanguard FTSE Emerging Markets All Cap Index ETF	4.3

Source: https://www.vanguardcanada.ca/advisors/mvc/loadImage?country=can&docId=12397

As per above we have substituted the "*Vanguard FTSE Developed All Cap ex North America Index ETF*" for the "*Vanguard FTSE Developed All Cap ex U.S. Index ETF*."

Below is a graph comparing our "Hillside Moderate Growth" portfolio to the old and new benchmarks:

Hillside Growth

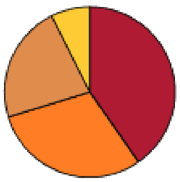


	OLD BENCHMARK	NEW BENCHMARK
S&P/TSX SMALL CAP INDEX	25%	0%
S&P/TSX INDEX	50%	0%
S&P 500 INDEX	25%	0%
VANGUARD ALL-EQUITY ETF	0%	100%

Source: SIACharts.com

The Vanguard All-Equity ETF has 100% allocated to equities as per:

Allocation to the underlying funds as of December 31, 2018.



Vanguard US Total Market Index ETF	40.3%
Vanguard FTSE Canada All Cap Index ETF	29.9
Vanguard FTSE Developed All Cap ex North America Index ETF	22.4
Vanguard FTSE Emerging Markets All Cap Index ETF	7.4

Source: https://www.vanguardcanada.ca/advisors/mvc/loadImage?country=can&docId=18889

As we can see above, all three new benchmarks have performed better than our old benchmarks. We look forward to the continued challenge of providing our clients with index beating returns.

3. *Drawdown Analysis*

Below is the top 5 drawdowns for each portfolio. We see how long each drawdown took to play out as well as the length of the ensuing recovery. Note that the Growth portfolio, while close, has yet to recover from its most recent drawdown.

Moderate:

Depth	Length	Recovery	Peak	Valley
-10.53%	5	9	Jul-18	Dec-18
-5.86%	0	11	Aug-15	Aug-15
-4.73%	1	4	Jun-17	Jul-17
-4.49%	1	2	Mar-18	Apr-18
-4.42%	1	1	Jan-18	Feb-18

Growth:

Depth	Length	Recovery	Peak	Valley
-21.18%	6	0	Jun-18	Dec-18
-16.94%	6	14	Aug-15	Feb-16
-8.78%	4	6	Apr-17	Aug-17
-7.76%	1	5	Oct-16	Nov-16
-7.72%	1	1	Sep-14	Oct-14

Income & Growth:

Depth	Length	Recovery	Peak	Valley
-7.54%	5	9	Jul-18	Dec-18
-4.18%	0	11	Aug-15	Aug-15
-4.09%	1	4	Jun-17	Jul-17
-4.07%	2	5	Oct-16	Dec-16
-3.91%	2	4	Mar-15	May-15

Source: SIACharts.com

4. *Portfolio Statistics*

The statistics below are really displayed more out of interest than as a result of having impact on how we manage money. We can see that we generally are slightly more volatile than our benchmarks but that the Sharpe and Alpha metrics demonstrate that we are being compensated for higher volatility. This is seen by the Sharpe ratio of our portfolios being higher than the Sharpe ratio of the benchmarks as well as the Alpha metric for all three being above 1.0.

Moderate:

	Hillside Moderate Growth	Moderate Benchmark
Annualized Compound ROR	11.02%	5.13%
Annualized Std. Deviation	7.16%	5.13%
12 Month Return	8.3%	5.28%
Winning Months	71.67%	68.33%
Average Monthly Gain	1.86%	1.18%
Average Monthly Loss	-1.57%	-1.22%
Monthly Std. Deviation	2.07%	1.48%
Sharpe Ratio	1.338	0.876
Alpha	1.565	
Beta	0.926	
R-Squared	43.96	
Trailing Twelve Month Yield	1.04%	

Growth:

	Hillside Growth	Growth Benchmark
Annualized Compound ROR	9.74%	6.03%
Annualized Std. Deviation	11.64%	9.89%
12 Month Return	0.09%	0.1%
Winning Months	63.33%	68.33%
Average Monthly Gain	2.83%	1.99%
Average Monthly Loss	-2.64%	-2.63%
Monthly Std. Deviation	3.36%	2.85%
Sharpe Ratio	0.714	0.605
Alpha	1.131	
Beta	0.734	
R-Squared	38.94	
Trailing Twelve Month Yield	1.05%	

Income & Growth:

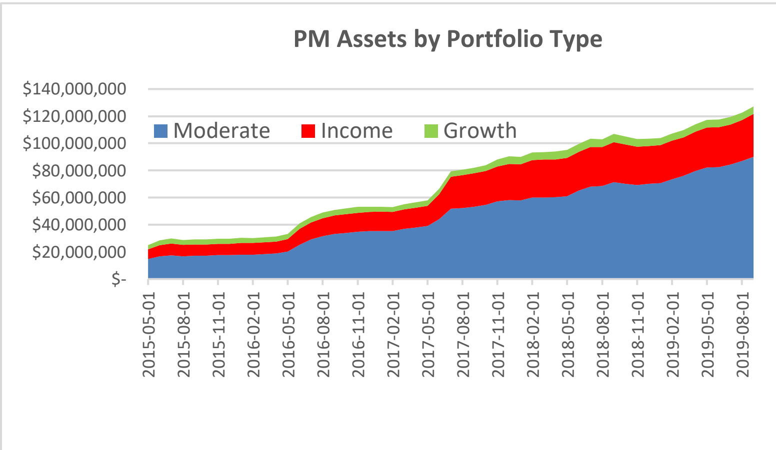
	Hillside Income & Growth	Income & Growth Benc
Annualized Compound ROR	8.61%	4.78%
Annualized Std. Deviation	5.97%	4.39%
12 Month Return	9.47%	6.03%
Winning Months	71.67%	68.33%
Average Monthly Gain	1.54%	1.06%
Average Monthly Loss	-1.43%	-1.05%
Monthly Std. Deviation	1.72%	1.27%
Sharpe Ratio	1.247	0.929
Alpha	1.132	
Beta	0.865	
R-Squared	40.43	
Trailing Twelve Month Yield	1.22%	

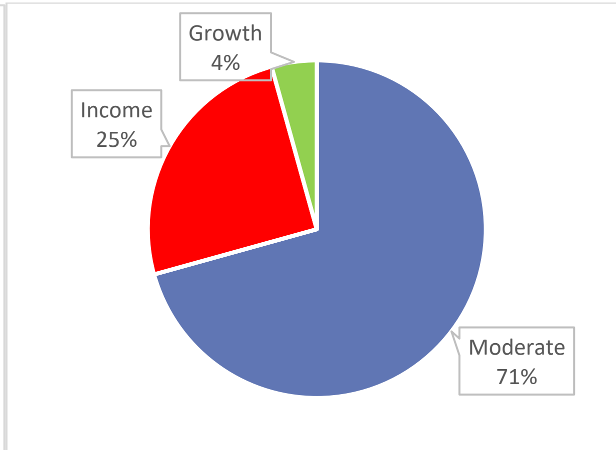
Source: SIACharts.com

5. Hillside Statistics

Please pat yourself on the back if you're gotten this far!

Below, left, illustrates the time series of the growth in our asset broken down by the three portfolio types:





Source: Hillside Wealth

While above, right, describes the percentage breakdown between the three portfolios.

As you can see, we've seen steady growth in our AUM. We have also experienced a fairly steady mix of what our clients own with the vast majority in the Income & Growth or Moderate Growth portfolios.

It's been a great 5 years, please feel free to pass on our results to those you care about and we'll keep working hard to make sure we're giving you our best.

In The News

Don't miss our latest articles and interviews.

Set your calendars to catch Jason Del Vicario's next guest appearance on the September 23, 2019 episode of BNN's Market Call Tonight where he will share his top picks and answer viewer questions on North American Growth Stocks.

Follow us on Twitter – @hillside_wealth @jasondelvicario

Follow us on LinkedIn: Jason Del Vicario and Michael Preto

Like our page on Facebook – Hillside Wealth Management

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.