



June 2020

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WHEN THE FOG ROLLS IN, STAY THE COURSE

Mike Preto, CFP®

Getting lost in the fog in a small boat off the West Coast is not fun. Yes, I speak from experience. It was back in August, also known as “Fogust” on the west coast, circa 1990. We were visiting our close family friends out on the West Coast of Vancouver Island. I was keen to head out on the water and go fishing, but every morning the fog kept me on the beach. The rule was that I couldn’t go fishing unless I could see the reef, one of many in the area, which was about 1 mile from the cabin.

I woke up every morning, couldn’t see the reef, until finally one morning towards the end of the trip there it was. I jumped in the boat, took my compass bearing just in case, and set off. As I approached the reef, I slowed the boat down and started to set my gear. Once the gear was in, I looked up and I couldn’t see anything; completely socked in. I brought in the gear and grabbed my compass to set my course back to the cabin. As I was heading in, something just didn’t feel right, I was sure that I was headed way too far to the west, so I corrected my course a little to the East, then a little more, then before I knew it I was completely lost. Had I stuck to my course, I would’ve made it back with no problem. Instead I went with what felt right and took myself completely off course.

To say that the fog has rolled in on the financial world is an understatement. When we started adding back to some of our positions in mid April, it felt like the wrong thing to do, but now is not the time to be relying on instincts. Now is the time to keep things as simple as possible and do what your process tells you to. Our process pointed us in that direction, so we stayed the course and have continued to do so ever since.

Not only do we need to know what to do with the portfolios, you also need to know what to do on your end. The Navigator, the name of our retirement planning process, is designed to do just that. The goal is to protect your future lifestyle while enjoying life responsibly along the way. Our commitment to you is that you know exactly what you need to do going forward.

One of our main philosophies is that *discipline consistently generates exceptional results*. When it comes to retirement planning, discipline means regularly reviewing and updating the plan to make sure that we’re still on track. At any point through the year we can see where we’re at relative to your targets and what needs to be done by year end to stay on course.



WATCH JASON ON BNN MARKET CALL

Don't miss Jason's next guest appearance on BNN Bloomberg's #Marketcall on July 6 at 9:00 am PT (noon ET).

Jason will discuss North American Growth Stocks. The full episode will be [available online](#) shortly after airing.

If you want to watch live, please check with your local tv service provider for your local channel or access to the [live stream online](#).

Regardless of how challenging the conditions are, it's always easier to do the right thing when you know what you're supposed to be doing. It's our job, not yours, to communicate what you need to do and then we'll work with you to make sure it happens. To book some time with me to build/review your plan, please contact us and we'll get started right away.

It's also important to know why we're doing this; by why I mean, why are we managing your money and your retirement- what is it that you would like to do in life. When there's meaning behind the actions, it's easier for everyone to understand the importance of staying on course and the probability of the plan being followed increases. When you follow the plan, the probability of success increases. We want success for you, we want success for your family and yes, we want to be successful; win, win, win.

I got lucky that morning. I finally found land, miles away from where I was expecting to, pulled my boat up on a beach, waited for the fog to lift and limped my way home. Many lessons were learned that morning and it's my commitment to you to make sure that they're applied in your journey. We're looking forward to plotting your course, adjusting as needed along the way and celebrating with you when you arrive at your destination.

PORTFOLIO UPDATE: WIDENING THE NET IN SEARCH FOR GREATNESS

Jason Del Vicario, CFA

This past month we saw the equity markets continue to rally albeit remaining below their pre-pandemic peaks. We added to a few familiar companies (MasterCard, Microsoft, Constellation Software & Facebook) as well as a few foreign names that will most likely be unfamiliar to our readers: Kakaku.com, Rational AG and Rightmove PLC. I'd like to spend this month highlighting these foreign companies so that you may put a 'story to a face' sort of speak.

Let's start with the most obscurely named: [Kakaku.com](#). No; we haven't gone kuku at Hillside(!)... this is an exceptional business that I expect we'll own for a very long time. Kakaku.com is a Japanese internet company with two primary websites: a price comparison and product review website Kakaku.com (similar to Amazon minus the e-commerce) and a restaurant rating/booking website Tablelog (similar to OpenTable). Both sites operate in the Japanese market. Kakaku.com's business model is to create a website/service and provide it to consumers for free in order to build critical mass. Once the network effect is in full swing (more restaurants sign up and more consumers provide rating and use the website in a virtuous cycle) they will then move to monetize the site.



These two sites on their own would justify the investment case for Kakaku.com but the kicker to their business is they are always innovating and bringing new sites/services to market. They have no fewer than 10 'new media' solutions such as online bus tour and recruitment sites. We can see a description as well as revenue breakdown of the various business lines below:

Internet Media	Kakaku.com	Shopping Commission from registered shops, based on the number of clicks and sales performance. 【Clients】 EC Malls and Shops, Electronics Retail Stores, etc.	Service Commission based on the number of contracts for personal finance and telecommunications etc. 【Clients】 Service Providers, etc.	Advertising Advertising revenue from banner and text ads, content and search based advertising. 【Clients】 Consumer Electronics Manufacturers, etc.
	Tabelog	Restaurant Promotion Monthly fees for promotional services for restaurants as well as commissions based on online reservations. 【Clients】 Restaurants	Premium Memberships User fees for access to premium content. 【Clients】 Users	Advertising Advertising revenue from banner and text ads, content and search based advertising. 【Clients】 Beverage companies, etc.
	New Media and Solution / Finance	New Media and Solution Revenue generated by sites and service, such as Kyujin-box, Sumalty, Kinarino, Bus Hikaku Navi operated by LCL, Inc or Dynamic package reservation system developed by Time Design Co., Ltd.		
Finance	Finance Commission from general insurance business for life insurances and non-life insurance, etc. operated by Kakaku.com Insurance, Inc.			

Image Source 1 Kakaku.com

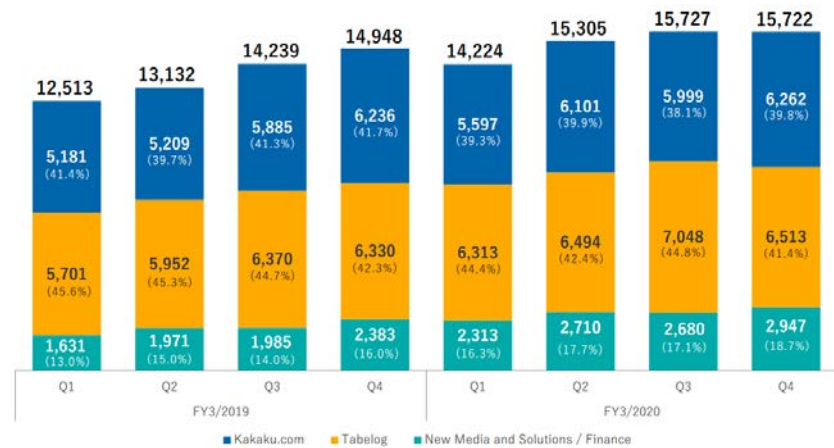


Image Source 2 Kakaku.com

It's worth noting that 'Tablelog' was one of the 'new media' sites they launched in 2006... I think we can accept that not all 10 of the 'new media' sites will be winners but if they can bat 10-20% we will be very happy shareholders. Kakaku.com is asset light meaning that it

COVID-19 OFFICE UPDATE

Our Hillside Wealth team continues to maintain a safe social distance by working from home.

Please know members of our team continue to be available at our usual phone extensions and email addresses (listed on the last page of this newsletter) during regular business hours.

We want to thank all of our clients for their support of our team as we continue operating as "business as usual" together.

doesn't require gobs of capital to increase earnings. Kakaku.com is very profitable; both in terms of margins and return on invested capital. Lastly, they have no debt; in fact they have excess cash on the balance sheet which we expect will provide support for rising dividends and/or re-investment back into the creation of more business lines. In short: unusual name & unusually profitable company!

For those wanting to learn more about Kakaku.com, please click on this excellent [report by Polen Capital](#).

Fun fact: the Japanese stock market was established in 1878 and trades between 5pm-11pm our time. The market stops for an hour lunch break mid-day. It is effectively only trades for 5 hours a day; 2 hours less than North American exchanges.

Ask: if anyone is traveling to Japan, it would be great if you could download Tablelog to your phone and report back on what you liked and didn't like about the app.

Popping across the Atlantic we have acquired shares in [Rightmove](#) PLC. Rightmove is the UK's most popular property search portal; think MLS equivalent in Canada. Rightmove in fact is the most frequented website in the UK as searching properties and dreaming of castles or estates is something of a British obsession; their motto is simply: FIND YOUR HAPPY. Rightmove benefits from a very powerful business model: two-sided network effect. The more buyers/sellers visit the site, the more agents want to list their properties and so on. MasterCard and Facebook also benefit from the same advantages.

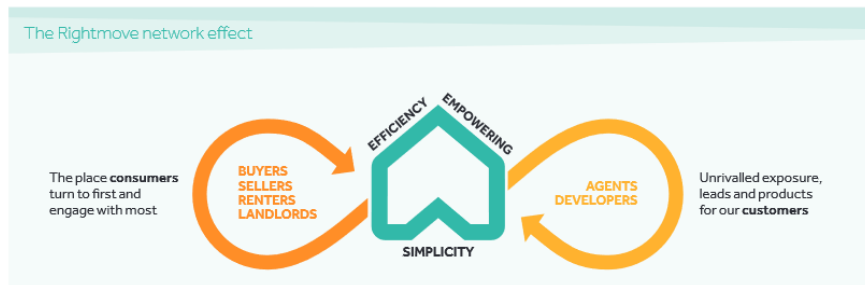


Image Source 3 www.rightmove.co.uk

Amazingly, some of Rightmove's competitors offer FREE listing services for agents. They however haven't been able to attract the 'eyes' as Rightmove and therefore continue to garner very small market share. If this isn't evidence of a very strong moat then I don't know what is!

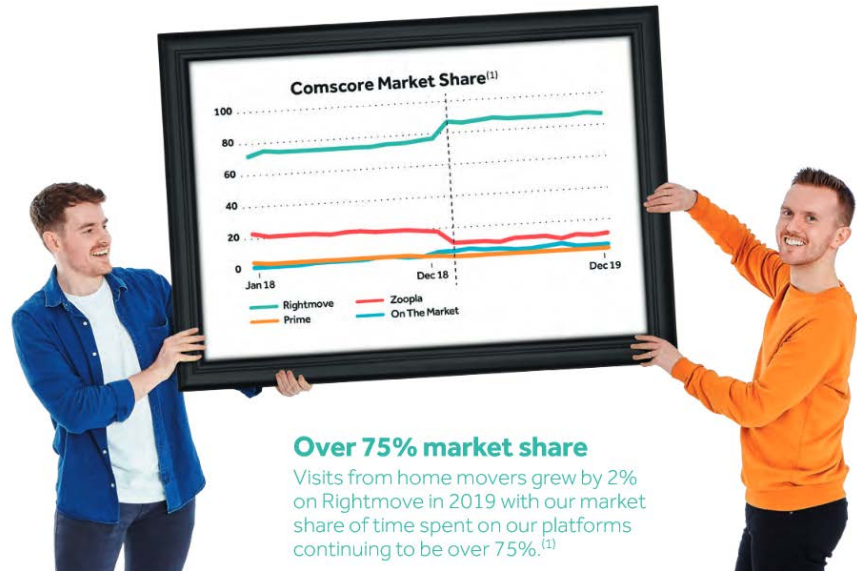


Image Source 4 www.rightmove.co.uk

The classifieds space is a winner take all industry and Rightmove is the clear winner. Rightmove is also expanding into rental listing and new home transactions.

To say Rightmove is very profitable is an understatement. In fact, Rightmove may hold the mantle of the best screening stock that we've found in the entire planet. Their operating, net and free cash flow margins are 74%, 60% and 63% respectively. They are a rare breed of companies that earns higher free cash flow than net income; an indication that their cash conversion (converting accounting earnings to cash) is very strong indeed. They have no debt, pay a growing dividend and use excess cash flow to buy back shares thereby increasing shareholder interests over time.

Lastly, we cross the channel to Germany where we've acquired shares in [Rational AG](#). Rational is the leading global manufacturer of commercial combi ovens and was founded in 1973. The RATIONAL SelfCookingCenter offers the most beneficial and cost effective cooking solution for commercial kitchens available today. Use RATIONAL's innovative combi technology to perfectly fry, roast, grill, steam, poach, bake, and much more, all in a single self-cleaning piece of equipment.

LET'S STAY CONNECTED

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Below is a description of their products:

Our products

Maximum customer benefit due to easy handling, best cooking quality and efficiency



Uniquely intelligent
SelfCookingCenter®



Smart cooking
VarioCookingCenter®

Source 5 [RATIONAL Annual Report 2019](#), p. 9

And geographic revenue mix:

Global Presence

Sales revenues by region in 2019



Source 6 [RATIONAL Annual Report 2019](#), p. 4

As we can see, the bulk of their revenue is derived in Europe however North America and Asia represent two massive growth areas for the company. In addition, eating habits are changing. Ghost restaurants are conquering the market, a trend that was already asserting itself pre-Covid but will no doubt accelerate post-Covid. Ghost restaurants are app-based delivery only restaurants; no sit-down customer service. Clearly, Rational's ovens stand to benefit from this tailwind.

In the short term, the restaurant industry is in shambles due to the pandemic and Rational's shares dropped 40% in value giving us a rare opportunity to acquire this quality company at a discount. Mr. Siegfried Meister was the founder and also the majority shareholder of Rational AG. After his death in 2017, his shares were transferred to the community of his heirs. Per the most recent report, a little over 70% of the share capital is held in fixed ownership and a little less than 30% is in free float. Plus, there are no outstanding stock option schemes or convertible bonds that could dilute the shareholding.

We are happy to add these high-quality companies to our stable. While they are in different corners of the world, conducting different business lines they share the following similarities: high margins, high returns on invested capital, positive net cash, wide moats, and positive/growing free cash flow. Data drives decisions here and if we find companies on the other side of the world that have better financial metrics than we can find here, then that's where we'll go.

MAY 2020 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to May 29, 2020	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception**	Added Value vs. Benchmark**
Hillside Conservative Growth*	1.45%	0.79%	0.37%	6.05%	6.92%	6.87%	7.66%	+3.33%
HCG Benchmark ¹	-0.83%	1.34%	-0.75%	4.93%	3.99%	3.96%	4.33%	
Hillside Balanced Growth*	-0.93%	1.13%	-1.68%	4.3%	6.94%	7.57%	9.39%	+4.84%
HBG Benchmark ²	-2.21%	1.54%	-1.82%	4.6%	4.23%	4.25%	4.55%	
Hillside Focused Growth*	-5.72%	3.96%	-7.75%	-0.72%	3.09%	4.66%	7.26%	+2.28%
HFG Benchmark ³	-8.72%	2.29%	-7.14%	1.41%	3.64%	4.54%	4.98%	

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 Hillside Conservative Growth Benchmark: 100% Vanguard Conservative ETF

² Hillside Balanced Growth Benchmark: 100% Vanguard Balanced ETF

³ Hillside Focused Growth Benchmark: 100% Vanguard All-Equity 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.

This information has been prepared by Michael Preto and Jason Del Vicario who are Portfolio Managers 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 Portfolio Manager 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.

Insurance products provided through Hollis Insurance Agency.

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.



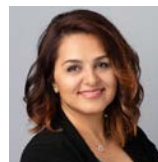
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