INFORMED INVESTOR NEWSLETTER

April 2021

IN THIS ISSUE

HOW A COMMITMENT TO ACTION WORKS AS A COMPASS

Mike Preto, CFP®

We have a simple principle here at Hillside: Do what you say you are going to do. In the world of finance, the right path can appear overgrown, and this principle has been our compass on several occasions.

After the market correction associated with the pandemic a year ago, we purchased several foreign positions in your portfolio. Hillside hadn't ventured into this territory much before, and did so cautiously. Rather than buying "full" positions which typically start with a portfolio weight of ~3-4%, we started with half positions ~1.5%-2%. The idea here was if the stock price was giving us a head fake, which it's been known to do from time to time, we could complete another buy of similar weight and voilà we'd have our full position. On the flipside, if the opportunities we were looking at were as solid as we had perceived, the position would quickly become a full one with the stock price appreciation.

Let's take a look at a couple of different examples, starting with the not so pretty picture: A2 Milk. On October 1st 2020, we initiated a ~2%, or half position, in the company at $13.46 CAD. The company meets all of our strict selection criteria; we had been watching it closely for a couple of years and the price had just dropped ~25% in short order so we pounced. The stock price has continued to fall to the point where in mid-March it represented only ~1% of your portfolio. Nothing material had changed with the company, except the price of the position which had dropped to $8.51. So, sticking to the mantra of do what you say you will, we made another buy in the position to bring it back up to the ~2% size we had intended to hold it at.

Another situation, albeit a much prettier one, would be Rational AG. We had been watching the company, done our due diligence and decided to initiate a position on April 30th 2020. We built a 1.25% position in your portfolio. We initiated a position when the price was $669.85. Since then the price of the stock has risen to $1,004.67 at the time of writing this letter, and approaching the full position we want it to become.

Another issue we have to balance is our downside protection plan. We commit to selling 50% of a position if it drops below a certain price, and the balance should it drop below the next price drawn in the sand. When we buy a new stock at a half position, we don't apply the downside

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protection plan. The reason for this is we've already accounted for the possibility of the position dropping further by committing to add to the position as the opportunity to purchase the stock at bargain base prices presents itself.

We have another commitment here: be consistent with reporting and communication. In other words, if we are going to make a shift in the way we are managing your money or retirement, you're going to hear about it in advance. In the spirit of consistent communication, we want to let you know we see a day in the future when we stop the downside protection plan. This would be a meaningful shift in our process which we will not implement without taking serious considerations.

We've learnt how rare the companies we own for you are. We've also learnt the opportunities to acquire these companies for unusually low prices is even more rare. To kick these companies to the curb when we should be capitalizing on the opportunity frustrates the heck out of us. We see an opportunity to improve and we need to give you our best, so we don't have a choice in the matter. It's that simple.

To be clear, we aren't making the shift just yet, but this is the first step in officially communicating the eventual shift. There will be much more communication to come on this, but we want to plant the seed now.

PORTFOLIO UPDATE

Jason Del Vicario, CFA

Building on Mike's point around our commitment to be consistent with reporting and communication, we'd like to become more consistent with the Hillside Factory content of the newsletter. This section of the newsletter will focus on the work being done on your behalf at the Hillside Factory. Every month we will feature a specific company we own or is a member of our 200 company 'investable universe.' It is our objective that readers of our newsletter gain insight in how we source, track and own ultra-high-quality companies. We may from time to time also highlight trends or tailwinds we see helping companies in particular industries or sectors. For example, the trend of digitization is well underway and companies helping individuals and corporations digitize processes previously done manually should feel they have the wind at their backs.

With that said let's jump into this month's feature: Rightmove PLC in the UK. We have owned shares in all three model portfolios since March 2020.

REFERRALS: THE HIGHEST COMPLIMENT

We are currently welcoming new clients to the Hillside family and almost all are coming via way of referral from existing clients. We are happy to sit down with friends, family or co-workers to show them how Hillside Wealth can help them articulate and reach their big and meaningful dreams. We thank you for your continued trust and support.

LET'S STAY CONNECTED

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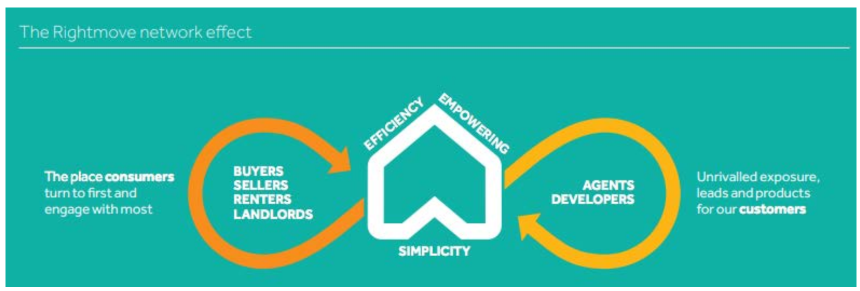
THE HILLSIDE FACTOR(Y) FOCUS: RIGHTMOVE PLC

Rightmove (LSE:RMV) is a classic example of what typically turns us on at Hillside. Although listed on the other side across the Atlantic Ocean (on the London Stock Exchange), the UK's no. 1 property portal did not manage to escape our radar owing to its consistently super-normal return on capital – that is, an astonishing triple-digit rate over the last few years vs. probably only single digits for an average company.

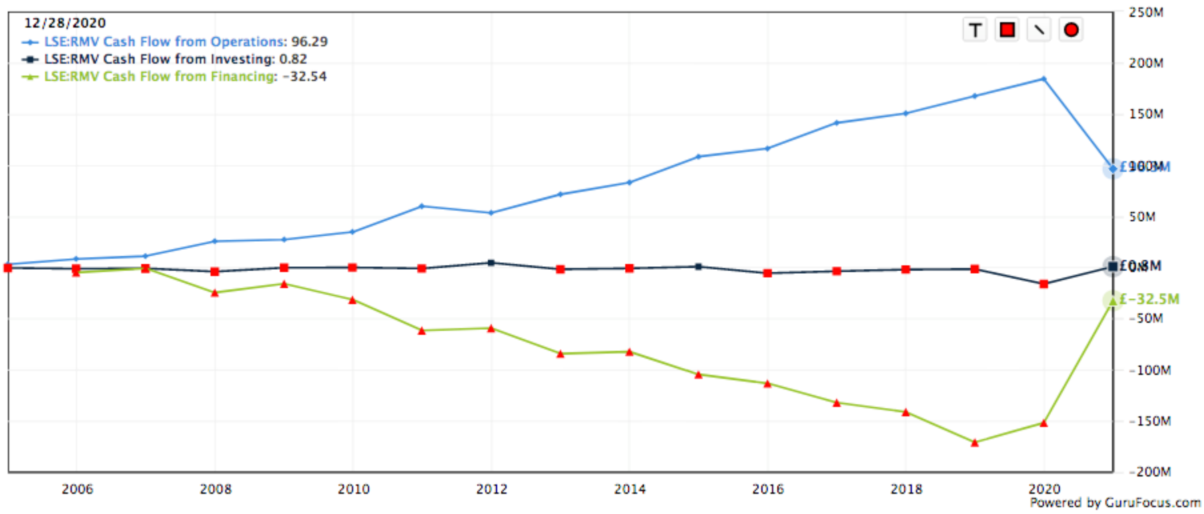
However, an attractive economic castle itself does not suffice in terms of getting a position in our highly-selective investable universe. We need to see a moat that can keep away competitors and protect the owners' interests sustainably. Despite technically being an Internet company, Rightmove has an easy-to-understand business (the company operates its online platform for users to search properties and charges monthly subscription fees for estate/letting agents and new homes developers to advertise). This "classifieds" model leads to what we call two-sided network effect, where property buyers would prefer to visit the site with the most listings and sellers would like to advertise on the one with the most traffic.



Source: 2020 Annual Report.

Today, Rightmove "owns" approximately 80% of the total online viewers looking for their next homes in the UK. The platform naturally attracts more listings from customers than peers, which, in turn, gets more viewership - a virtuous circle enhancing Rightmove's value proposition. Thanks to this invaluable asset, Rightmove situates itself in a sweet spot we bet most technology conglomerates or startups would not think about disrupting. This provides us with high visibility into its long-term return on capital.

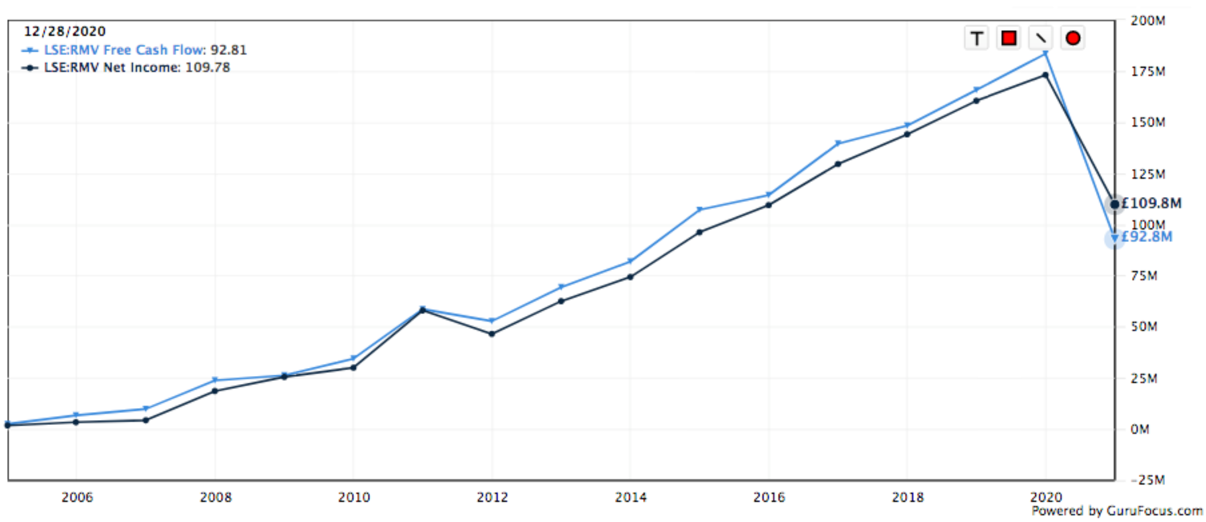
You may have realized how serious we, as investors, are about the return on capital a company can earn. The rationale is not too difficult to understand - if a business generates a 20% return on equity capital and reinvests all its earnings back in the business every year, then 20% is more or less what shareholders will get for the long run. Well, please refrain from expecting a more than 100% total annual return from Rightmove, as the company does not find many attractive projects to deploy all its earned capital. As a matter of fact, it returned the majority of its profits to owners (through dividends and share repurchase), as implied in the chart on the following page.



Source: GuruFocus as of 4/1/2021.

What's impressive is, without much capital reinvested, Rightmove managed to grow at a phenomenal rate – e.g., a 10-year CAGR of 16%, 19%, and 22% in sales, operating income, and EPS, respectively before the pandemic. While there is no doubt about the limited upside in terms of geographic expansion, the management has constantly been exploring adjacent opportunities, such as the rental market and the commercial property space. At the same time, shareholders should be happy to see the widening moat as the business takes advantage of its scale to invest (in ads like this) and gains more share of mind among consumers. At Hillside, we can't help falling in love with such a value-generative capital allocation approach.

For investors, what can be better than a "bank account" paying you interests that keeps rising over time? This should not be "too good to be true" for Rightmove's shareholders, as long as the business is able to convert its accounting earnings to cash. In fact, it turns out the annual FCF conversion ratio exceeded 100% every year except for 2020 (see below) and averaged 106.5% for the past decade (according to our calculation). To put it in English - 100 dollars in net income can deliver more than 106 dollars into shareholders' pockets. We believe the company's monthly subscription revenue model plays a vital role in the cash-rich operations here. Furthermore, Rightmove has a strong balance sheet – plenty of liquidity and zero debt - they clearly don't need to borrow.



Source: GuruFocus as of 4/1/2021.

MARCH 2021 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to March 31, 2021	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **	Added Value vs. Benchmark**
Hillside Conservative Growth*	**-1.06%**	**-0.31%**	**2.02%**	**12.44%**	**7.22%**	**7.54%**	**7.74%**	**2.51%**
HCG Benchmark[1]	*-0.21%*	*0.52%*	*4.79%*	*19.31%*	*6.27%*	*6.09%*	*5.23%*	
Hillside Balanced Growth*	**0.52%**	**-0.21%**	**4.96%**	**18.44%**	**8.24%**	**9.11%**	**10.03%**	**4.12%**
HBG Benchmark[2]	*1%*	*1.01%*	*7.17%*	*23.24%*	*7.26%*	*7.17%*	*5.91%*	
Hillside Focused Growth*	**1.23%**	**-0.48%**	**11.22%**	**40.19%**	**6.94%**	**9.75%**	**9.69%**	**1.24%**
HFG Benchmark[3]	*5.98%*	*2.74%*	*18.29%*	*47.71%*	*10.66%*	*11.42%*	*8.42%*	

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.

JASON IN THE NEWS!

The day after his top picks were breaking ***all time highs***, Jason was a guest on the April 6th episode of BNN's The Open. Watch here to see what he had to see what he says about selecting stocks based on their economic moats.

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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.

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