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MID-YEAR REFLECTIONS

Mike Preto, CFP®

We are now more than halfway through 2021. I find any halfway point is worth reflecting on, perhaps in 2021 more than ever. A lot has happened here at Hillside in 6 months, we've hired another team member, our vision and focus has become clearer and there's a lot I'm excited to share with you.

Before we get to that, there's another side to life which is unforgiving and harsh. We received some terrible news today from within the Hillside circle of wonderful families whom we have the opportunity to work with. A man far too young passed away last week, unexpectedly, tragically, and suddenly. This family is well represented at Hillside and we have clients who've lost a son, father, husband, brother, nephew, and uncle as a result. Our thoughts go out to the family - we can only imagine, and hope we never have to understand what everyone is going through. The message we want to deliver is life is so short and so unpredictable; we must do our best everyday to be grateful for the opportunity we have to live it. It helps to remember everyone is struggling with something and to be compassionate and patient in how we approach each situation. We must remember life is here for us now and it is important to relish the good moments. We have people in the Hillside Family who are struggling, and our hearts and thoughts go out to them.

The harshness of life is accompanied by its' beauty, all we have to do is find it. We are grateful to have the opportunity to lead you into your financial future. This is an honor and responsibility we commit to handling with great care. The message from Hillside is we've never been more optimistic about your future as we are now, and we don't say this lightheartedly. You may be wondering where the bold statement comes from - well, the answer needs a little back story, a way back story.

Jason first got into the money management business in 1998, then myself in 2003. Back then we were stuck with the herd and used mutual funds, ETFs and eventually some individual securities as the primary investment vehicle for our clients' portfolios. When you're


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with the herd, you can't control the direction of your future, it lies with the herd. Jason went through the 2000 dot-com bubble and we both worked through the Global Financial Crisis of 2008. Both experiences left a solid stamp in our minds; at any given moment the markets could drop 50% and we can't have that because we are managing people's retirement funds and having those funds drop 50% would forever alter their retirement. So, when Hillside was created back in 2014/2015, we felt we needed a layer of protection against the broad market sell off.

A lot has changed since 1998, 2003 and even 2014. Jason has 4 kids, I have 3, we have a few less hairs and definitely a lot more grey ones. We've evolved as we've aged, and we will continue to evolve moving forward. We've realized we no longer need the markets to win for you to win. Yes, when, and not if, the markets take a dump, we're going to feel it, but the opportunity we have in that moment far outweighs the challenges. The companies we own for you have little or no debt, consistently make you lots of cash and the amount of cash they make you has a long history of increasing. They have business models we understand, great management teams and all the tools they need to capitalize operationally when the markets panic. Summing this all up; we need the laws of capitalism to continue to work as they have for thousands of years for you to win, and we think, with an incredibly high level of conviction, they will. Hence the aforementioned optimism.

When you boil it down, you own a group of companies which are going to continue to make you lots of cash translating to a rising stock price over time. Yes, there will be bumps in the road, it's not going to easy, but this means you will likely have a lot more money than anticipated down the road. Life is short - why wait for tomorrow to do something you can afford and want today. Two of our philosophies shine brightly here:

1. ***Earned success is satisfying***- when you're able to enjoy the fruits of your labour, savour it because you earned it.
2. ***Measured generosity is sustainable***- Let's take the time to focus on where you're at relative to your targets. If you're ahead of where you need to be, don't be afraid to be generous to yourself.

The next question is why in the heck should we participate in the panic selling if we believe in the companies we own for you. The answer is simple, we shouldn't. As of August 31st, 2021, we won't. Jason touches on this later in the letter, so I won't steal his thunder - we are relieved to be making this announcement and look forward to leading you without the weight of the downside protection plan on our shoulders.

Another unrelated point of optimism is we're able to hug our loved ones, legally, for the first time in I can't even remember when. If I see you in the office soon, watch out - I've realized that hugging is something I greatly missed during the pandemic. Dinner parties and hugs are slowly coming back into the mix and I couldn't be happier.

Finally, a big huge shout out to the staff of Capilano Elementary who just sent off their graduating grade 7 class of which my son, Kai, was a part of. I must say, my expectations heading into the event, (held virtually) were low. But as it went on, I realized the staff were hitting all the right buttons and giving this class great advice. The kind which not only a bunch of 12/13 year-olds heading into a big, new, and maybe a little scary situation, could benefit from, but all of us could. So here were my takeaways I'd like to share with you:

1. Find gratitude in the smallest things and express it. Be grateful and kind to others and the gratitude and kindness will come back around to you.
2. Take a moment and look how far you've come, enjoy the moment now and look forward to what lies ahead.
3. Keep learning forever and you'll be able to overcome the challenges and thrive in whatever it is that's coming down the road.
4. Know the people who love you, they are the ones you'll always be able to turn to and go to for help. The people who love you will always be there for you.

I was chatting to Kai and one of his fellow grad buddies the next day, and they gave me the old shoulder shrug, (I get a lot of that these days) when I asked what they thought of the ceremony. Who would've thought my son's grade 7 grad ceremony would've hit me harder than him? Come to think of it, probably many people. Life is good, thanks for giving us the opportunity to share it with you. Enjoy your family and loved ones over the summer.

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.

PORTFOLIO UPDATE

Jason Del Vicario, CFA

By now most of you have been contacted by Mike, Amanda, or Heidi about Hillside abandoning our 'downside protection' strategy in our portfolio management process (*as of August 31st 2021*). This strategy was implemented when we ripped the band-aid off in 2014 and began running concentrated portfolios focussed on high-quality, predictable companies. Having experienced the draw downs of both 2000 and 2008 we made the decision we would be doing our clients a favour by stopping out of positions if/when they broke certain technical levels. We engaged in significant stop loss selling in August 2015, late 2018 and March 2020. While we've never been afraid to buy back sold shares, we've analyzed the behaviour and this discipline has hurt returns more than its helped. At Hillside, one of our philosophies is 'data drives decisions' and the data supports us abandoning this part of our portfolio management process.

While we did have limited downside in certain instances (intended consequence), we also deprived our portfolios of upside when things turned around (unintended consequence). Furthermore, the downside protection plan isn't very tax efficient. If we are to be critical of our process we believe the mistake was assuming high-quality/predictable companies were the market and vice versa. This has not proven true and the experience of owning these companies over the past 7 years, watching them behave during periods of 'normal' markets and 'haywire' markets have led to this change. These companies will certainly drop when the general market drops. However, it is precisely during drops when high-quality and predictable companies make power moves such as acquiring competitors on the cheap or launching new products/services while the competition is paralyzed with fear. In fact, our behaviour should be the opposite (of what we're currently doing) during these periods: buying not selling! For those of you following our buys/sells closely you will already notice a change in how we are approaching the management of your hard-earned dollars.

Going forward we expect this change to impact our portfolios as follows:

1. Expected returns UP
2. Expected volatility UP
3. Tax efficiency UP

During periods of economic weakness or uncertainty we will continue to communicate with you and remind you of the quality metrics of the companies we own. We are committed to being consistent with our reporting and communication and feel this is key to our partnership. We are in this together; our money is invested right alongside yours and we are thrilled you've chosen us to lead you forward to help you realize your big meaningful dreams.

THE HILLSIDE FACTOR(Y) FOCUS ON FRANCHISING

We demonstrated in the past how much we fancy capital-light businesses. Saying that, what could be better for us than a company that not only takes on minimal capital itself but also leverages others' capital for free to grow its own business? Does this sound too good to be true? Well, essentially that is what franchising is all about.

While Ray Kroc convinced the McDonald brothers (to "franchise the damn thing") a few decades ago, the concept is not novel. It is actually a proven helping hand for restaurant incumbents like McDonald's and Yum! Brand, as well as rising stars such as Domino's Pizza and Wingstop to generate tremendous wealth for their shareholders.

The business model is simple – the franchisor provides the rights to use its assets (e.g., brand, technology, real estate), know-how, and supports (e.g., advertising, supply chain, financing) in exchange for franchise fees, royalties, and/or other relevant payments (e.g., supply, lease). The franchisee is responsible for the on-the-ground operations as well as, most importantly, the initial and ongoing investments. The latest 10-K of Yum! Brand describes "franchisees supply capital by purchasing or leasing the land, building, equipment, signs, seating, inventories and supplies and, over the longer term, by reinvesting in the business."

The revenue stream for franchisors is not only scalable and high-margin, but recurring and predictable, as the franchise agreement is

HAVE A WONDERFUL SUMMER!

As our long-term Informed Investor readers know, we write 10 newsletters a year and we will take our usual break from newsletter-writing next month.

In the meantime, we hope you have a fun and safe summer with family and friends.

See you In September!

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typically long-term and franchisees share the business risk (more on the downside). Having said that, we do not see all franchisors equal and are quite selective in terms of picking the long-term outperformers.

Snack Empire is one of the franchisors we like from the investment perspective and is now a company in our portfolio. You may have not heard of them, but the brand it operates (i.e., “Shihlin”) is especially well-known over many places in the Far East. Originating in Taiwan (as a form of night market), the street-snack type of food/beverage concept has traveled well across borders – from Singapore to Malaysia, Indonesia, the US, and even places like Egypt and Cambodia. In FY2020 (ending in March), Snack Empire had nearly 250 units globally, almost 90% of which were run through franchise partnerships. Our calculation indicates the business earns an over 50% return on reinvested/ incremental capital. Unlike many of its western peers, the company has a much sounder balance sheet with minimal debt and plenty of liquidity.

While the company name states "Empire", the Singapore-based, Hong Kong-listed business merely has a market cap of $350M HKD (approximately $60M CAD) Most shares are owned by its two founders, who are still in charge of the day-to-day management. Given the company's differentiated offerings and its tiny market share, we think Snack Empire has a massive runway ahead and would not be surprised if the stock turns out to be a multi-bagger for investors.

Lastly, it is worth noting franchising is not exclusive to restaurants. Some high-quality examples include convenience-store giant Alimentation Couche-Tard, used-goods retailer Winmark, and hotel franchisor Choice Hotels International. We own the first one and keep a close eye on the latter two. All three possess the track record of delivering superior returns on capital consistently over a long time period.

JUNE 2021 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to June 30, 2021	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **	Added Value vs. Benchmark**
Hillside Conservative Growth*	**4.08%**	**4.25%**	**4.09%**	**11.66%**	**7.56%**	**8.37%**	**8.24%**	**2.66%**
HCG Benchmark[1]	*3.4%*	*1.52%*	*3.4%*	*11.73%*	*7.12%*	*6.39%*	*5.58%*	
Hillside Balanced Growth*	**8.42%**	**6.19%**	**8.43%**	**19.6%**	**9.06%**	**10.7%**	**10.87%**	**4.55%**
HBG Benchmark[2]	*5.2%*	*1.67%*	*5.2%*	*15.78%*	*8.18%*	*7.55%*	*6.32%*	
Hillside Focused Growth*	**12.62%**	**7.65%**	**12.62%**	**36.45%**	**9.07%**	**11.85%**	**11.04%**	**1.87%**
HFG Benchmark[3]	*13.34%*	*2.48%*	*13.34%*	*34.49%*	*11.81%*	*12.5%*	*9.17%*	

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!

Jason was a guest on a recent episode of BNN Bloomberg's "The Open" with Jon Erlichman where they talked about what Hillside Wealth looks for in quality companies. Watch the segment here! (And if you missed it, read more about our thoughts on owner management in last month's newsletter).

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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