INFORMED INVESTOR NEWSLETTER

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LOOKING BACK TO SEE AHEAD

Mike Preto, CFP®

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As the end of 2021 nears, it's a great time to reflect on where you've been, take stock of where you are, and look forward to where you're headed. At Hillside we perpetually go through this exercise, and in the last couple of years there has been a pronounced shift in our perspective about the future which we'd like to share with you.

To put this in context, it helps to hear our backstory again. Jason and I met almost 30 years ago! It was way back then in 1993 when his sister brought me home as her *boyfriend*; who would have known that three decades later, Jason and I would be in-laws, business partners, and good friends as well?

Jason graduated from the University of British Columbia in 1998 with a BSc in Atmospheric Sciences and a real passion for investing. He joined Investors Group immediately after school, and I joined the same firm in 2003 after earning a Commerce Degree from the University of Victoria. Eventually, we both moved our practices to HollisWealth; me in 2014 and Jason in 2015. This was where Hillside really started.

Jason always loved managing money. When he started out in the business, he was managing client portfolios in the "industry standard": using ETFs, Mutual funds, and maybe a few stocks. In 2014, Jason decided to step out on his own and start managing portfolios in a way that he knew was right, and we're all thankful he followed his gut.

Jason and I both knew there were inefficiencies in the industry which were costing clients, and there were too many advisors doing sub-par jobs trying to do EVERYTHING from managing money, to meeting with clients, to retirement planning and more. We knew there was a better way.

We took a good look at the proposition to join forces, and at first all I saw were red flags; we were family and the idea of mixing business and family seemed too

The Hillside Wealth Team in 2021: (l-r) Amanda, Rozita, Heidi, Mike, Sabrina & Jason (missing Steven). Photo Credit: Felicia Chang Photography

HILLSIDE WEALTH MANAGEMENT | iA Private Wealth risky. Then, the benefits for all stakeholders of Hillside, most importantly you, became clearer. Jason and I could each focus on the work we were passionate about: Jason managing money, and me working with people. This focus and synergy could only mean good things for you.

And so, we went for it! Hillside grew steadily from a team of 3, managing $60 million in assets, to a team of 7 managing $200 million in assets.

Hillside is now a true reflection of what we've always wanted to bring to you and the rest of Canadians: *Passionate people who are contributing meaningfully to the lives of the people they work for - that's YOU*. The only way to create this offering is to have a team doing work they love, for the right reasons and for the right people.

So, what does this mean for the future of Hillside Wealth? To be entrusted with your financial future, we must make sure we are well positioned to do great work for a long time to come. This means we must think bigger and develop infrastructure at Hillside to support you and your family for generations to come.

If you share the same core beliefs we do, namely:

- Life is short and we need to make the most of it, and
- Treat people well and they'll treat you well.

And you respect our core philosophies:

- Earned success is satisfying.
- Courage builds independence.
- Measured generosity is sustainable.
- Discipline consistently generates exceptional results.
- Data drives decisions.

And you want us to lead you into your financial future, we are excited to welcome you to our camp. We want to share our expertise in retirement planning and portfolio management with all of those who share the same passion for life we do.

We want the Hillside Family of high valued clients to grow because we want to help as many people as possible realize their Big, Meaningful dreams. We know we can make a real difference in peoples' lives, we want to make sure everyone who wants in is welcome. Eventually we will be leading thousands of families into their financial futures and managing billions of dollars as a result. This isn't simply a goal, it's what we see coming down the pipeline because of our philosophies, energy, commitments, and timelines.

As we grow, you will see us doing things differently from the past as we improve our processes to ensure that our commitment to providing the highest quality of service to you is never compromised.

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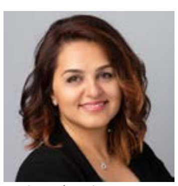

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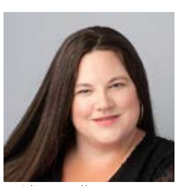

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Often times, the standard industry practice to accommodate the growth of advisors' businesses involves cutting the bottom 15% of your client base to make room for higher net worth clients. This would look like the following: people entrust us with their futures, we support them for a few years and then, one day, say sorry, you're not wealthy enough to be a client of Hillside - best of luck! This whole thing reeks of everything we don't believe in.

We are strict on a $250,000 minimum household investment threshold, which is low relative to the industry average. The only, exceptions we make is when it comes to family, one of Hillside's 3 essences. In short, we will do whatever is needed to make sure family members of the Hillside Family of high valued clients are taken care of.

We will leverage technology to deliver valuable and scalable experiences (for example, see the inset on the following page regarding our new client portal which will be used as integral part of review meetings). We will continue to implement systems that establish accountability. We will do all of this while delivering on our commitment to protect your future.

You may have increased interaction with more members of our Hillside Team. I won't be able to come and visit people in different towns across the country in the same way I used to, but fortunately the last couple of years have taught us that technology can bridge this gap effectively. Everything we do here is because we care about you and your family, and we will continue to deliver our best to you moving forward.

We find ourselves on an exciting path of growth together. As we grow, we will ensure Hillside is capable of not only surviving but also thriving in the future. This may include added person-power, and we will make sure anyone representing Hillside will deliver consistently well on what matters: you receiving the same top-quality advice, service and experience. There may be challenges, some of which we expect and many we don't, all of which we look forward to overcoming and learning from. Perhaps Jeff Bezos, the founder of Amazon, said it best:

> "If you think about the long term then you can really make good life decisions that you won't regret later."
>
> – Jeff Bezos

Until 2022, all the very best to you and your loved ones over the Holiday Season. Thank you for your trust and confidence, we're grateful for the opportunity you have given us.

PORTFOLIO UPDATE: LESSONS LEARNED IN 2021

Jason Del Vicario, CFA

While we have never been in the habit of writing an 'annual letter' per se, I thought it might be of interest to our readers to provide a review of our portfolio management efforts in 2021. I'm going to steal a page out of Buffet's writing style: he begins every annual letter with a list of his mistakes. So (gulp) here we go!

As our clients and readers are aware, we emphasize *process* over short-term results. I am therefore critical of myself for buying Lightspeed and Microstrategy. While we did very well owning these positions through 2020 and 2021, they were a departure from our process. If I'm being brutally honest, I got caught up a bit in the hype of stocks with little to no free cash flow being bid to the moon to use a 'Reddit-ism.'

NEW CLIENT PORTAL

One of our goals for 2022 is to have all our clients on iA's new online portal.

The new portal has improved features. It is becoming a central part of review meetings and an information hub for our clients. We are very impressed with the portal capabilities thus far and are excited for what is being implemented in 2022 as well!

If you are a Hillside client, please go to https://iaprivatewealth.ca/ to register. You will need your account number, postal code, and birthday in order to sign up. If have any questions about the new system or would like assistance signing up, please email [Amanda] and she will be happy to help you.

Lesson learned: we invest in free cash flow not stories. Period.

I am also not particularly proud of leaning into the commonly accepted narrative that the best protection against inflation is scarce hard assets (commodities, real estate etc.). While this was easy to go along with I should really have questioned this more and dug deeper. Fortunately for me (and you!) Steven set me straight and the evidence was/is there for anyone curious enough to see: in the appendix of Berkshire's 1983 letter he clearly demonstrated the best protection against inflation is not scarce hard assets but rather scarce intangible assets. The reason being because hard assets require more capital to generate returns while intangible assets (client lists, patent-protected products/processes, websites etc.) require much less and thus can generate greater profits no matter the price level backdrop.

> ***Lesson learned: Finding companies with scarce intangible assets is our wheel house. We are already doing this and so we're going to keep scouring the planet for high quality & predictable business models.***

We were gun shy coming out of 2008, and implemented our 'downside protection plan' assuming that the market was representative of the types of investments we know and love; namely companies that sport above average return metrics (ROIC, ROE, ROA) and do so using little to no debt and requiring little capital to grow.

Fortunately, we were unafraid to buy back stocks we sold as a result of this discipline; but if we examine the results of this behaviour, we must conclude a reduction in returns. As a result, we abandoned our downside protection process in 2021 recognizing that high quality and predictable companies should be bought when they dip, not sold.

> ***Lesson learned: The types of companies we own are not representative of large indices and vice versa. High quality/predictable companies, if bought at reasonable valuations, should be BOUGHT not SOLD if/when they drop materially in price assuming our thesis and their financials remain strong.***

Now onto our successes. First, without a doubt, the biggest impact on the Hillside Factor[y] has been the addition of Steven Chen in March 2021. Steven has brought a lot to the table and is primarily responsible for the Factor[y]'s analytical work. We share a passion for security research and analysis. Your money is in very capable and dedicated hands. Our work does not feel like 'work' and we are so excited to continue to improve our portfolio management and analytical processes.

Second, we have incorporated 'valuation' much more strictly as the final step of our process. It's not enough that we find a high quality/predictable business but it must also meet our stringent valuation test. The value of any cash stream is the present value of all the future expected cash flows. The higher the discount rate used to discount those future cash flows to present day, the lower the valuation… we use a very high discount rate which has two benefits:

1. We are forced to be very picky and patient.
2. We invest with a larger margin of safety. Margin of safety speaks to what if we're wrong. For example, if your discount rate is 6% and growth is 6% less than what you expected, then you make no money. If your discount rate is 20% and growth is 6% lower than expected, capital still compounds at a healthy clip.

This discipline has had an immediate and profitable impact on our results. I hesitate to focus on short term performance, because I can assure you this is meaningless, but we fortunately timed our tilt of the portfolios towards high quality/predictable companies at reasonable valuations well. When we couldn't find reasonably priced securities we held onto cash. We've seen the markets drop recently and this excites us because we have dry powder to deploy. So not only has this benefitted us in the recent past but we believe it also sets us up nicely going forward.

Third, we have begun conducting calls with companies we own and/or have on our radar. I was always of the opinion that speaking with management was a waste of time: income statements don't (often) lie and I had never met a CEO who didn't tell me how wonderful their business was. I was skeptical at first but I think these calls are adding a lot of value to our process. The logistics aside (we've had calls where I'm in Vancouver, Steven in Shanghai and IDHC in Cairo or Bouvet in Oslo… fun!) this has become an integral step in our process and I will dedicate an entire newsletter article on the subject in the near future.

Lastly, I'd like to highlight some of the trends we've seen in the portfolios over the recent past:

Company factor	Trend	Note
Quality	↑	Average quality (consistency of returns) is rising
Size	↓	Average size of companies we own is dropping
Valuation	↓	Average valuation is dropping in spite of lofty market multiples
Domicile	foreign ↑	Jan 1 2020: **0** | Jan 1 2021: **8** | Dec 1 2021: **15**
Dividend	↑	Average dividend yield is rising

We have never been more excited and optimistic about the future. We do not take your trust for granted (thank you!) and commit to giving you our best work. Please accept my warm wishes for a safe and happy holiday season. Take time to dream big and may your dreams and wishes come true in 2022!

THE HILLSIDE FACTOR(Y) FOCUS: UNDER-APPRECIATED MARKET LEADERSHIP

What is one commonality across most (if not all) of the new faces in our equity portfolio this year? They are the consistent market leaders in their respective spaces. In the meantime, their shares appeared under-appreciated because perhaps the target market is too niche or does not sound "mainstream" enough or maybe the management does not spend much energy on publicity. As

UPCOMING EVENTS!

We are excited to host or participate in a number of events for clients and friends Hillside Wealth and other occasions.

Here is a list of some of the things we have planned:

Dec. 17 - Jason Del Vicario on BNN's *The Open*

Jan. 21 - Jason Del Vicario on BNN's Market Call

Jan. 27 - Hillside Wealth's Market Update Webinar

[Follow Hillside Wealth on LinkedIn] for more information on how to join us!

IA GIVING BACK

IA Financial Group ran its fifth annual Philanthropic Contest this year with a focus on Children's Charities.

Over $600,000 was awarded to numerous organizations across Canada - a list of this year's winners is available online.

We'd like to thank iA Financial Group for their community support!

enterprising (long-term) investors, we would love to take advantage of such opportunities to buy high-quality businesses at reasonable prices. Here, we highlight two examples below –

Plover Bay is a Hong Kong-based company providing network equipment and solutions. There is probably no way for this HKD 5 billion company to directly compete with industry giants like Cisco, VMWare or Nokia. But the management at Plover Bay made the right move to develop a portfolio of patented wireless SD-WAN technologies well ahead of peers. As a result, the company has avoided intense competitions and becomes the leader in this under-rated but still rapidly-growing niche enjoying the tailwind of global 5G rollouts. As of today, We estimate that Plover Bay owns approximately 20% of the wireless SD-WAN market. The company operates a capital-light model, outsourcing manufacturing and focusing on R&D. Nothing can be complained about on the financial side – superior return on capital, high cash conversion, double-digit growth rate, no debt. The management told us that being in Hong Kong may have partly made the company under-covered as the region is by no means well-known for its technology innovation (you may want to think banking or food here). Earlier this year, we were fortunate to accumulate shares in this high-quality business at a valuation that is almost half the current level at the time of this writing.

US-based National Beverage is another market leader that we bought this year. The company name may look unfamiliar to many. Again, who would care to talk a lot on media about a beverage company that is of only 2%-3% the size of Coca Cola or PepsiCo (in market cap)? Even "worse," the management at National Beverage does not seem excited to talk to Wall Street community, either. There is no earnings call, investor roadshow, or the like - luckily, it does want to chat with us, the (long-term) investors (does this remind you of the Oracle of Omaha?). Having that said, the company's core product, namely LaCroix, has won around 15% of the fast-expanding U.S. seltzer market and has become the most "Instagram-able" beverage name among millennials in the country. The brand equity has enabled the company to deliver high-return, high-growth results to long-term shareholders with a debt-free balance sheet and rich cash payouts on a consistent basis. To echo the holiday season, the company just announced a special cash dividend that indicates an annualized yield of nearly 6% based on the current share price at the time of this writing – we are glad to have accumulated shares in National Beverage at an even lower valuation (i.e., a higher implied yield) this year.

In conclusion, we are strong believers that winners tend to keep winning in the competitive business world, and therefore, would incline ourselves to stay away from turnarounds and instead concentrate on companies that have already excelled. But Mr. Market is often smart and rational, putting those market leaders at a premium valuation (which inevitably lowers the expected total return). To tackle this, our solution is simple and straightforward – to persistently turn over as many rocks as we can across the globe. We will remain patient till the next gem shows up.

Happy holidays! Happy investing! Have a fruitful year ahead!

NOVEMBER 2021 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to November 30, 2021	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**9.50%**	**1.61%**	**9.92%**	**11.48%**	**11.03%**	**8.86%**	**8.52%**
HCG Benchmark[1]	*4.19%*	*-0.12%*	*2.31%*	*5.81%*	*8.36%*	*6.40%*	*5.48%*
Hillside Balanced Growth*	**15.40%**	**2.12%**	**13.43%**	**18.44%**	**13.44%**	**11.08%**	**11.17%**
HBG Benchmark[2]	*6.56%*	*-0.27%*	*3.00%*	*8.55%*	*9.63%*	*7.53%*	*6.29%*
Hillside Focused Growth*	**19.76%**	**2.33%**	**14.28%**	**24.45%**	**16.24%**	**11.82%**	**11.34%**
HFG Benchmark[3]	*16.17%*	*-1.35%*	*5.03%*	*19.92%*	*14.01%*	*11.49%*	*9.02%*

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.

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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