INFORMED INVESTOR NEWSLETTER

February 2022

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THE OPPORTUNITIES OF VOLATILITY

Michael Preto, CFP®, CIM®

Welcome back to the Informed Investor! We write ten newsletters annually, and are excited to bring on 2022 with our first newsletter of the year.

We've experienced some market volatility to start off 2022. This is nothing out of the ordinary, and now is a good time to review a few rules which will help ensure success for you moving forward.

1. DO NOT invest your short-term money in the market.
2. DO NOT invest long-term money in cash or fixed income.
3. DO NOT spend too much time looking at your portfolio; that's what you pay us to do.

The first two rules make a ton of sense and it's hard to argue against them. The third rule is a little more provocative. In fact, I had a call with a client the other day and she challenged us on it, saying if she advised clients to not pay attention to her work, she wouldn't have had much work to do. I can certainly see where she's coming from: you see a ~ 5% drop in the value of your portfolio, and we advise you to simply turn a blind eye?1 Let's take a closer look as to why we put our stamp on rule #3.

It starts with recognizing that selling an investment is easy: you press a few buttons and you're done. Absolutely there's a time and place for selling investments, but it takes time and effort (neither of which easy) to make sure it's the right thing to do. As we see below, the path of least resistance is well-travelled.

The top performing mutual fund in the world from 2000-2010 was the CGM Focus fund with an annual compound rate of return of 18% (*source*). During the same time frame, the typical investor lost 11% annually. This is not a typo - the fund did 18%/year and on average investors of the fund lost 11%/yr. Most investors weren't invested for the whole 10-year period during which there were ups and downs. Yes, you guessed it investors were selling when they should've been buying or holding.

The CGM experience is not an anomaly, in fact it's the norm. According to research conducted by Davis Advisors, the average equity mutual fund produced a 9.9% annual compound rate of return from 1991-2010,

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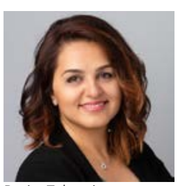
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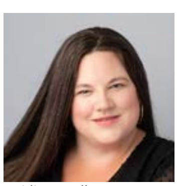
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yet the average fund owner only harvested 3.9% annually - more than 50% less than what would've been experienced had people paid no attention to what was happening.

In the spirit of keeping things simple and recommending what will make your life better, we firmly stand behind rule #3. You will have less stress, more joy and more money to put towards realizing your Big, Meaningful dreams.

PORTFOLIO UPDATE: IDENTIFYING AND UNDERSTANDING OUR LOOK-THROUGH METRICS

Jason Del Vicario, CFA®

For those of you who were not able to attend our client Portfolio Management Update, I would encourage you to watch the recording (click here to receive the link) and stay tuned for future update presentations.

I would like to expand on this update and specifically highlight the 'look-through' metrics we discussed during the presentation. As a reminder these metrics are the weighted average metrics of our equity holdings. While we analyze a number of look-through metrics we have chosen to introduce two at this time: Free Cash Flow (FCF) Yield and Growth in FCF. We believe these two metrics are the most important for us and you in our quest to better educate you about what we're trying to accomplish on your behalf. As discussed during the presentation the biggest impediment to all of us being successful in growing and protecting your wealth is clients selling at inopportune times. We believe we can collectively minimize this risk by increasing the education and knowledge about what you own and why.

In this digital age, we are constantly being bombarded with content that seems to be increasingly at either ends of the spectrum: either shockingly bullish or bearish. At any moment in time, I could pull up countless articles/videos/tweets that suggest the world is ending or the stock market is headed to infinity. Our job is to cut through this and focus on what matters and unless the laws of capitalism change, generating predictable and growing cash flows is what matters to us as investors and allocators of capital. This is timeless and I would argue probably more important than ever given the interest rate environment we currently find ourselves in. Since the

1970s until recently investors were able to enjoy reasonable returns (5-15%) by investing in low volatility investment vehicles such as GICs, government bonds and Canadian Savings Bonds (remember those?!). Heck, savings accounts even paid a reasonable interest rate. Those days are gone and frankly unlikely to return for quite some time.

Free Cash Flow (FCF) is the amount of excess cash a business generates that is free and clear of all internal and external obligations. In other words, it reflects cash that the company can safely invest or distribute to shareholders. FCF yield = FCF / Business Value. If we have a business worth $1B and it generates $0.1B in FCF then its FCF yield = 0.1/1 = 10%. We can compare the FCF yield of our holdings to that of the general market, a GIC or even a rental property scenario. The growth in FCF (in our example the 5 year growth rate) is simply the annual compound rate of FCF for a given investment. So, how much FCF is an investment generating in relation to its value (FCF yield) and how much is that FCF growing over time (FCF growth rate). The higher the FCF yield, the better value a given investment and the higher the FCF growth rate, the better investment return we can expect for a given investment. Below is the table we presented which highlights these figures for various investment options:

Metric	Hillside Holdings[1]	Random House	S&P500[2]	GIC[4]
FCF Yield %	6.3%	3.0%	1.9%	1.5%
5-year FCF Growth %	26.6%	1.5%	12.6%[3]	0.0%
Annual Volatility	HIGH	MED	HIGH	NONE

[1]HillsideCalculations | Data Source: GuruFocus.com | [2]FactSet, S&P | [3]Operating EPS, S&P | [4]Ratehub.ca

As we can see from above, our holdings generate more FCF than the other options by a factor of 2-3x and have grown their FCF at a greater clip as well. Our goal is to hold a basket of securities that are on average generating more FCF than other options you have and growing that FCF at a faster clip. By focusing on FCF and FCF Growth, we will be able to effectively fight this low interest rate environment and allow you to achieve your financial goals and your big meaningful dreams. Sourcing and investing in these companies at reasonable prices are within our control; what the market decides to price them at in the short term is not.

We will update these figures semi annually in conjunction with our semi-annual PM update presentations.

THE HILLSIDE FACTOR$^{(Y)}$ FOCUS: TOBILA SYSTEMS

Japan-based Tobila Systems provides spam/fraud blocking services mainly for mobile and landline users. With less than 60 employees, the company is the absolute leader dominating the niche that aims to prevent JPY 4 trillion annual damage caused by phone-based scams and “gray zone” crimes, and faces virtually no competition in the country.

HILLSIDE'S EXPERT SERIES WEBINAR: ESTATE PLANNING

Join the Hillside Wealth's next Expert Series Webinar with special guest, Steve Parr. Steve is the founder of Parr Business Law, a Vancouver-based practice specializing in Business Law, and Will and Estates. He'll be joining us to discuss what everyone should know about Estate Planning and answering the most-common questions that you may be faced with.

JOIN US on February 24th, 2022 from 4-5pm PST. Register HERE or visit our LinkedIn page for more details.

Some of us at Hillside had their eyes on Tobila Systems even before the company went public in early 2019. We never pulled the trigger (on shares in the company) as the valuation did not satisfy us. However, the share price started to show some signs of weakness over recent months – down more than 70% from its all-time high. Meanwhile, the business continued to deliver high returns on capital, double-digit growth rates, a strong cash conversion, with a healthy balance sheet, a founder-led management team, and an operational model that is light in both capital and labour.

In addition to going through public data, historical filings, and reports, we have been going back and forth with the management since last November (we are particularly cautious about foreign markets that may lead to our information disadvantage). Earlier this year, emotional Mr. Market offered precious opportunities for us to accumulate "partial ownerships" in some high-quality businesses at attractive prices. Tobila Systems was one of them – as we speak, we, collectively, own a bit over 1% of the whole company.

So what do we like about the business? We thought it worthwhile to revisit the story of Tobila which began decades ago. Seeing no option available in the market, Atsushi Akita started to develop a filtering system for fraudulent calls for his grandfather, who became a victim of a phone scam. He went on to found Tobila Systems with the mission to "allow everyone to live without fear of fraudulent and other illegal activities." Fast forward to today, and Tobila partners with all major telecom carriers in Japan – for instance, KDDI, SoftBank, and DoCoMo, which, in aggregate, control approximately 70% of the mobile communication market. Tobila employs this so-called B2B2C sales channel, leveraging carriers to reach end-users (i.e., subscribers), hence saving big on sales/marketing costs and penetrating the target market in a highly-efficient manner. The monthly active users (i.e., MAU) increased from less than 2 million in FY2018 to more than 14 million in FY2021. Our calculation points to a less than 6% penetration of the total mobile and IP phone population in Japan, indicating plenty of white-space opportunities. It is worth mentioning that most of the sales are generated based on recurring activities (e.g., subscription, usage).

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:

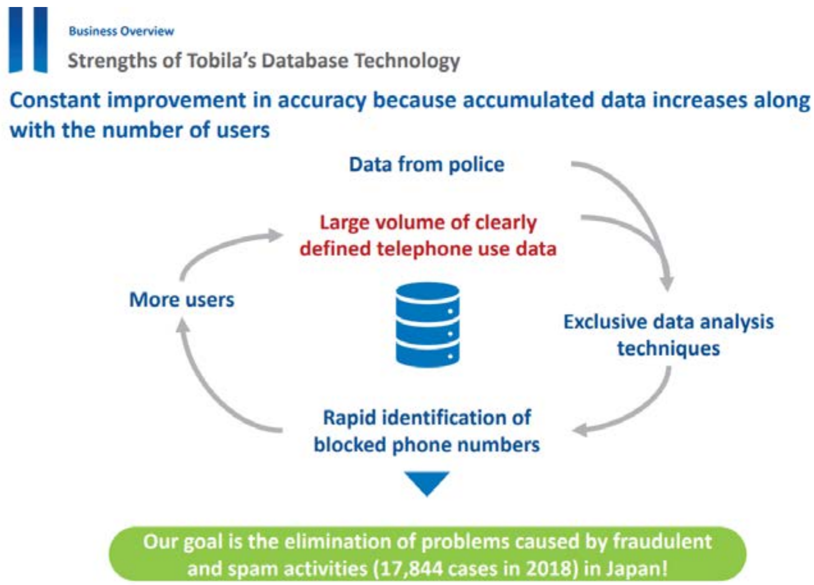
Feb. 24 - Hillside Wealth's Expert Series on Estate Planning (with guest, Steve Parr)

Feb. 28 - Jason on BNN's The Open

Mar. 11 - Jason on BNN's Market Call

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

Furthermore, as described below, the larger the user base, the more accurate the filtering system. Therefore, the company generates increasing value for all its customers and widens the competitive moat while growing. Tobila is the first entrant to this niche and now "monopolizes" both the supply (of data) side and the distribution (of services) side, leaving the barrier to entry extraordinarily high for latecomers. Even the police department works with Tobila exclusively.



Source: Tobila Systems Inc. Investor Presentation, December 2019

The management seems ambitious with a long-term annual sales target of JPY 10 billion (compared to a little less than JPY 1.5 billion achieved in FY2021). To achieve that, the company has been looking to expand into adjacent domains, such as business phone, ad blocking, both organically and through acquisitions. The management also expressed interest in exploring direct sales model (vs. B2B2C model that the company has been heavily relying on).

Admittedly, the company's competitive advantages may be diluted with respect to the aforementioned growth initiatives. The increasing popularity of low-cost mobile plans and the high sales-channel concentration are some additional downside risk factors to watch over time. Nonetheless, we think that the recent valuation level (i.e., nearly 5% cash earnings yield) provides a decent margin of safety and was just too attractive to ignore for a high-quality business projecting to grow its top-line at around 20% a year in the foreseeable future like Tobila.

JANUARY 2022 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to January 31, 2022	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**-3.75%**	**-3.75%**	**0.73%**	**8.56%**	**9.79%**	**8.83%**	**8.09%**
HCG Benchmark[1]	*-2.93%*	*-2.93%*	*-1.54%*	*3.47%*	*7.23%*	*5.96%*	*5.16%*
Hillside Balanced Growth*	**-4.31%**	**-4.31%**	**1.11%**	**12.85%**	**11.71%**	**10.74%**	**10.56%**
HBG Benchmark[2]	*-2.98%*	*--2.98%*	*-1.01%*	*5.67%*	*8.60%*	*7.02%*	*5.95%*
Hillside Focused Growth*	**-6.11%**	**-6.11%**	**1.13%**	**15.40%**	**14.13%**	**11.89%**	**10.69%**
HFG Benchmark[3]	*-3.20%*	*-3.20%*	*1.49%*	*15.81%*	*13.77%*	*10.82%*	*8.77%*

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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