March 2022

IN THIS ISSUE

COURAGE BUILDS INDEPENDENCE

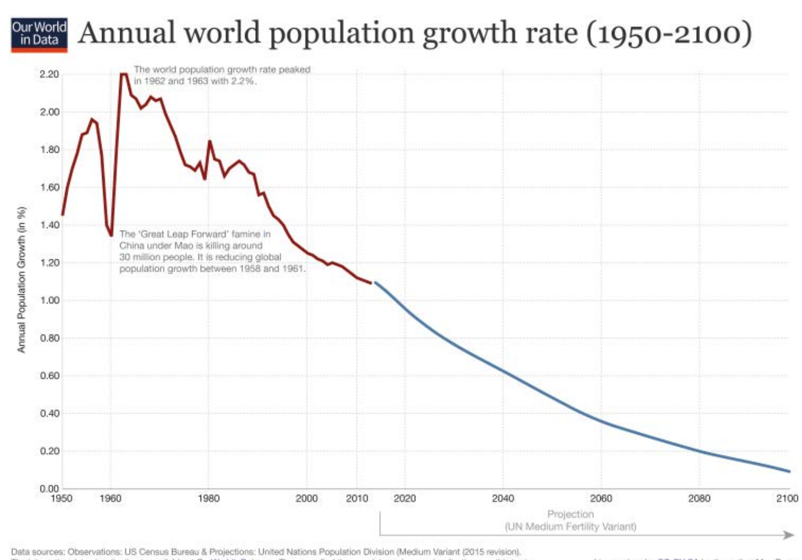
Michael Preto, CFP®, CIM®

The Russian invasion of Ukraine is horrific, and we feel for all of the people who are living through this nightmare. The Ukrainians' freedom has been taken away and they are doing everything they can to earn it back, our thoughts are with them. Perhaps one lesson we can learn from this is to not take the little things we have for granted and to enjoy each day living in a beautiful country with a standard of living many would be willing to die fighting for.

When we think about the future, we must accept we cannot predict it and do our very best to prepare for it. Let's explore this from a financial perspective: Imagine you knew COVID (and all of its associated economic carnage) was coming before anyone else - you were the FIRST to know. What would you have done? Sell all of your stocks/bonds to protect your capital as much as possible? Buy some gold? You would have battened down the hatches, and you would've felt ***really*** good about your decision…all the way up to the end of March 2020. As the market bottomed and eventually turned the other way, then what? You would have started to ***sweat***. You were only prepared for one scenario, economic disaster, and you were starting to see the potential for what may have seemed impossible just a few weeks earlier, recovery and growth. A future you were not at all prepared for. The point is this: even if you knew the future, it's impossible to make the right calls consistently.

Today, when we look at our world from a 35,000-foot level, the macro level, here's what we see:

1. ***The world's population is growing at a slower pace than it was 60ish years ago.***



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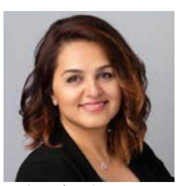

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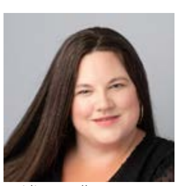

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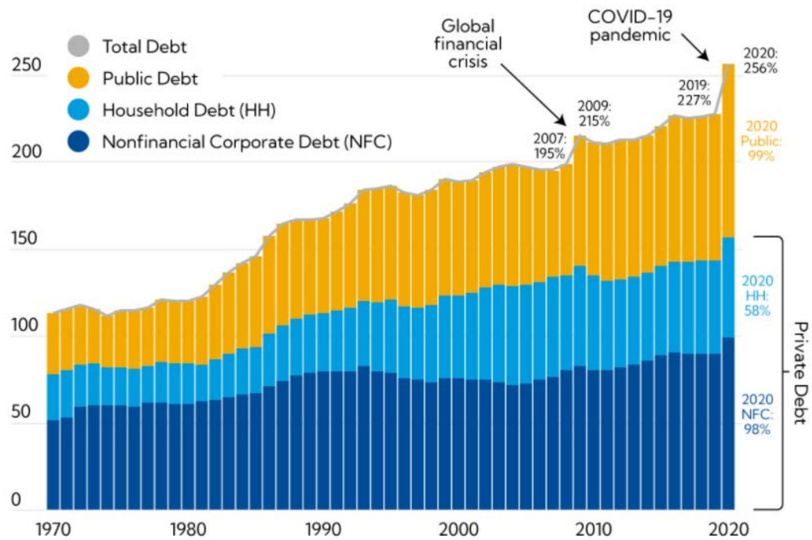
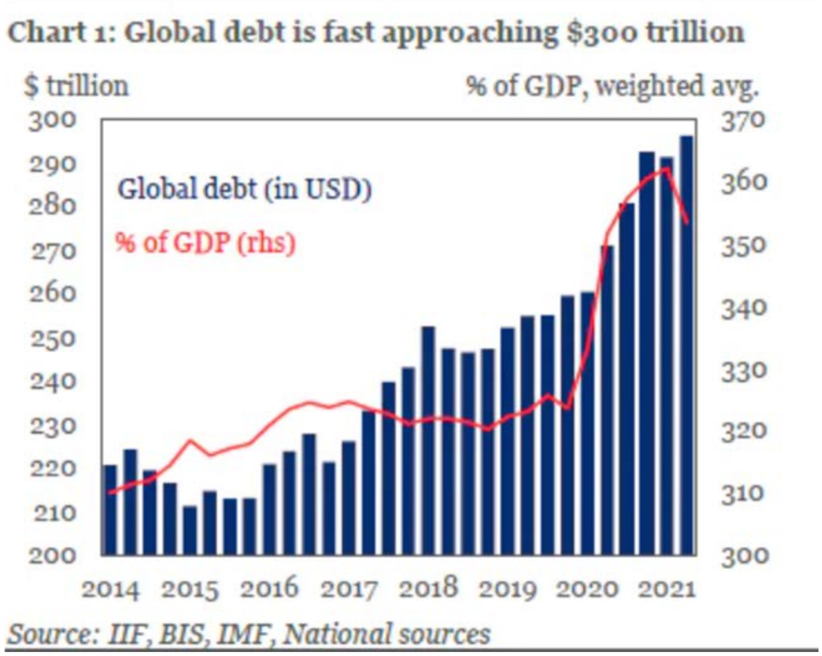
2. ***The world's debt level is at an all time high. This isn't too surprising considering the population is at an all time high.***



Let's compare global debt to the global economy. We can see as the economy rebounded, the debt/gdp ratio came off of the recent highs- but it hasn't been as high as it is now in the last ~8 years, not even close.



Source: [Reuters]

UPCOMING EVENTS!

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

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

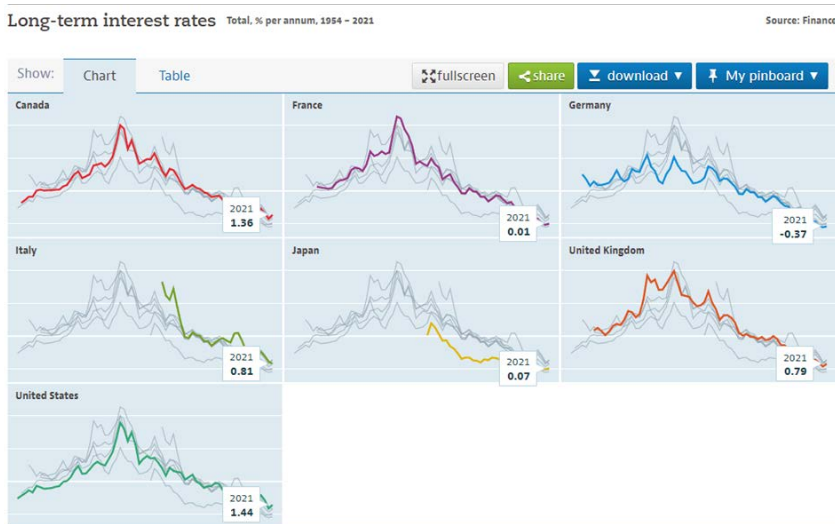
April 7 - Hillside Wealth Webinar: Intergenerational Wealth Planning (includes Gifting Money to Your Kids)

May 12 - Hillside Wealth's Expert Series on Health and Welfare Trust

June 9 - Hillside Portfolio Management Update *(client exclusive)*

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

3. ***Interest rates are low; and for every major developed economy in the world, nominal interest rates are very low.***



Source: OECD

Knowing the world's population growth is slowing, our debt is at an all time high and servicing this debt is as inexpensive as it's ever been- what do you think is a prudent portfolio approach to prepare for the future? Some would say you should own everything, good companies, average companies, bad companies and even the ugly ones. How does this prepare you for a world where growth slows (slowing population growth and high debt levels could lead us there) and servicing debt becomes more expensive (if rates rise in the future). How are over indebted, poorly managed companies which don't make a profit going to survive in a harsher economic environment than we find ourselves in now? Again, we don't know what the future will bring, but we do know this scenario is a possibility and so we need you to be prepared for it.

Our answer to a prudent approach would be to only own companies that have little or no debt, are reasonably valued and have a history of:

1. ***Being well-managed***
2. ***Generating above-average free cash flow***
3. ***Growing their free cash flow at an above-average rate***

This is how we have you positioned, so yes- we are biased. Even with the bias, this does seem like a logical approach: If we get tough conditions for a long time, our quality companies should do better than most and continue to produce free cash flow. If we continue to have the wind at our backs, we know your quality companies will do more than just fine. So, the next question is why don't more Portfolio Managers (PMs) do this? And why do so many PMs like to look similar to the overall markets?

We believe the answers to these questions are PMs take on career risk and PMs are more concerned about their careers than they are your capital. If your portfolio looks similar to everyone else's, then your performance will as well. If your performance doesn't stand out, one way or another, you are between the lines and safe from criticism.

By investing differently, we are essentially guaranteeing to underperform for certain periods of time - this is a universal truth. When you underperform, regardless of your profession, you put your career at risk. So ***why*** do we choose to do this? Because we know our approach is timeless; it will always work, regardless of what the future brings. If we want to "stay between the lines" and protect our futures, we are risking yours and we aren't going to do this - it isn't an option. We will always choose your future over ours, period.

We have a philosophy at Hillside: *courage builds independence*. To be independent from the future fate of the overall market, we need courage. Our purpose is to work with you to make sure your portfolio continually produces returns moving forward and to help you use the returns in a way which brings you happiness. To deliver our purpose to you, we have to focus on what's right for you - nothing else - and this is exactly what you can expect from Hillside Wealth.

Again, our thoughts are with those people whose lives have been turned upside down. We are so sorry they're having to go through this and promise to do our best to keep things in perspective moving forward.

PORTFOLIO UPDATE: THE BENEFITS OF GOING AGAINST THE GRAIN

Jason Del Vicario, CFA®

What does it mean to be a contrarian and how does going against the grain put us in a position to outperform? When we think of 'being different' we might think of the awkward teenager dressed in goth clothing with black hair, nose rings and black eye shadow (some of you might be of a vintage more familiar with the punk look), … but being different in the investing world doesn't have to be quite as dramatic.

Let's imagine we have a grocery store with two products: bananas and apples. On Day 1 (Opening Day), the store has 1000 bananas and 1000 apples for sale, and they are priced each $1. After the first week, the store has sold 500 bananas and 5 apples. Any self-respecting store manager would quickly do one of two things, if not both: raise the price of bananas and lower the price of apples.

The following week (we'll assume no more re-ordering), customers buy 400 bananas and 105 apples. The pricing 'trick' worked however the manager now has 100 bananas and 895 apples left. They do the same thing again: raise the price for bananas and lower the price of apples.

Investing is similar except instead of having 2 products to choose from, we have thousands… so how do we choose which fruit to eat… errr, I mean which companies to invest in? For the record, assuming we have similar affinity for each fruit, we "Hillsiders" would be buying apples and waiting for bananas to go out of favour (and on sale!).

One of our commitments at Hillside is to: *honour and recognize our responsibilities*. Our responsibility isn't to put you in the hottest, most popular investments even when 'Wall Street' is pumping this incessantly with fancy shiny new investment vehicles making it extremely appealing (and lucrative) for us to do so. We cannot achieve outsized returns by following the herd and investing in assets everyone else is piling into. We must therefore look for opportunities where high quality assets (apples in the above scenario) are on sale. It's however more complicated than this

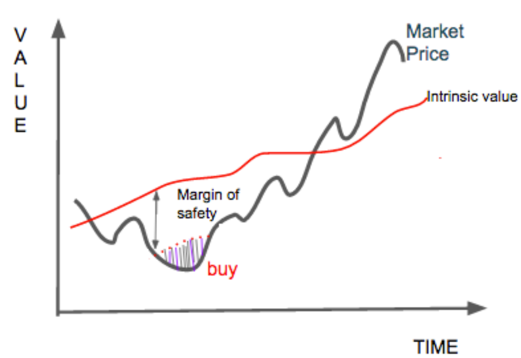
REFERRALS: THE HIGHEST COMPLIMENT

At Hillside Wealth, we take referrals from existing clients as one of the highest compliments. The responsibility of knowing you can recommend us to family and friends is one we don't take lightly.

We are currently accepting new clients primarily by referral from existing clients. If you have family or friends who would be a good fit for our specialized wealth management services, please feel free to get in touch.

because sometimes discounted assets are marked down and will be impaired for a long time. What if, in the above scenario, a new study emerged showing that eating an apple a day doesn't keep the doctor away but rather increases the chances of cancer by 75%? That's material. If this were true, we wouldn't be buying apples. More often than not the discount is for a short-term reason; say a president disses apples (Bush turns out to not be a fan of broccoli) or a popular influencer goes ga-ga for nanas…

This is how it usually plays out: Steven and I will come across a company that meets all our fundamental criterium but for some reason the stock is on sale. There are times when this is a new company to us, but it also happens (our preference) where we are already familiar with the company and they are already in our investable universe. Something has led to the stock selling off; for example: with A2 Milk it was the collapse of the daigou sales channel due to Covid, with Games Workshop it was a small fan revolt over their assertion to protect their IP, with Facebook it is the change of the Apple iOS. You don't get to buy high quality predictable companies on sale without some 'glitch.' Our job is to then determine if the glitch is short term in nature (the stock market is VERY short term focused) or if the glitch is long term in nature and likely to impact the company's fortunes for years and decades to come. Will Covid end (A2 Milk), will 18,000 fans dissuade millions (Games Workshop), and will thousands of engineers figure out a way to maximize ad impact (Facebook)? Given we own all these positions and have added to them at lower prices we feel the issues are short term in nature. When the short-term glitch happens, and prices drop, there are more sellers than buyers and we are thus contrarian in our decision to buy when others are selling. Sometimes we are early in our buying, sometimes we are late and miss the opportunity, sometimes the asset doesn't sell down to a level we deem to be attractive, and sometimes we are going to be flat out wrong in our assessment (in which case we would sell and trigger a loss). What we hope to avoid are situations where we experience permanent loss of capital meaning that we invest in something that ultimately goes to $0. I don't bring this up to scare you but rather to highlight that Steven and I think about the worst case scenario before we look at the upside… and the simplest way for us to avoid permanent loss of capital is to avoid companies with debt. Just like it's difficult to go broke spending less than what you make (my #1 advice to anyone seeking financial advice from me) it's also really difficult for a company to go bankrupt without debt.



LET'S STAY CONNECTED

Follow Hillside Wealth Management on LinkedIn for more updates and news!

Follow us on LinkedIn

The reality is the value of a company does NOT fluctuate by 30-50% a year however it's stock price might (black line). We can imagine the stock price bounces around the intrinsic value (red line: actual value) of a company oscillating between overvalued and undervalued. The above graph does a good job of demonstrating this. The contrarian buys when the stock price is below the intrinsic value and ideally well below providing the buyer with a 'margin of safety.'

THE HILLSIDE FACTOR(Y) FOCUS: VALUE VS. PRICE

You have heard us talking a lot about business-perspective factors that evaluate the fundamental quality of a company such as: durable competitive edge, corporate culture, return on capital, insider ownership, and cash conversion. But as the cliché goes, ***value is what you get and price is what you pay.*** When it comes to buying (a piece of) a company, the purchase price still matters (although it matters ONLY when we have the high-quality business to buy, in our opinion).

We have a valuation discipline at Hillside that leads to our rigidity about the price (or the price range) that we would like to pay for a particular company. As you might have imagined, the second half of last year posed quite a headache for us to deploy capital into stocks that fit our valuation criteria. In that regard, the market downturn this year has made our job a bit easier (although not that easy, as stocks are still averagely expensive in many parts of the world like the US). We restrain ourselves from any endeavor of predicting short-term price movements (which belongs to fool's errands, in our view). But in case that our "friend," Mr. Market, continues to panic, we would try our best to seize the opportunity. We have been expressing to some companies our interests in the case that any major shareholder needs to "dump" their shares in large blocks. Let's hope that our phone will ring some day.

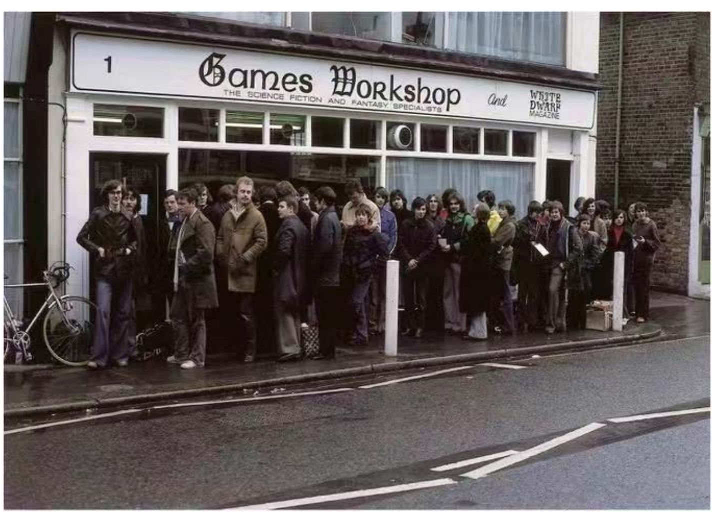
Hopefully, by now, you have come to understand that the drop in share price is typically healthy to the market, offering a helping hand to deliver decent returns for investors (who are ALWAYS long-term by definition). In the meantime, you may start to question – wouldn't it be meaningless if one does not have any residual capital to take advantage of the discount (in share price)? That statement is fair to some degree but neglects at least one capital-allocation option for the management in combination with the fact that Hillside exclusively invests in high-quality businesses.

So, what about those businesses? They generate lots of cash but require little capital expenditure to sustain (and even expand) operations; many of them do not have any debt to pay down. A low share price provides shareholder-oriented management teams with an additional area to deploy that abundant cash (which would be otherwise yielding an at most low-single-digit rate in today's bank account) to create long-term shareholder wealth – that is, investing in the high-quality company itself at a cheaper price (on behalf of current owners), or in other words, share repurchase. We feel encouraged to see that some of our companies have started buying back shares or increasing their share-repurchase activities lately. It would not be too difficult to expect our ownerships in those high-quality businesses to increase considerably (without us spending a dime) in case of a prolonged market downturn.

Similarly, many great capital allocators act opportunistically when it comes to M&A. As far as we can recall, one complaint that we often heard from management teams during the last year (with a booming stock market) was the hefty asset prices. If equity prices plunge across the board, more attractive deal opportunities may emerge. Remember that historically, most acquisitions failed in the end, as they were overpaid in the first place.

All in all, price often reflects value but not always. In terms of high-quality companies in particular, price volatility in the market may help enhance business value (as described above), and hence, is someone that we, quality-first investors, should befriend. Beware that the opposite is also true for "poor" companies and less skillful capital allocators – for example, cost of capital is usually high during a market downturn, posing a threat to capital-intensive businesses; paying high prices to buy back shares may destroy long-term shareholder value.

Before we conclude, let's address one common question these days – "what if that stock goes to zero?" Let's take Games Workshop, one of our most recent portfolio companies, as an example. The business mainly develops the Warhammer games, which generate crazily high loyalty among the hobbyists (here are a few examples describing them: "hide the stores in an old coal mine and they would still find them;" "if there's a sign up saying 'manager gone for tea,' they will wait;" "the people who play that would spend their last dime on it!"). Sales at Games Workshop are diversified across many geographies (over 40% from North America, over 40% from Europe, and the remaining from Asia Pacific and rest of the world) and across different channels (20% from own offline stores, 55% from third parties, and 25% from own online stores). The latest financial statement indicates an annualized sales of around GBP 380 million, which help delivers approximately GBP 110 million in net cash inflow into shareholders' pockets, per our calculation. At the same time, roughly GBP 20-30 million is required every year to run and expand the business. The company does not have any debt and accumulates nearly GBP 90 million in cash as of last November. So what if the shares were sold for almost nothing for a company like this (with no change in business fundamentals)? Simple - we would urge the Board to repurchase all the outstanding shares (except ours) and then cancel them all at once. Sooner or later, we would become the only shareholder that "shares" that GBP 80-90 million cash-flow every year (even assuming no growth at all at the business level). Of course, we do not anticipate such a scenario would actually take place in reality, as like-minded investors would not "give up" their shares and may even buy shares at discounted prices - just like us.



FEBRUARY 2022 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to February 28, 2022	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**-7.21%**	**-3.60%**	**-4.93%**	**4.29%**	**7.91%**	**7.44%**	**7.47%**
HCG Benchmark[1]	*-4.27%*	*-1.38%*	*-3.69%*	*2.16%*	*6.28%*	*5.32%*	*4.92%*
Hillside Balanced Growth*	**-8.32%**	**-4.19%**	**-5.66%**	**6.82%**	**9.37%**	**9.09%**	**9.82%**
HBG Benchmark[2]	*-4.41%*	*-1.47%*	*-3.51%*	*3.63%*	*7.52%*	*6.31%*	*5.68%*
Hillside Focused Growth*	**-11.96%**	**-6.23%**	**-7.00%**	**6.83%**	**10.70%**	**9.23%**	**9.63%**
HFG Benchmark[3]	*-5.01%*	*-1.86%*	*-2.75%*	*10.21%*	*12.04%*	*9.82%*	*8.40%*

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.