October 2022

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TREAT YOUR RESERVOIR WITH RESPECT AND YOU WILL BE REWARDED FOR LIFE

Michael Preto, CFP®, CIM®

A reservoir is created by building a dam. A water source feeds the reservoir, the dam prevents the water from escaping and the water level builds. Water is released to turn turbines which generates electricity.

Your portfolio is a reservoir. Each security you own is an individual water source flowing into the reservoir. The electricity is money. You can't control how much water flows into the reservoir, it's out of your control. You can't control how much evaporation takes place during long periods of drought. You ***can*** control how much water flows out of the reservoir - you can choose to open or close the dam. The size of the reservoir determines how much electricity you can generate moving forward.

The keys to developing a healthy reservoir for you and your loved ones are to:

A. **See your portfolio as a resource which will generate money for you for life.** The portfolio needs to be treated differently than money. There is a big difference between your portfolio and your bank account.

B. Have healthy portfolio habits by always following the 3 rules:

1. No short-term money in your portfolio.
2. No long-term money in cash.
3. Don't look at your portfolio on a regular basis- once a year is more than enough.

Building a healthy portfolio and using it sustainably is crucial to developing financial security. Helping you achieve financial security is our top priority. You need to measure how you are doing on consistent basis to follow your progress towards and to maintain financial security.

We commit to be ***consistent with reporting and communication***, so you always know the level of your reservoir relative to where it needs to be to hit your targets. Your Vista is an annual summary of everything you need to know about your portfolio, retirement and your level of financial security:

1. The performance of the portfolio-both in dollar and percentage terms.
2. Your retirement planning targets.
3. The size of your dreampool.

HILLSIDE WEALTH MANAGEMENT | FREEDOM | FAMILY | PERFORMANCE


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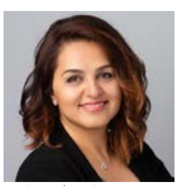
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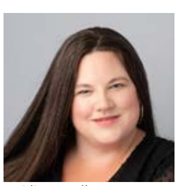
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Your Vista has another dimension which represents our desire to do more than make sure you have enough - we want to help you to enjoy life as much as possible. To do this, we first need to know what matters most to you. Then we can help you decide how you can use your money in a way which will bring you more happiness.

You might be wondering why we're talking about dreams when we're in the middle of a market storm. Yes, this is not the time to be drawing anymore out of your reservoir than needed. But whenever this storm passes, you are positioned for magnitudes of growth and we want you to know how you want to use it.

Because your reservoir is such an important component of your life, we want to do more than make sure it's in good shape. We want you to enjoy it, as much as possible.

HAPPY NEWS FROM HILLSIDE

We are thrilled to share that our Hillside family has grown!

Steven and his wife, Cyndi, welcomed their first child, Matias, on September 29th.

Click HERE to join us in congratulating Steven and his family.

PORTFOLIO UPDATE: HOW DATA DRIVES DECISIONS

Jason Del Vicario, CFA

I'm going to focus on one our philosophies at Hillside: data drives decisions.

The following is a 'quick and dirty' formula Steven and I use to determine a reasonable forward return expectation for a given business or collection of businesses (Hillside Co.) we own. The numbers are impressive and frankly this is part of the reason why we are extremely excited and optimistic about the future of the collection of businesses (portfolio!) we own.

Forward ROR = FCF Yield + FCF Growth +/- FCF multiple expansion/contraction

In plainer English:
Forward rate of return = cash flow yield + growth in cash flow +/- increase/decrease valuation

Business	FCF Yield	5-yr FCF trailing compound Growth	Assumed forward compound Growth	FCF Multiple Now	FCF Multiple in 10 yr.	Multiple Contribution	Expected Forward ROR
META	9%	24%	10%	11	20	6%	25%
EVO	4%	111%	20%	29	25	-1%	23%
HillsideCo	8%	20%	10%	11	20	6%	24%

Source: HillsideWealth & GuruFocus

For **META**: the value is 9% + 10% + 6% = 25%. Note, we have assumed the forward rate of return is going to be 60% lower than the previous 5 years (10% versus 24%) and that the multiple will expand from 11 to 20 which contributes a further 6% to the return assumption. There have been times where the multiple has been north of 30; we view 20x for this quality of business to be conservative.

For **EVO**: we have assumed the forward rate of growth will be a fraction (20% versus 111%) of the past growth rate which has been otherworldly. Furthermore, we assume the 10-year multiple will be less than it is today which is a drag on returns. If the growth is greater than 20% or the multiple expands to say 30, this only increases the forward return expectation from here.

Lastly, for **Hillside Co.** (a weighted average of all the businesses (stocks) we own), we assume the growth in cash earnings drops 50% (10% versus 20%) from levels experienced over the past 5 years. Even if the multiple goes nowhere (11 to 11 and multiple contribution is 0%) the return would still be a very acceptable 19% compounded.

The numbers above are based on what we feel are conservative assumptions… and I think we'd be remiss to not consider a more challenging scenario: Imagine a world where growth is 0% over the next 10 years and the valuation of Hillside doesn't change. In this challenging and frankly disappointing scenario the outcome would be 8% + 0% + 0% = 8%.

I recently posted a quote to LinkedIn I would like to share:

> *"In all markets, price extremes are usually attended by a consensus that the trend, be it up or down, will continue; and by a peak of speculation in line with the trend. Hence the excruciating paradox of financial markets, that sentiment is most bullish at the peaks when prices have only one way to go which is down; and most bearish at troughs vice versa: at the top there's no-one left to buy, and at the bottom no-one left to sell."*
>
> ~ John Percival "The Way of the Dollar"

Personally, Sabrina and I have looked at this data and made the decision to aggressively add to our long-term investments (full disclosure: we are invested in the Hillside Focus Portfolio) throughout 2022. Given the above data, I will ask: how does this data drive your decisions?

THE HILLSIDE FACTOR(Y) FOCUS: CASH IS KING

Don't get misled by the title –we are not, by any means, encouraging you to raise cash in today's bear market like this. What we really try to discuss here is the amount of cash a company's (accounting) profit can produce for shareholders. You heard that right – one dollar of profit on the financial statement can mean more or less than one dollar in cash-flow into the investor's pocket. How would that happen?!

Remember from last month's newsletter: profit is revenue minus expenses.

HILLSIDE IN THE NEWS

On October 3rd, Jason was a guest on **BNN's Market Call** where he discussed Global Growth Stocks. [Watch the full episode HERE].

Visit our [LinkedIn page] for the latest news, videos and articles.

For more information, send us a message at info@hillsidewealth.ca

There are two broad ways to enrich the cash-flow relating to the profit:

1. Collect the customer payment ahead of revenue booking – for instance, consumers prepay Perfect Medical, the largest medical beauty services provider in Hong Kong, for the package of services that they would enjoy throughout the next few months. Cash-rich earnings have been a key factor behind the company's high dividend payout and strong balance sheet;
2. Delay the payment for expenses – one common scenario would be the share-based compensation that prevails among many technology companies such as Meta, the parent company of Facebook, Instagram, and Whatsapp. As of the latest fiscal year, share-based compensation "cost" nearly 8% of Meta's revenue, totaling more than USD 9 billion. In essence, the company saved that 9 billion for investors for the year by delaying compensation payment (in cash) to employees through stock options, and those savings of capital could then be allocated to drive Meta's future growth and/or returned to shareholders.

In a nutshell, not all earnings deliver the same for investors. At Hillside, we look at various metrics, including our proprietary ones, to gauge the company's earnings power in cash and favor business models with a high cash conversion (i.e., cash earnings divided by accounting profit).

HILLSIDE CO. OWNERS' GUIDE

Amanda Baxter, BA

Here's a month by month (step by step) guide to being a Hillside Co. owner. Each month we will feature different rules/engagements of note. These are meant to help frame your thinking when it comes to being invested with Hillside Co.

3 hard and fast Hillside investing rules, explained:

1. **No long-term money in cash**
- Cash returns generally lag inflation and diminishes the value of your funds
- Greatest opportunity for wealth creation is to own pieces of high-quality businesses
2. **No short-term money in the equities (stocks)**
- Fluctuation in the short term can mean your cash isn't available as needed when you need it
- Emergency funds, buffers and any short term money should be kept separate.
3. **Do not look at your portfolio frequently**
- Most investors are too emotional to fully take in the short-term fluctuations in their portfolio
- If you are invested for the long term, the short term changes do not matter

MARRAKESH STEW

Shared by Heidi Marsall

The Hillside Team recently went through our own Dreamscaping exercise together, and shared some of our dreams with one another.

This is where we learned how passionate a chef Heidi is. In fact, she recently hosted 18 family and friends for Thanksgiving dinner and did all of the cooking (including 2 desserts)! This month, Heidi shares one of her favourite fall dishes with us. Bon Appetit!

Recipe Summary

prep: 10 mins total: 1 hr servings: 8

Ingredients

- ☐ tablespoon extra-virgin olive oil
- ☐ large red onion, diced large
- ☐ teaspoons ground cumin
- ☐ teaspoon ground coriander
- ☐ 1/2 to 1 teaspoon cayenne pepper
- ☐ 1/2 teaspoon ground allspice
- ☐ large carrots, cut into 1-inch pieces
- ☐ 2 russet potatoes, peeled and cut into 1-inch pieces
- ☐ 1 small butternut squash, peeled, seeded, and cut into 1-inch pieces
- ☐ Coarse salt and ground pepper
- ☐ 1 can (14.5 ounces) diced tomatoes
- ☐ 3 3/4 cups low-sodium vegetable broth
- ☐ 2 small eggplants, cut into 1-inch pieces
- ☐ 1 can (15.5 ounces) chickpeas, rinsed and drained
- ☐ Cooked couscous (optional), for serving

Directions

In an 8-quart Dutch oven or heavy pot, heat oil over medium-high. Add onion and cook, stirring occasionally, until soft, 5 minutes. Add cumin, cinnamon, coriander, cayenne, and allspice and cook until fragrant, 1 minute. Add carrots, potatoes, and squash and season with salt and pepper. Cook, stirring occasionally, until beginning to brown, 5 minutes. Add tomatoes and broth (vegetables should be completely covered by liquid; add water to cover, if necessary). Season with salt and pepper. Bring to a gentle simmer and cook, uncovered, 20 minutes.

Add eggplant, stir to combine, and simmer until eggplant is tender, 20 minutes. Stir in chickpeas, season to taste with salt and pepper, and cook until chickpeas are warmed through, 5 minutes. Serve stew with couscous if desired.

Tips and substitutions:

Use your biggest pot, this recipe makes A LOT!

The leftovers freeze really well, but it tastes even better the second day.

I often substitute zucchini for the eggplant since eggplant isn't my favorite.

You can use any broth/stock you feel like, the recipe was just written as vegan

We often also brown some stewing meat in beginning if we are needing extra protein, it adds a wonderful deep flavour

Chopped apples and/or raisins thrown in at the same time as the chick peas are really yummy too!

SEPTEMBER 2022 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to September 30, 2022	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**-14.08%**	**-2.80%**	**-7.02%**	**-10.44%**	**1.97%**	**4.96%**	**5.90%**
HCG Benchmark[1]	*-15.85%*	*-3.97%*	*-11.18%*	*-13.50%*	*-0.03%*	*2.11%*	*2.90%*
Hillside Balanced Growth*	**-16.55%**	**-3.89%**	**-8.74%**	**-12.10%**	**2.94%**	**5.94%**	**7.81%**
HBG Benchmark[2]	*-16.83%*	*-4.79%*	*-12.58%*	*-14.01%*	*0.79%*	*2.75%*	*3.46%*
Hillside Focused Growth*	**-22.61%**	**-5.54%**	**-11.55%**	**-16.12%**	**3.60%**	**5.35%**	**7.17%**
HFG Benchmark[3]	*-20.08%*	*-6.98%*	*-17.24%*	*-15.32%*	*4.20%*	*4.85%*	*5.49%*

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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