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THE SURPRISING OUTCOME OF COLLABORATING WITH EXPERTS

Michael Preto, CFP®, CIM®

We believe in collaborating with experts for concentrated learning. This means setting the ego aside and recognizing opportunities for us to add value for you and your family. The story which best describes this philosophy in action is how Jason met Steven, and then how Steven became part of Hillside.

Five years ago, Jason was researching a company ([Rightmove PLC](#) which is still part of [Hillside Co](#) today) and couldn't find any analyst reports or research articles, except for one. The article was written by Steven Chen. I remember the moment Jason read the article - I was preparing for a client meeting and suddenly the silence was shattered by Jason pounding on our offices' shared wall, exclaiming: "you have to come and see this!".

I'll admit, I'm not as passionate about security selection, capital allocation and fundamental security analysis as Jason is. So, when I went over to his office to read an excerpt from Steven's article, I sort of looked at him with some concern and said something like "if this gets you excited, you need to get out of the house more often"- wink, wink. It might be like a beer drinker tasting one of Montepulciano's finest Brunellos. In this case, Jason is a sommelier and Steven's research is the fine wine.

Naturally, Jason dug deeper into Steven's work and read whatever he could find. And with each article I'd hear him say "this is some of the very best work I've ever seen!" Jason then reached out to Steven to tell him how much he appreciated the quality of his research and they soon struck up a mutually beneficial relationship kicking around investing ideas.

I heard a lot about Steven over the next couple of years. Jason stated several times that "if there was one person I could choose to work with on the portfolios, it would be Steven. We didn't know anything about his business, we just assumed he was managing a lot of money for a bunch of really happy clients. In our minds what mattered was his passion for researching and investing in high quality businesses trading at fair valuations.



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Then COVID hit, and during one of their discussions Steven casually mentioned he was looking for a new opportunity as he was going to fold up his investment partnership. Turns out his professional portfolio management career was still in its infancy.

The unfortunate timing was really a blessing in disguise. Jason and I quickly recognized the opportunity for Hillside and offered Steven a job. Steven's now a big part of Hillside, gets to do what he loves everyday and we're hoping to get him and his family here to Vancouver by year's end.

One of our dreams is to have Hillside outlive us so we can continue to add value to you and your family for generations to come. To do this we'll need to build a team of high-quality people to work the ship so it stays on course after our time's up. To attract our crew, we'll continue to lean on our philosophies and commitments and trust our abilities to identify and capitalize on opportunities for us all to benefit from.

PORTFOLIO UPDATE

Jason Del Vicario, CFA®

What better month than March to engage in some "spring cleaning" here at the Hillside Factory?! Before discussing changes we've made I'd like to speak to our theme this month which is **collaborate with experts for concentrated learning**. As many of you are aware Steven and I regularly speak with management teams and IR folks for most of the businesses we own: collectively known as HillsideCo. What you may not be aware of is that we don't stop there. We will speak with analysts who follow these companies, PM peers who are co-owners and recently we have begun speaking with suppliers and distributors. For example, last week we had a call at 06:30 (Steven's 21:30) with a company in the Netherlands who are the European partner/distributor for Peplink which is Plover Bay's brand. They graciously answered our questions for well over an hour. It was great to learn about the use cases for Plover Bay's technology and deepen our understanding of the business. I only see these "outside the box" learning opportunities increasing over time.

While discussing monthly portfolio changes won't become the new normal (I realize this can be as interesting as watching paint dry!) there were enough changes this month indicative of the way we think; I hope this helps enhance your understanding of how Steven and I are allocating capital on your behalf.



As a reminder, our goal at Hillside is to populate HillsideCo with excellent businesses acquired at attractive prices.

Businesses Sold:	New Businesses Bought:	Added to Existing Businesses held:
A2Milk (A2M)	RH (RH)	Kakaku (2371)
Checkpoint Software (CHKP)	Kato (2189)	Constellation (CSU)
Topicus (TOI)		
Lumine (LMN)		

We sold A2M because it does not meet our criteria that the businesses we own be founder led/run. We do make the odd exception to this rule (GamesWorkshop) when it is clear to us that the managers are behaving like owners. A2M's management group and board were not able to convince us.

We sold CHKP because it is not the market leader in its space, is losing market share and the competitive landscape is not to our liking. Our preference are companies who dominate a market (ideally a niche) and there are few competitors fighting for market share.

CSU is our largest holding and in fact the weighting increased in March; both as the market value has risen and due to us adding to the position with a portion of the TOI and LMN proceeds. TOI was spun out of CSU in 2021 while LMN was just recently spun out. TOI and LMN are both more richly valued than CSU and CSU retains meaningful ownership stakes of both TOI (40%) and LMN (60%). In the name of 'keeping it simple' we decided to consolidate into the "mother ship" where we fully expect future spin outs to contribute to their stellar track record of shareholder value creation.

Kakaku is a position we first acquired during the pandemic downturn. While we weren't able to acquire a full position in 2020, we have finally been able to complete our order. Kakaku is one of the rare businesses with a stated ROE target.

In addition, we have been able to add our AIM listed businesses (FeverTree, Bioventix, Calnex & Best of the Best) to those of you in the **Hillside Balanced Model** with >15% of your investments in a cash/non-registered account. Assets in a cash account is a pre-requisite because these businesses are not permitted to be held in registered (RSP, RESP, TFSA, RIF etc) accounts. Prior to this we had \$130m in the Balanced Model. We now have \$93m in the Balance (w/ AIM) Model and \$37m in the Balance (no AIM) Model. If you have questions about this please contact myself, Mike or Amanda.

In the interest of keeping this short I will let Steven (likely in future letters) speak to our new positions RH (formerly known as Restoration Hardware) and Kato (elderly care facility market leader in Hong Kong).



Learn more about the companies mentioned in this month's newsletter with our series of Hillside Factor^(v) Focus videos available online: [Kakaku.com](https://www.kakaku.com) and [Fever-Tree](https://www.fever-tree.com).



THE HILLSIDE FACTOR^(Y) FOCUS: A COUPLE OF UNDERRATED (BUT AGELESS) LESSONS

What can be more value-generative to investors than lessons fundamentally important but lowly rated in the business domain? What if we tell you that there are many as such and it is not difficult to find them at all?

What if we told you there are fundamentally crucial lessons available to enterprising investors that are lowly rated by the business community, free (!) AND readily available? Sounds too good to be true... right? WRONG!

Warren Buffett, the Oracle of Omaha has offered an annual window into such lessons since 1965. For example, he found that the best metric to gauge management performance is return on capital (not growth). However, one would find it rare for public companies to discuss return on capital let alone set a target for this metric. Not only that but Wall/Bay Street analysts rarely focus on this either! A high growth (at any cost) business model is often seen as the holy grail. We feel fortunate to have landed on some return-oriented mavericks: e.g., Constellation Software, Kakaku.com Inc., Games Workshop - and by the way, return on capital and growth are not mutually exclusive: these names have been growing nicely while maintaining a high return on capital; thank you very much.

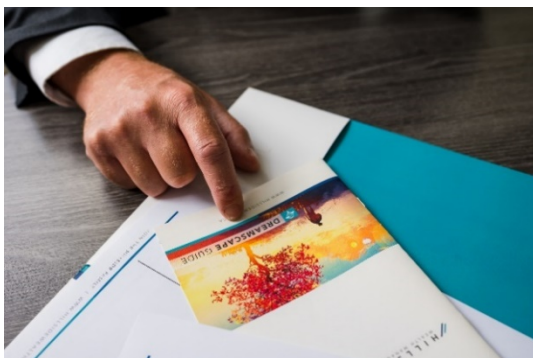
Charlie Munger, Buffett's colourful sidekick, regards EBITDA as "bullshit earnings." The argument is that the metric (and other non-GAAP metrics like the so-called "adjusted earnings") may open a backdoor for management to hide certain costs assumed by the long-term shareholders, despite the fact that it is widely taught in business schools. Indeed, it is not uncommon to see companies highlighting EBITDA or adjusted earnings these days, with some (if not many) of them intending to harvest a higher valuation in the market. At Hillside, we tend to conservatively measure a company's earnings power in cash. We mind the GAAP! Jason and I often quote Buffett and Munger and we do so unapologetically. If you were wanting to improve at squash would you ask me/Jason or the #1 ranked player in the world? Naturally we don't have Warren/Charlie on speed dial but they put out plenty into the public domain and this benefits you as we help you realize your big meaningful dreams.

For those interested in more lessons about investing and business at large, Berkshire Hathaway shareholder letters penned by Warren Buffett for decades is a must-read and can be accessed [HERE](#), completely for free.

HILLSIDE CO. OWNERS' GUIDE

Amanda Baxter, BA

DREAMPOOL PLAYBOOK: Your Dreampool is the surplus investment you do not need in your portfolio to reach your retirement lifestyle target. When it comes to your Dreampool there are three points we'd like you to note:



1. Spend your Dreampool when the markets are up (we will remind you to do so when we are reviewing your Vista with you!)
2. Leave your Dreampool alone when markets are down
3. Go out and realize your big, meaningful dreams! And please make sure to tell us all about them! We love getting your photos and hearing your Dream stories.

KEEPING YOUR PERSONAL & FINANCIAL INFORMATION SAFE

IA Private Wealth's Client Portal has enhanced the Client Portal with a new multi-factor authentication process.

This provides our Hillside Wealth clients with an additional layer of security for your personal and financial information.

If you have any questions, please feel free to [get in touch](#).

OH, SO GOOD CROCKPOT CASHEW CHICKEN

Here's another mouth-watering recipe from one of our favourite chefs - Heidi! Some of her tips include:

- Use whatever type of chicken and cut it up into chunks.
- You can replace the ketchup with tomato paste.
- I usually add more cashews than called for and add another handful half way through the cook time as well because I like the taste and texture of the cooked cashews. I always use roasted unsalted cashews, but I'm sure unroasted and salted would work just fine as well, almonds might be a good choice too!

[Send us a photo](#) when you get a chance to make this dish!

Serves 4-6

- | | |
|--|-------------------------------|
| - 2 lbs boneless, skinless chicken thigh tenders or chicken breast tenders | - 2 Tbsp rice wine vinegar |
| - 1/4 cup all purpose flour | - 2 Tbsp ketchup |
| - 1/2 tsp black pepper | - 1 Tbsp brown sugar |
| - 1 Tbsp canola oil | - 1 garlic clove, minced |
| - 1/4 cup soy sauce | - 1/2 tsp grated fresh ginger |
| | - 1/4 tsp red pepper flakes |
| | - 1/2 cup cashews |

Directions:

Combine flour and pepper in large Ziploc bag. Add chicken. Shake to coat with flour mixture. Heat oil in skillet over medium-high heat. Brown chicken about 2 minutes on each side. Place chicken in slow cooker. Combine soy sauce, vinegar, ketchup, sugar, garlic, ginger, and pepper flakes in small bowl; pour over chicken. Cook on LOW for 3 to 4 hours. Add cashews and stir. Serve over rice.

If you want like extra sauce to pour over the chicken and the rice, double the sauce ingredients.

[Download a print-friendly version of this recipe here](#)



MARCH 2023 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to March 31, 2023	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception**
Hillside Conservative Growth*	8.54%	2.90%	13.08%	4.66%	6.93%	6.05%	6.93%
HCG Benchmark ¹	4.92%	1.52%	9.41%	-2.27%	8.02%	4.77%	4.51%
Hillside Balanced Growth*	11.01%	3.56%	18.00%	6.74%	10.28%	7.54%	9.19%
HBG Benchmark ²	4.92%	1.52%	9.41%	-2.27%	8.02%	4.77%	4.77%
Hillside Focused Growth*	14.35%	3.42%	26.68%	10.59%	18.05%	7.53%	9.41%
HFG Benchmark ³	5.92%	0.95%	13.69%	-1.70%	15.10%	7.35%	7.09%

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.

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Hillside Wealth Management is a personal trade name of Michael Preto and Jason Del Vicario.

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.