



UPSIDE

DOWNSIDE

WealthCo Asset Management
THIRD QUARTER MARKET COMMENTARY 2020

Upside / Downside

WEALTHCO ASSET MANAGEMENT
Third Quarter Market Commentary 2020

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Stock markets across the globe rallied in the third quarter as businesses responded to the opening up of economies that were primarily shut down for the majority of Q2. The S&P 500 hit an all time high in August supported by varying fiscal programs by governments and the perception of central banks willingness to keep rates low for an extended period of time. The September selloff to end the quarter highlights the volatility in public markets when uncertainty begins to creep in as market participants evaluate valuation multiples relative to the prospect of future earnings.

As we enter the final quarter of 2020, the last few weeks of the US election cycle is expected to add to the uncertainty of Covid-19 and the potential effects of the second wave as the northern hemisphere moves into fall and winter. President Trump's positive Covid-19 result in the final month of the campaign and continued talks on fiscal spending is sure to elevate volatility in the markets. Similar to the US election, the stock market in the short term is a "voting machine" that tallies which firms are popular and unpopular. In the long run, the "weighing machine" assesses the substance of a company. This market "noise" can lead to behaviour that can be influenced by emotion in the short run.

While we do not have a crystal ball on the election results and its effect on public market securities, we expect our investment philosophy of using alternatives to diversify risk from public markets will serve our clients well over the long term.

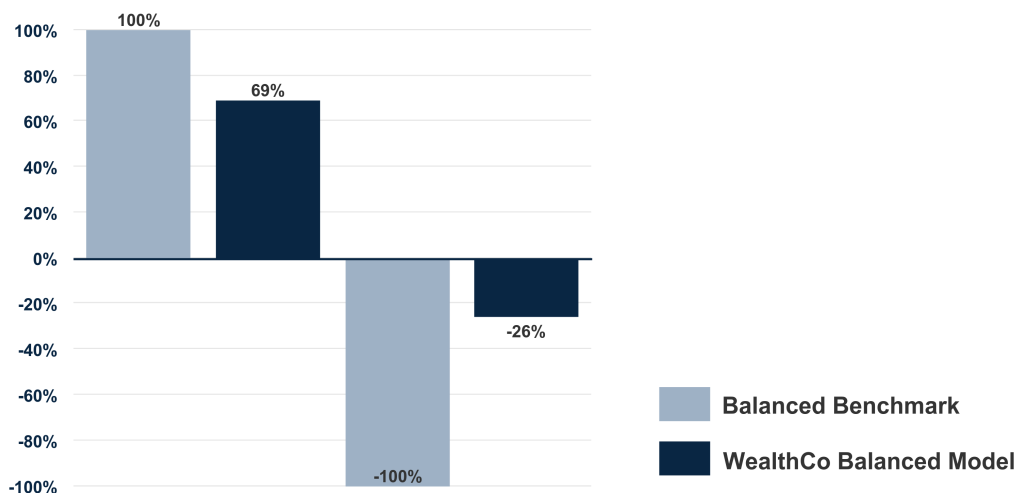
Upside Downside Capture

Upside and downside capture are metrics used by fund managers and investors to evaluate performance in up- and down-markets. Upside capture is calculated by taking the ratio of the fund's performance divided by the benchmark return in periods when the benchmark goes up, and downside capture is the same for periods when the benchmark goes down.

In general, a higher upside capture and a lower downside capture are favorable. Higher numbers indicate higher volatility vs. the benchmark; and lower numbers vice versa. The ratio of the two is also important. A ratio greater than 1 would indicate that the manager is capturing more of the upside than the downside, which is also favorable.

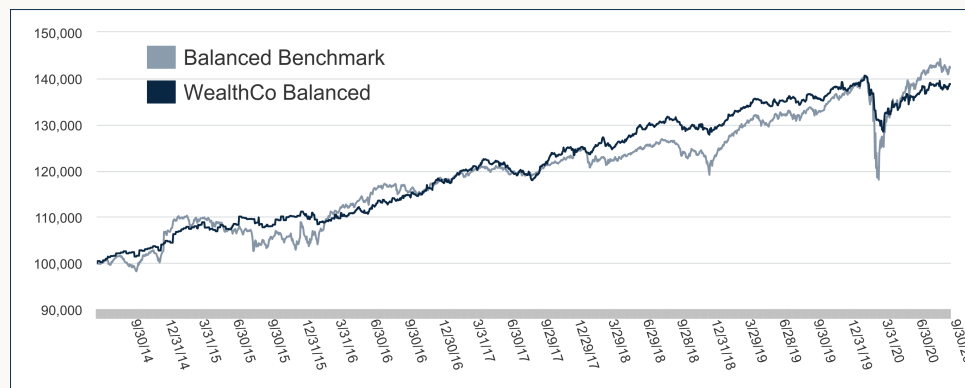
In addition to typical performance measures like return and standard deviation, the upside and downside capture are a particularly helpful tool for evaluating high- and low-volatility strategies as well as a manager's ability to generate excess returns over longer periods of time.

Using monthly returns before fees over the past six years, the WealthCo Balanced model portfolio has a 69% upside capture and a 26% downside capture vs. our balanced benchmark, and an upside/downside capture ratio of 2.6X. This indicates that the portfolio has experienced lower returns during bull markets and higher returns during bear markets, with lower overall volatility.

**Notes:**

- Time weighted returns, net of fund expenses, before management fees
- WealthCo Balanced model portfolio is 37% equities; 25% Alternative Income; 20% Alternative Growth; 18% Fixed Income
- Balanced Benchmark is iShares Core Balanced ETF
- Medium risk model prior to Jan 2, 2019

WealthCo Balanced Portfolio vs Balanced Benchmark (Growth of \$100K Since Inception)



The past two market corrections in Q4/18 and Q1/20 are great examples of how this plays out in real time. The initial shocks were minimized, but the recovery was less steep.

WealthCo's low upside and downside capture are by design. Over the past six years of managing pooled funds, WealthCo's investment philosophy has been to supplement the traditional portfolio of stocks and bonds with a meaningful allocation to alternative asset classes. Adding alternative asset classes that have a low correlation to public markets is what enabled us to lower the overall volatility of our client's returns. Of course, limited downside comes at a cost: not participating fully when markets run. However, if we continue to capture more of the upside than the downside, over long periods of time we should generate stable and positive long-term returns.

Market Highlights:

- Global stocks recovered further in the third quarter as economies reopened to varying degrees. Low rates and a wide range of economic stimulus measures were tailwinds for those companies and sectors that are either insulated from the impacts of COVID or beneficiaries of the pandemic.
- Bond yields remain low, and the yield curve continue to be relatively flat. Credit spreads recovered further in the third quarter, with investment grade spreads now close to pre-COVID levels.
- New home sales in the US have been strong as a result of new homebuyers taking advantage of low mortgage rates and changing homebuyer preferences in favour of lower density living.

Portfolio Highlights:

- Two mortgages paid out over the summer. One multifamily apartment building in Montreal QC was refinanced with conventional CMHC financing; and one multifamily apartment building in Las Vegas, NV was sold to a new owner.
- Star Metals Residences in midtown Atlanta, GA was completed in July, and leasing momentum is encouraging. As of August, 35 of 178 units were leased.
- The Fifth has broken ground. The Fifth is a mixed-use development project on 17th Ave SW in Calgary, AB. The project plans to deliver 52 residential units and 12,580 square feet of retail space by year end 2021.

Closing Thoughts

The lower volatility of our portfolios as measured by the upside/downside capture ratio is an outcome of our investment philosophy and process. WealthCo will continue to build out the depth of our team, invest in technology, and leverage our relationships to continue enhancing the diversification of our client portfolios. As we move into the end of 2020 and into 2021, we will focus on the long-term benefits of portfolio diversification with a mindset of compounding capital over multiple economic cycles. We are excited to continue working with our trusted partners across the globe to build institutional quality portfolios for the clients we serve.

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The **WEALTHCo.** GROUP OF COMPANIES

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"WealthCo Asset Management is monitoring the outbreak of the novel coronavirus ("COVID-19") and its potential impact on the Pools. The outbreak of COVID-19 has increased volatility in financial markets. While the extent and duration of the impact of COVID-19 on global and local economies, financial markets, and sectors and issuers in which the Pools may invest in is uncertain at this point, the outbreak has the potential to adversely affect results."