Seymour Investment Management

July 16th, 2020

We hope that this letter finds you and your family well. The past several months have been challenging for many, and our hearts go out to those who have suffered illness or hardship during this time.

Global equity markets declined sharply in February and March before rebounding strongly from March lows, as unprecedented fiscal and monetary stimulus brought stability to financial markets. For the second quarter, the Canadian benchmark S&P/TSX Composite Index ('TSX') and the U.S. benchmark S&P 500 Index recorded total returns of 17.0% and 20.5%, respectively, bringing year-to-date returns to -7.5% and -3.1%, respectively.

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For equity investors, the past quarter has once again illustrated how difficult it is to time the market and the importance of a long investment time horizon. Against a backdrop of mostly negative news, both the TSX and S&P 500 have nearly recovered to their previous highs. While investors may question the strength of equity markets amid challenges that lie ahead, it is important to remember that markets are forward-looking and although much remains unknown, the point of maximum turmoil is arguably behind us. We are in the early stages of an economic recovery that is supported by record stimulus and historically-low interest rates. Economies are re-accelerating and while job losses and unemployment remain concerns, the trend is improving.

Health concerns and social distancing measures have brought countless changes to everyday life. For many, the past few months have been a time for introspection, and we have been reminded about the importance of health, family, and friends. Travel and quarantine measures have encouraged us to find new and different ways to accomplish everyday tasks and interact with loved ones and colleagues. Indeed, we have witnessed an acceleration in technology and convenience trends already underway including work-from-home, teleconferencing, e-commerce, and home delivery, which will continue to play out over time. Some of these changes will prove to be temporary, while others will have a lasting impact on how we work, live and play, which will in turn have investment implications for a variety of companies and industries.

Investing During Times of Uncertainty

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Uncertainty has become a central theme of everyday life as we monitor the spread of COVID-19 and await further news on social distancing and stimulus measures. Governments are focused on reopening economies using a phased approach, encouraging the early stages of a recovery. Consumer spending and economic activity are already showing signs of revival; yet the path remains hazy given concerns over a second wave of the virus. This has created a challenging environment for companies to make hiring and capital investment decisions.

In times of uncertainty, we believe that our efforts are best spent focusing on those things that we can control. In recent months, we have participated in well over 100 conference and video calls with management teams and analysts. Our goal has been to understand how the pandemic and economic downturn are affecting companies and what measures management teams are taking to respond and adapt to a changing environment. During this process, we have been impressed by the exemplary leadership of a number of companies, as they have pivoted and adapted to a changing environment. We have been reminded of the importance of strong leadership and governance, which is a core tenet of our investment philosophy and strategy at Seymour.

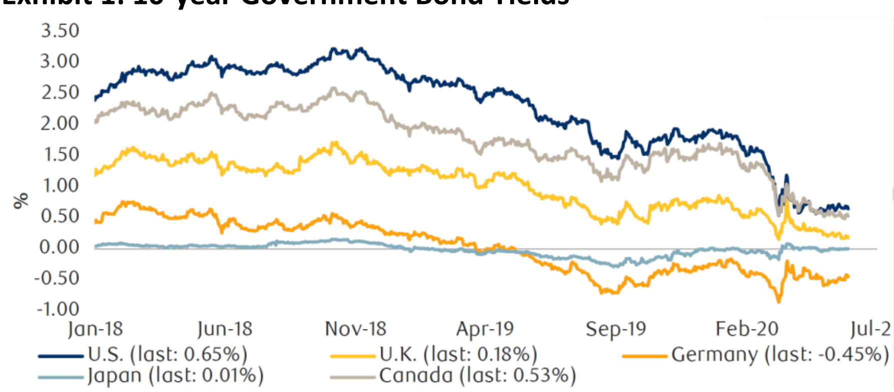
A silver lining of economic downturns is the opportunity that they provide for companies to re-examine business models and strengthen organizations

Many companies have been forced to temporarily shutter operations, reduce hours, or operate at lower levels of capacity utilization during the pandemic. This has enabled management teams to assess operational efficiency and reduce costs, which ultimately will be reflected in improved profit margins as we emerge from the downturn. Indeed, we have heard from many management teams about the improvements they are implementing at their organizations. We are reminded that a silver lining of economic downturns is the opportunity that they provide for companies to re-examine business models and strengthen organizations.

Corporate Debt During the Pandemic

Adding stability to the financial markets, the combination of massive monetary and fiscal stimulus added liquidity to the markets and drove government bond yields to historical lows.

Exhibit 1: 10-year Government Bond Yields

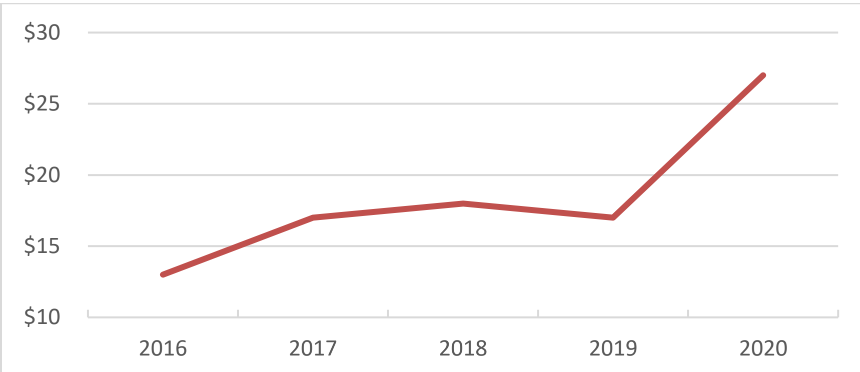


Source: RBC

Following a brief period when bond markets were effectively closed, we have witnessed a flurry of new issuance as companies capitalize on a window of opportunity to issue or refinance debt at attractive interest rates, as noted above in Exhibit 1, and strengthen liquidity positions. In May, a record of $14.7-billion in domestic corporate debt was issued, contributing to the uptick in Q2 debt as demonstrated in Exhibit 2 below. As we emerge from the economic downturn, we expect there will be attractive consolidation opportunities in many industries for well-capitalized companies, which in some instances may be transformational.

Although the path to recovery remains indeterminable, the economy will ultimately recover and companies will return to growth and prosperity

Exhibit 2: Canadian Domestic Corporate Debt Issuance in Q2 (in billions of dollars)



Source: John Sopinski, The Globe and Mail, Refinitiv

Looking Forward

As we look forward in an uncertain world, it is clear that challenges lie ahead. We don't know how long the pandemic will last and we expect further stimulus will be required. Burgeoning public debt will weigh on the economic recovery, and trade disputes, social unrest, and the upcoming U.S. presidential election add to the ambiguity. Although the path to recovery remains indeterminable, the economy will ultimately recover and companies will return to growth and prosperity.

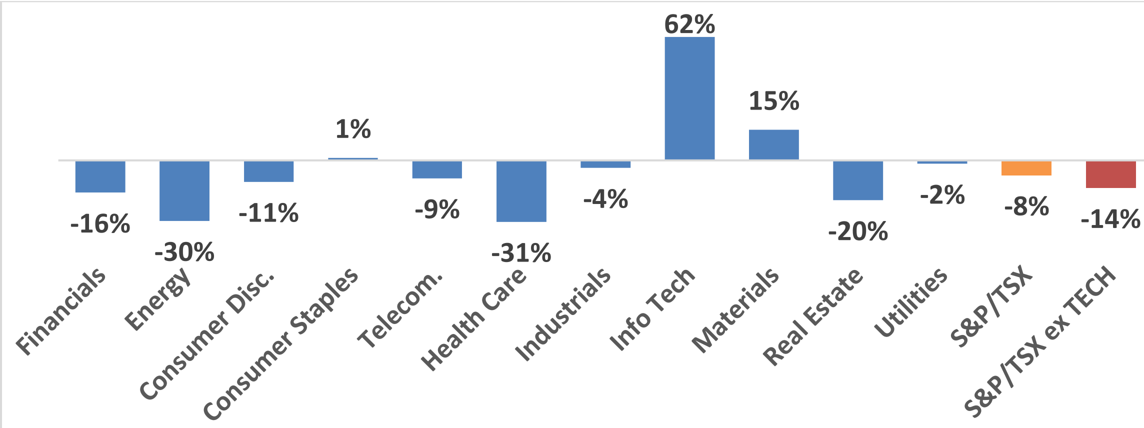
We concentrate on investing in world-class organizations that are well-positioned to survive the downturn, and emerge stronger

During periods of dislocation in capital markets, we remain focused on our long term approach to investing and look for opportunities to generate excess returns through active management and careful security selection. We concentrate on investing in world-class organizations that are well-positioned to survive the downturn, and emerge stronger. In many cases, we have been able to add to our existing equity ownership positions at attractive valuations during this period of heightened volatility, and we will continue to capitalize on opportunities as they arise.

As equity markets have rebounded, we have seen a renewed focus on equity valuations and the price-to-earnings (P/E) multiple of the TSX and S&P 500 indices. It is important to keep in mind that 'the market' is comprised of a variety of companies from different industries with divergent growth prospects and valuations. To date, the market recovery has been relatively narrow with only approximately 30% of Canadian stocks recording a percentage recovery greater than the overall market. As demonstrated in Exhibit 3 below, only three industries: consumer staples, information technology and materials (buoyed by gold), are above water for the year.

Equity valuations remain somewhat bifurcated between companies that are expected to benefit or recover quickly ('the perceived winners'), and companies that may take longer to recover ('the perceived losers'). We continue to see attractive investment opportunities in a number of industries, particularly for those investors that are willing to be patient and take a longer-term view.

Exhibit 3: Sector Total Return Year to Date

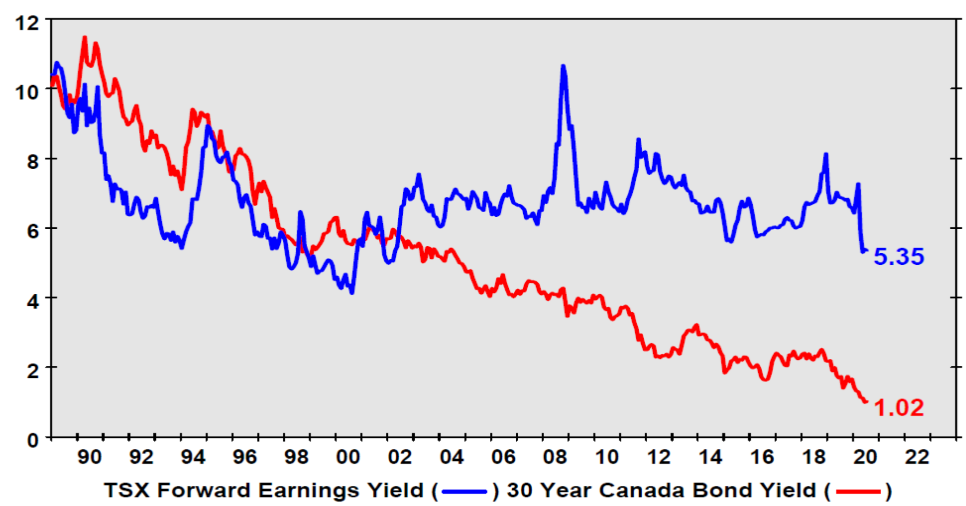


Source: To June 30, 2020. RBC Capital Markets Quantitative Research GICS Data

We continue to believe that equities look attractively valued relative to bonds

We also continue to believe that equities look attractively valued relative to bonds. Following recent movements in equity markets, and with interest rates hovering near historic lows, the forward earnings yield, which reflects the relationship between a company's projected earnings to its stock price, appears attractive relative to the prevailing bond yields as demonstrated in Exhibit 4. This is reflected in the 'equity risk premium', or the excess return expected to be generated by equities relative to the risk-free rate, widening to its largest since 2012.

Exhibit 4: TSX Forward Earnings Yield in comparison to Government of Canada Bond Yield



Source: TD Securities

We remain steadfast in our belief that market timing doesn't work, and patient, long-term investors that remain invested in high-quality companies through market cycles will ultimately be rewarded with attractive, long-term equity returns.

We wish you a safe and healthy summer. Please don't hesitate to reach out with any feedback or questions.

Sincerely yours,

The Seymour Team