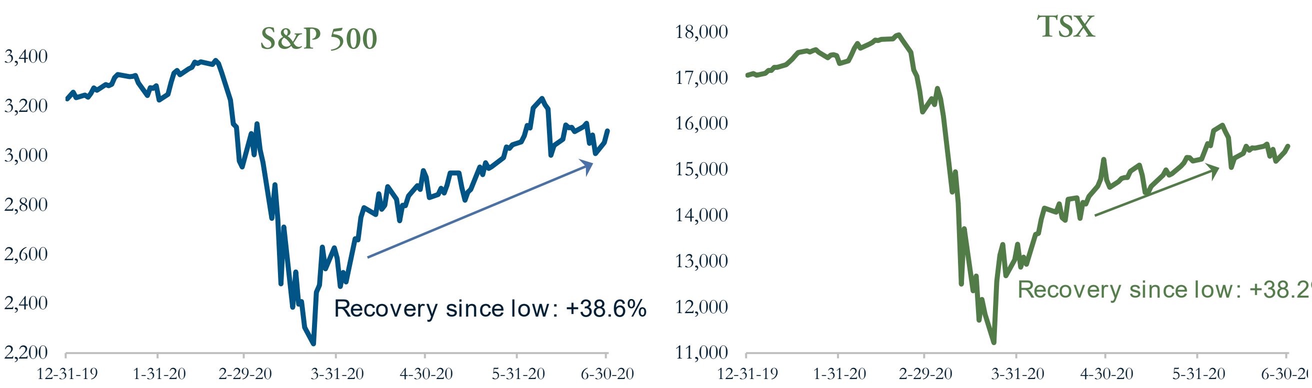
June 30, 2020

Second Quarter Review

NORTH AMERICAN EQUITY STRATEGY

In our March 31st Strategy Review, we suggested that even though things were really bad and were expected to worsen in terms of the number of COVID-19 cases and the near term shape of the North American economy, it appeared that much of the bad news was baked into the stock market based on historical declines in valuations (price, forward earnings and forward price/earnings (P/E) multiples). And from the lows of March 23rd, we have seen a tremendous rally in both the S&P500 and the TSX, up 38.6% and 38.2%, respectively, as shown in **Exhibit 1**.

Exhibit 1:
Bounce Back Since March Low



Source: Bloomberg

However, today you could argue the exact opposite. On the positive side, COVID-19 cases are declining in Canada and were also in the US until recently; however, the death rate is still on the decline in both Canada and the US. New York, the hardest hit state, has shown that through wearing masks and proper social distancing that the pandemic can be controlled. Businesses are beginning to re-open and the economic data is improving although we are nowhere near being out of the woods just yet. US real GDP growth in the first quarter was -5% as compared to +2.1% in the fourth quarter 2019.The 2020 estimate is projected at -6.5% based on the economic projections from the U.S. Federal Reserve; however, the path there could involve a -40% drop in Q2 followed by a +20% increase in Q3 according to Yardeni Research, which might suggest this will be the shortest recession on record.

The table in **Exhibit 2** shows fiscal stimulus actions globally, which in most cases is outpacing the levels seen in the "Great Financial Crisis" which at that time was unprecedented. None of these measures can cure the illness but so far, they have helped prevent a major credit crunch like we saw in the financial crisis. While there are concerns around some of the US unemployment benefits ending next month, it is widely expected that new fiscal measures will be put in place prior to the end of July that are targeted more specifically at sectors in need.

Exhibit 2:
Fiscal Response to COVID-19 vs. Global Financial Crisis

Fiscal policy response

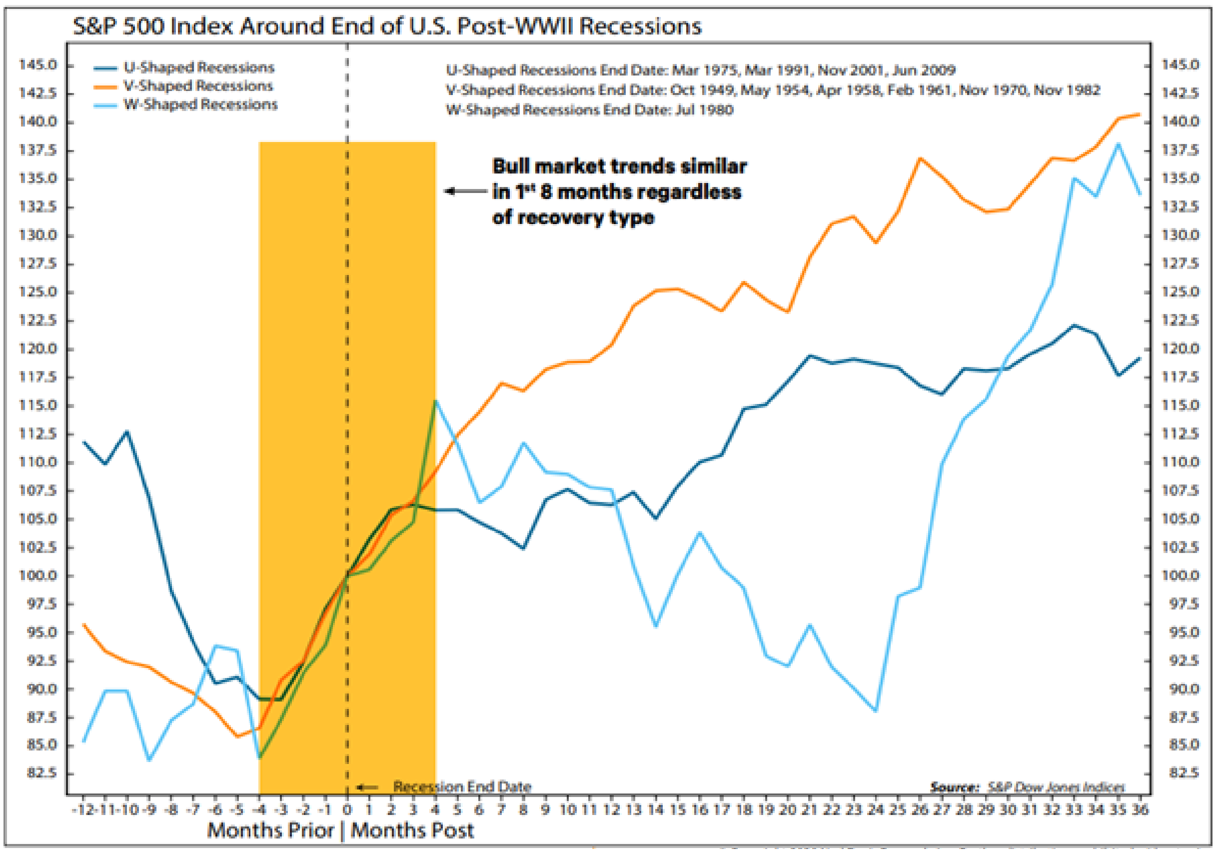
Economy	COVID-19	% of GDP (2019)	Global Financial Crisis	% of GDP (2009)
U.S.	Congress has passed $2.8 trillion in stimulus, including CARES act and PPP.	13.1	$939 billion in direct stimulus via tax rebates and investment for businesses	6.5
China	Discretionary spending of 3.6 trillion yuan, which includes increased health spending and unemployment insurance.	3.5	4 trillion yuan plan focused on infrastructure and direct support	11.5
Japan	Emergency Economic Package Against COVID-19 worth 117.1 trillion yen, followed by a supplementary package of the same amount.	42.0	15.4 trillion yen in consumer and business support	3.1
Germany	913 billion euros in direct aid to businesses and consumers and loan guarantees.	28.9	82 billion euros in tax cuts, consumer support, and infrastructure	3.4
France	110 billion euros in direct support for businesses and consumers and 315 billion euros in loan guarantees.	19.0	26 billion euros in infrastructure and investment	1.3
Italy	80 billion euros in direct support and 400 billion euros in loan guarantees.	29.7	9 billion in consumer support and tax rebates	0.6
Canada	205 billion Canadian dollars in healthcare spending and direct support to businesses and consumers.	9.8	45 billion in consumer support and infrastructure	2.9
South Korea	29 trillion won in direct support for businesses and consumers, with additional measures waiting for approval.	1.5	69 trillion yuan in infrastructure and tax breaks	5.7
Australia	162 billion Australian dollars in direct support for businesses and consumers.	8.3	52 billion Australian dollars for consumer and business support	4.1

Ned Davis Research T_GO20200604.1.1

Source: Ned Davis Research

Exhibit 3 shows the historical behavior of the S&P500 around the end of 11 post-WWII recessions. The first observation from the chart is that the market bottoms on average about 4 months before the end of the recession. That would suggest the recession would end sometime middle of the 3rd quarter 2020 assuming March 23rd was indeed the market bottom. The second observation is that whether it is a U, V or W shaped economic recovery, they all end the same way, with the market higher, albeit the pace and trajectory can vary. Thirdly, regardless of the type of economic recovery, the first 8 months of market performance are more or less the same.

Exhibit 3
S&P 500 Index Around End of US Post-WWII Recessions



Source: Ned Davis Research

Exhibit 4 examines 37 bull markets since 1900, which are divided about evenly between post-recession bull markets and bull markets that had no recession before them ('post non-recession bull markets'). The National Bureau of Research officially declared that the US recession started in February of this year so we are focused on the post-recession bull market column, which implies a median gain of 65.7% in the market over a shorter period of 15.6 months. That suggests that even with the bounce back we've seen so far, there may be more room for this market to go higher. Post-recession bull markets tend to be shorter and sharper than other bull markets according to Ned Davis as stocks are often deeply oversold and earnings are depressed, which does seem to match the current situation and outlook.

Exhibit 4:
Post-recession bulls are stronger but shorter

Metric	Post Recession Bull	Post Non-Recession Bull
Percent Change	65.7	81.4
Time (Months)	**15.6**	26.3
%GPA (Gain per Annum)	**36.9**	27.5

Source: Ned Davis Research

Exhibits 5 and 6 show the earnings, percentage change in earnings and forward price earnings multiples for both the S&P500 and the TSX. One concern right now is that given the recent large snapback in markets over the past three months, it's not particularly cheap at least based on the 2020 and 2021 earnings outlook.

Exhibit 5:
To June 30, 2020

S&P500 earnings	2019	2020	2021	2022
Earnings	163.02	126.86	163.45	188.00
% Change		-22.2%	28.8%	15.0%
P/E	19.0	24.4	19.0	16.5

Source:Bloomberg

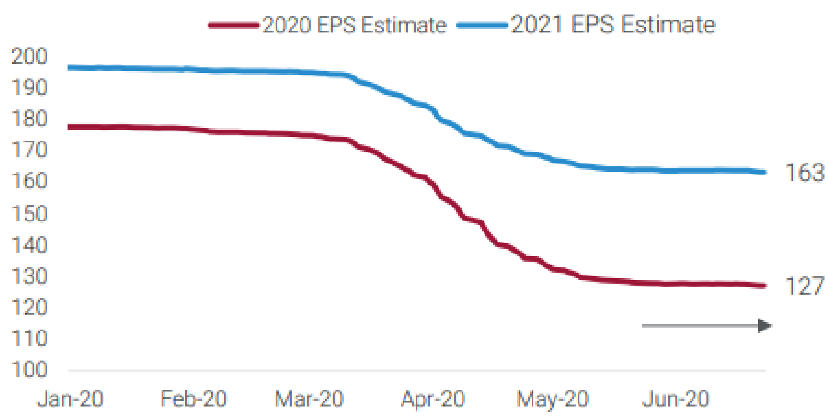
Exhibit 6:
To June 30, 2020

TSX earnings	2019	2020	2021	2022
Earnings	1061.85	635.54	978.30	1133.53
% Change		-40.1%	53.9%	15.9%
P/E	14.6	24.4	15.9	13.7

Source: Bloomberg

Exhibit 7 shows the trend in 2020 and 2021 earnings for the S&P 500 and as indicated in the chart, earnings estimates have begun to level off after a fairly precipitous decline. In fact, forward 12 months earnings, which investors tend to focus on and currently capture the remainder of 2020 and half of 2021, have recently inflected positively on May 16 and June 4th for the S&P500 and the TSX, respectively.

Exhibit 7:
S&P 500 2020 & 2021 EPS Estimate Trends



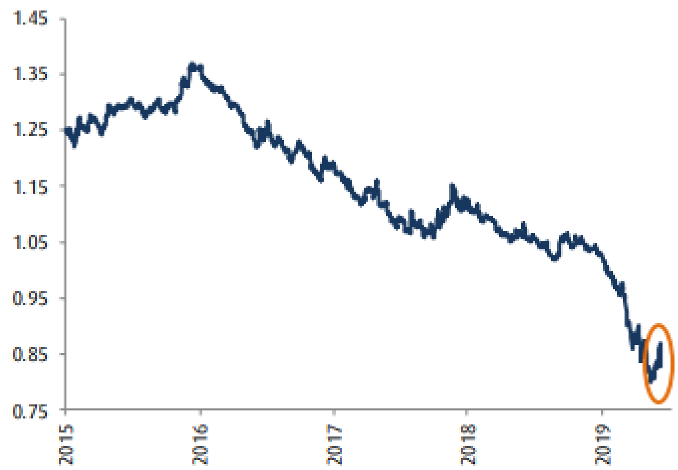
Source: SunTrust IAG

Exhibit 8 is a little more complicated but what it shows is that the relationship between earnings yield (which is the inverse of the P/E ratio so earnings over price or E/P) and investment grade corporate yield. Both treasury and corporate bond yields are currently trading at record low levels. A historical analysis of earnings yields and bond yields shows that as corporate bond yields have come down (grey line), earnings yields (blue line) follow suit, which supports a higher market multiple (ie: as E/P decreases, P/E increases). In this case a 3.6% bond yield translates into a price earnings multiple of approximately 20x. On this basis and looking out into 2021, which is not that far away now, market valuations make more sense to us.

Exhibit 8:
Post-GFC (Great Financial Crisis) Regime- Earnings Yield and BAA Yield

Source: Credit Suisse

Exhibit 9:
Value Stocks Have Rallied in Recent Weeks
Relative Total Return: Russell 1000 Value vs. Growth

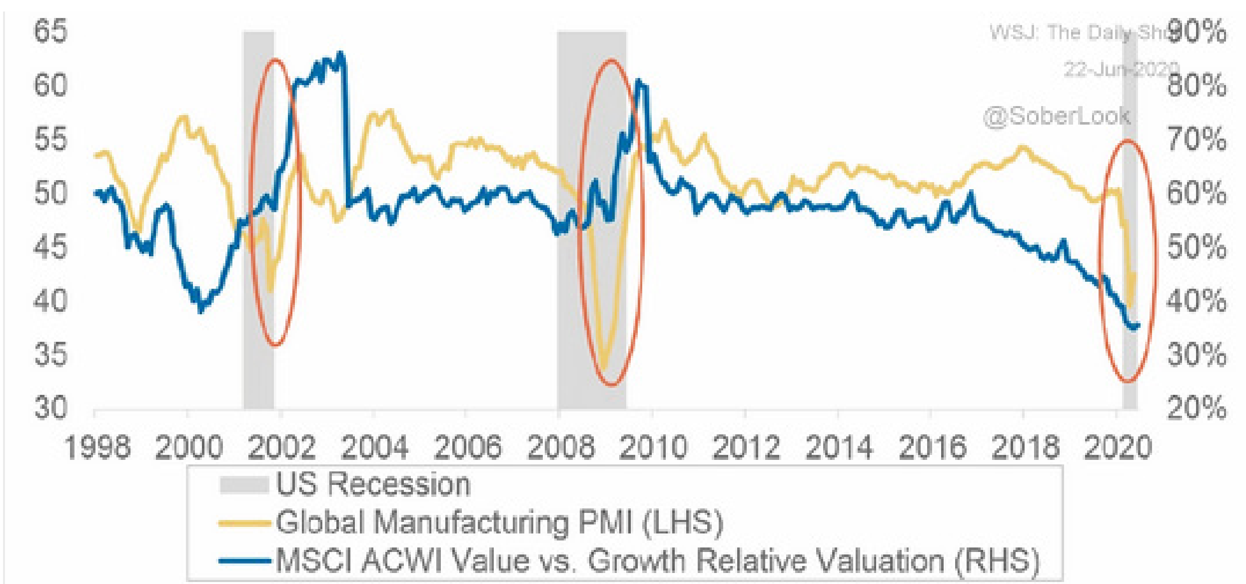


Source: BMO Capital Markets Investment Strategy Group, Bloomberg

Although there have been false starts in the past, another notable shift in performance trends since mid-May has been that value stocks have outpaced growth stocks as shown in **Exhibit 9.** Part of this may reflect some economic optimism as the spring re-openings are unleashing pent up demand.

Exhibit 10 compares the MSCI All Country World Index Value versus Growth valuation (blue line), which currently sits at a new low indicating value stocks have never been as cheap as they are now relative to growth stocks. As indicated in the chart by the orange circles, Value has historically outperformed growth during the recovery phase from US recessions. As this index is almost 60% weighted to the US market and partially to Europe, it is a pretty good proxy for these markets.

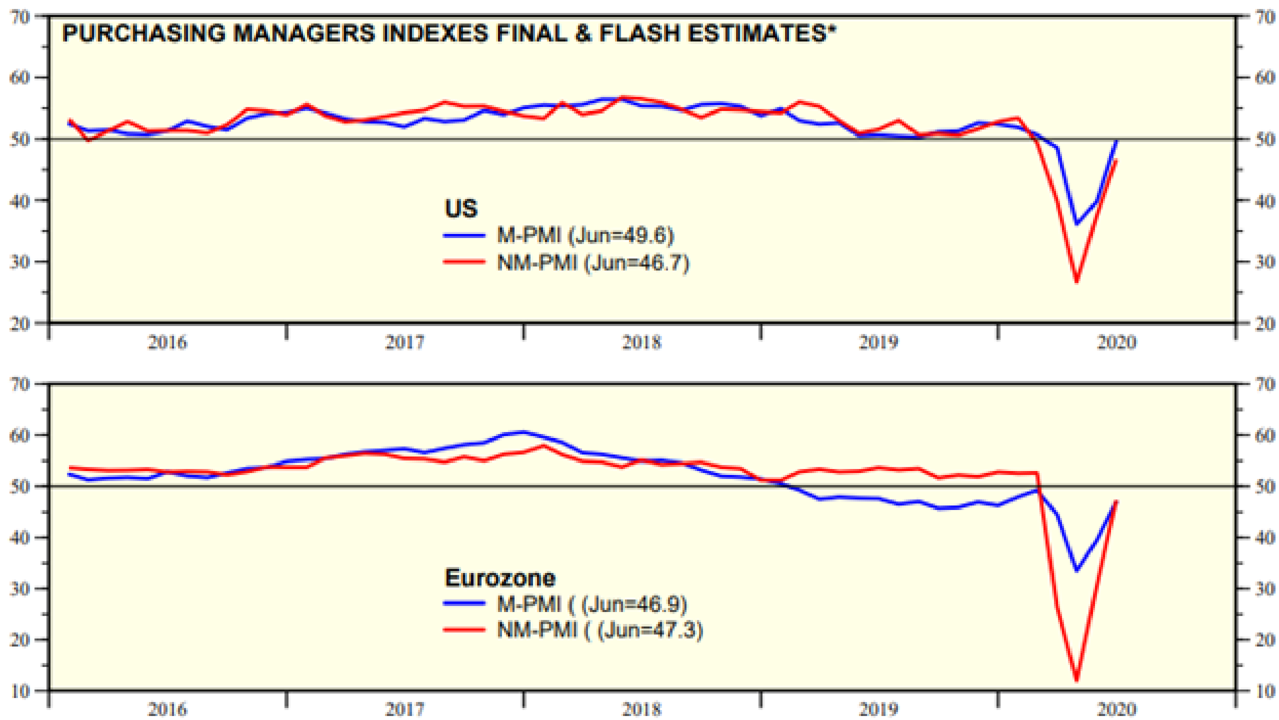
Exhibit 10:
MSCI AWCI Value is at a new record aggregate valuation discount to Growth-historically Value has outperformed in the recovery phase from US recessions



Source: Haver analytics, FactSet, NBER, Morgan Stanley Research: Valuation differential shows an equal-weighted average of the ratio of trailing earnings yield, dividend yield and book value yield for MSCI Value versus MSCI Growth indices

Exhibit 11 shows the latest manufacturing (M-PMI) and non-manufacturing (NM-PMI) flash PMIs (Purchasing Managers Indexes), which have begun to recover in both the US and Europe. A PMI reading over 50 indicates growth or expansion so this chart suggests an economic recovery is well underway, which may bode well for a recovery in Value versus Growth style stocks. We would be remiss not to note that we have seen this trend before, only to see markets revert to Growth style outperformance. The key tactic here would be to take a barbell approach to balance the portfolio among companies that will benefit from this current trend as well as companies that are not dependent on it as the market sorts this out, as we will describe in greater detail below.

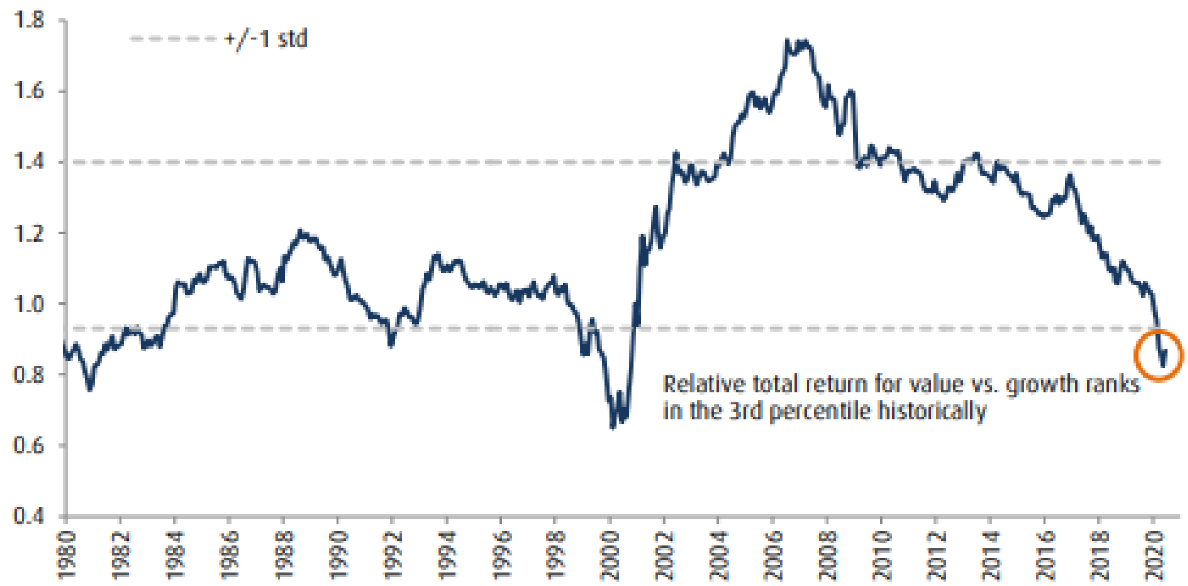
Exhibit 11:



Source: Yardeni Research

Exhibit 12 compares the Russell 1000 Value versus Growth relative total return going back to 1980. It is similar to **Exhibit 10**; however, this chart covers a much longer time period and is specific to the U.S. market. What is evident is the multi-year downtrend in underperformance of Value style investments is at an extreme and that historically, this has been followed by periods of outperformance by value stocks, the most notable being after the Tech crash in 2000.

Exhibit 12
Russell 1000 Value versus Growth Relative Total Returns



Source: BMO Capital Markets

During the second quarter of 2020, the S&P500 total return index was +20.5% in US dollars. Adjusting for currency, the S&P500 returned 15.7% in Canadian dollars, as the Canadian dollar appreciated about 3 cents, closing the quarter at US$0.7366/CAD. The TSX total return in the second quarter was 17.0%.

Asset Allocation for our North American Capital Appreciation Strategy
As at June 30, 2020

Equities	95%
Fixed Income	0%
Cash	5%

During the quarter, our equity exposure increased by 1% to 95% from 94% at March 31st. Overall, our U.S. equity exposure increased from 53% to 55% while our Canadian equity weight declined from 41% to 40%. Cash declined from 6% to 5%. It is important to note that many of our clients are invested in our North American plus International strategy, meaning that the actual weights of U.S. and Canada in their portfolio will be less than this given the allocation to international positions outside of Canada and the U.S.

When we look at our Growth versus Value style equities mix, as described above, we believe an important tactic to address the current environment is to position the portfolio to benefit from an economic recovery while not fully depending on it, so as such we currently have a fairly even split (barbell) between Growth stocks at about 43% versus 44% Value stocks (41% versus 39% Growth versus Value on March 31st). Our Growth style stocks are represented by reasonably priced positions with strong secular tailwinds that are in place regardless of the economic environment. For example, trends such the transition to cloud computing, digital payments, ageing demographics, among others, many of which have only been strengthened during the pandemic. These are stocks in the Information Technology, Communication Services and Healthcare sectors. Our Value style investments are the more economically sensitive (cyclical) names in Financials, Consumer Discretionary, Industrials and Energy. Some sectors such as Consumer Staples don't really fit into either bucket hence the numbers above don't add to the total 95% we have in equity.

During the quarter, we added a new company, Home Depot, in Consumer Discretionary. Alongside, we increased our exposures to Financial Services and Industrials through the additions of Royal Bank, CN Rail and TFI International. Home Depot is the world's largest home improvement retailer and has generated consistent mid-single digit same store sales growth for the past decade. We think the macroeconomic backdrop is supportive of both short and mid to longer term growth given the coronavirus and trend toward working from home, setting up home offices, improving the backyard and other parts of the home environment. In addition, the currently low interest rate environment, which supports ability to take on mortgages, aging housing stock and potential for the millennial generation to begin moving out of their parents homes will keep driving medium to long term growth and further market share gains.

As noted, many of our clients are invested in our North American plus International strategy where we reduced our exposure to International equities from 22% to 20% as both North American markets (Canada and US) look relatively more attractive from both a valuation and earnings growth perspective.

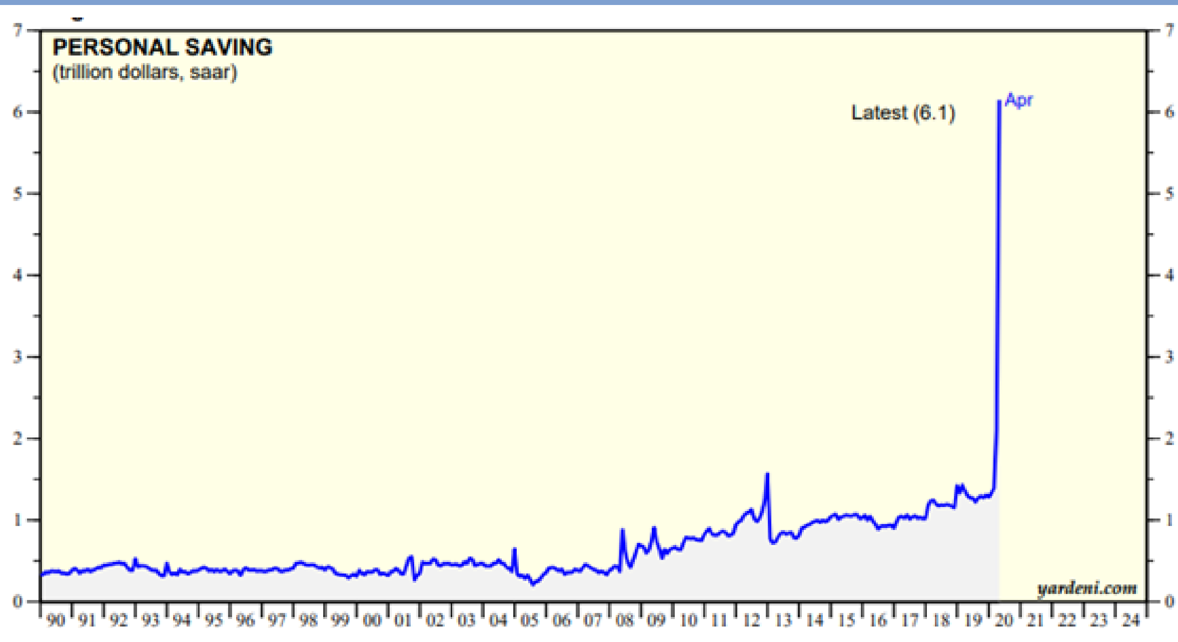
A complete review of the business and fundamental outlook for each of the companies in which we invested during the quarter can be found in **Appendix 1.**

Outlook

As indicated in **Exhibits 4 and 5**, 2020 is essentially a lost year for earnings for both the S&P500 and the TSX. However, the consensus outlook is that earnings should normalize fairly quickly into 2021 and improve into 2022. With only 6 months left in 2020, markets appear to be looking through 2020 out into 2021. While the government induced lockdowns could trigger depression like GDP prints in the second quarter, there are early signs financial conditions have improved, in part reflecting monetary policy measures to support the economy and flow of credit to U.S. households and businesses as well as fiscal measures including unemployment benefits, one time support cheques and forgivable loans under the U.S. Paychex Protection Program. Clearly some of this liquidity has made its way into stock and bond purchases, resulting in the snapback in markets this past quarter, and we believe there is still a significant amount of liquidity on the sidelines. However, this liquidity is also showing up in the real economy as people begin to resume some normal activities. Gasoline usage has bounced back 43% from the lows in mid-March. Flash PMIs shown in **Exhibit 11** have bounced back as well and this has been confirmed by the sharp June rebound in 3 of the 5 regional U.S. Federal Reserve surveys that reported recently.

Finally, retail sales jumped 18% in May over the previous month, which was the largest percentage increase recorded in history. **Exhibit 13** shows the increase in the personal savings rate for April up 33% to a seasonally adjusted $6.1 trillion. This is due to the severe limitation on consumer spending during lockdowns regardless of whether it was from government support or people not spending while working from home. This savings could result in pent-up demand by the consumer in the second half of 2020 assuming the economy continues to open up. It could also make its way into the market.

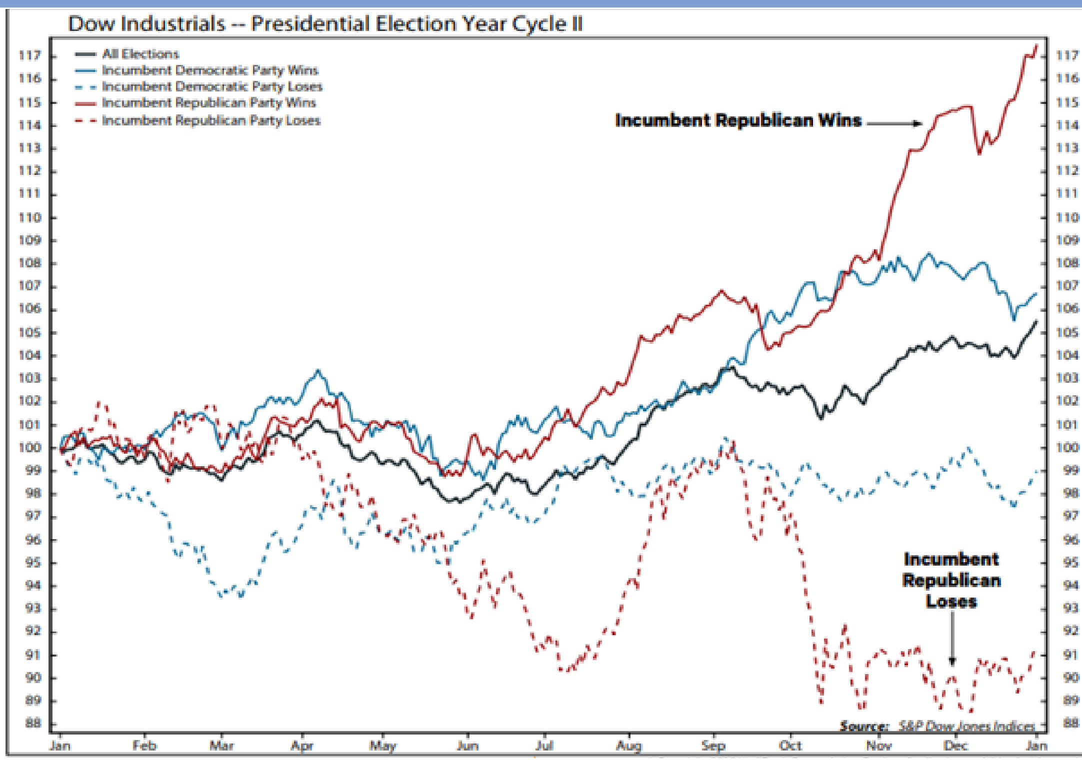
Exhibit 13:



Source: Yardeni Research

The next two charts look at the election although we think it is still early days for investors to be placing too much emphasis on this. **Exhibit 14** looks at the Dow Jones Industrial historical performance following a presidential election year. Overall, it shows the market does better when the incumbent party wins and that is amplified when it is a republican party win.

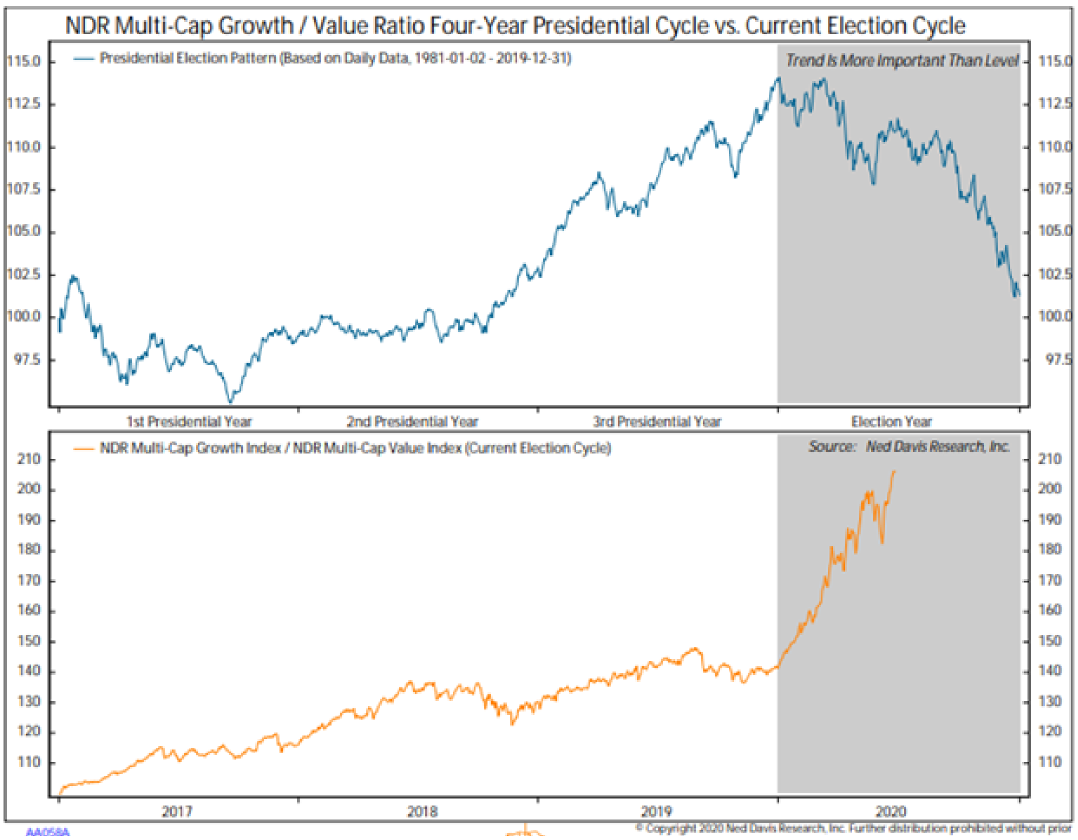
Exhibit 14:



Source: Ned Davis Research

Exhibit 15 looks at the historical performance of Growth versus Value style stocks over the four year presidential cycle (top clip) and compares it to the current election cycle (bottom clip). So far, growth continues to outperform through this 2020 year to date. We will see if this changes in the second half of the year, given the historical patterns and reasons mentioned above.

Exhibit 15:



Source: Ned Davis Research

Exhibit 16 shows some of the important characteristics of the Cumberland North American Capital Appreciation strategy versus the 50/50 S&P500/TSX benchmark* in terms of valuation, profitability and risk. The key message is that your portfolio continues to trade slightly below the market in terms of valuation yet the portfolio in its entirety is consistently more profitable as measured by the ROE and ROIC, accomplished with lower risk/volatility. Also included here is our ESG (Environmental Social Governance) risk score, which again ranks favorably for the North American Capital Appreciation strategy ("NA Equity").

Exhibit 16:

	NA Equity	50 SPX- 50 SPTSX
Profitability		
ROIC FTM	14.9%	12.0%
ROE Latest FY (%)	27.6%	20.7%
Valuation		
Price/Earnings 12m(X)	19.0x	20.3x
Risk		
Beta (Portfolio)	0.95	1.00
Standard Deviation %	21.8%	25.2%
ESG		
Sustainalytics Score	76.5	52.5

Source: Bloomberg

Please stay safe and healthy through the balance of this summer.

Peter Jackson
Chief Investment Officer
June 30, 2020

*Benchmark is 50% S&P/TSX Composite Index, total return and 50% S&P 500 Index total return in Canadian dollars. The weights remain constant. These benchmarks represent the universe from which the strategy select the equity securities for the portfolio. The Cumberland North American Capital Appreciation strategy targets up to 100% in Canadian and US equities in the portfolio at any given time. The Canadian and US equity weights of the portfolio may be different from the benchmark. The strategy at any time may also be less than 100% invested in equities with the balance of the holdings typically held in bonds, preferred shares, income trusts, and/or cash and equivalents.

APPENDIX 1

NEW EQUITY INVESTMENTS:

NORTH AMERICAN EQUITY MANDATE

UNITED STATES

Home Depot Inc.

Home Depot is the world's largest home improvement retailer with 2,293 stores across US, Canada and Mexico employing >400,000 associates generating Fiscal Year 2019 sales of US$110 billion across both physical stores & online. The Company has consistently generated same store sales growth +MSD in the past decade with steady margin expansion, strong Free Cash Flow conversion and ROIC >30% while maintaining relatively modest leverage and returning excess cash to shareholders via share buybacks and dividends. More importantly, management has consistently outperformed its main competitor on average sales per square foot, inventory turns, FCF margin, ROIC and EVA. This is driven by strong execution of its multi-pronged strategy to stay ahead such as harnessing data from myriad customer touch points to offer the ideal products to each customer category, digitally promoting the most relevant products, expanding professional sales through increasing engagement, targeting home services, optimizing supply chain for Omni channel retail, among others. The current macro backdrop is supportive of both short and mid to longer term growth. Increasing work-from-home and in-home entertainment as a result of the coronavirus is driving spending on setting up home offices, updating decor and improving the backyard. This is supported by strong data points on paint sales for example. Management is also distinguishing itself with respect to taking care of their associates during the lockdown that should reap benefits from improved employee engagement. The current low interest rate environment, aging housing stock and potential for the millennial generation to begin moving out drives medium to long term growth and further market share gains.

Intel Corporation

Intel is the world's leading logic semi-conductor provider, providing CPUs, GPUs, FPGAs, and other related components for client computing and the data center. They also own Mobileye, a leading autonomous driving platform, which is a smaller portion of their revenue but growing quickly at 30% per year. Intel's focus on logic components makes its business more defensive than the broader semi-conductor group. In the great recession, other prominent semi-conductor companies' revenues fell nearly 40%; Intel's revenue only fell 7%. However, we think Intel will benefit from this downturn as employees shift to work-from-home, companies accelerate their digitization efforts, and employees upgrade their home offices. Further, Intel will benefit from new 5G telecom deployments both directly, as they sell FPGA's which are used in the base stations, and, indirectly, as 5G connectivity leads to the proliferation of Internet-of-Things (IOT) devices which may use one of Intel's Atom CPU's. And IOT devices are expected to produce vast amounts of data which will likely require further capacity upgrades in data centres. We think we bought Intel for good value, trading at ~11 times price-to-earnings, compared to its 5 year average of ~13.5 times.

Marsh & Mclennan Cos.

Marsh & McLennan is a global professional services firm offering clients advice and solutions in risk, strategy, and people. The company has approximately $17 billion in annual revenue and it offers its services in more than 130 countries through 76,000 colleagues. The Company conducts its business through two segments. Risk & Insurance Services includes risk management activities, insurance, and reinsurance broking & services. These activities are offered through the Marsh and Guy Carpenter divisions of the company. Consulting includes health, wealth & career services, and economic & brand consulting services. These activities are conducted through the Mercer and Oliver Wyman divisions within the company. Marsh & McLennan has a dominant position in the brokerage industry that would be difficult to displace. The company's sticky customer relationships allow it to benefit from a relatively stable level of insurance transactions. The company essentially acts as an advisor to help clients manage their risk. Brokers can search the insurance market more efficiently than individual buyers, helping clients compare insurers' skills, financial strengths, and reputation. The complexity of these services creates switching costs and there is perceived value for the client in continuing to work with a broker that has experience in managing their risk.

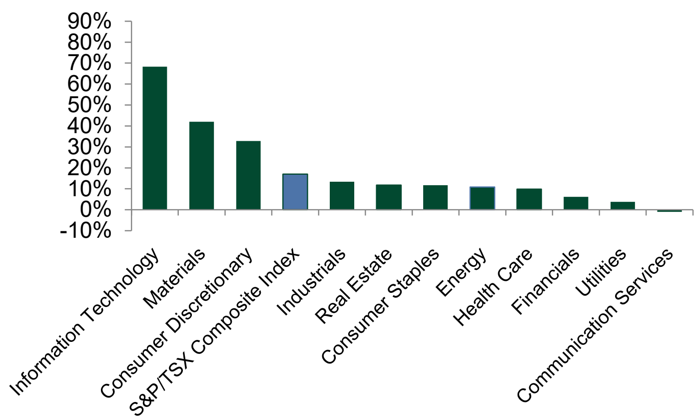
Mastercard Inc.

Mastercard operates a payment network with integrated solutions that links consumers, banks, merchants, and merchant acquirers. Mastercard's business is protected by a network effect as merchants are more likely to subscribe to Mastercard's network because a large number of consumers carry its cards; and consumers are more likely to carry a Mastercard because many merchants can process it. We think Mastercard's competitive positioning will allow it to continue to earn excess returns that won't be competed away for the foreseeable future. Over the last 5 years, Mastercard experienced double digit revenue and operating income growth. That trend will likely persist for the next few years as the pandemic has accelerated the secular trend to shop online and use cards instead of cash for in-person shopping.

APPENDIX 2

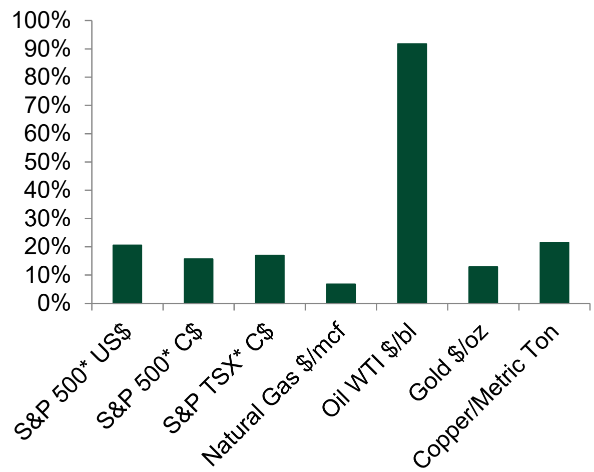
PERFORMANCE CHARTS

S&P TSX (C$ Total Returns)
Quarter Ending June 30, 2020



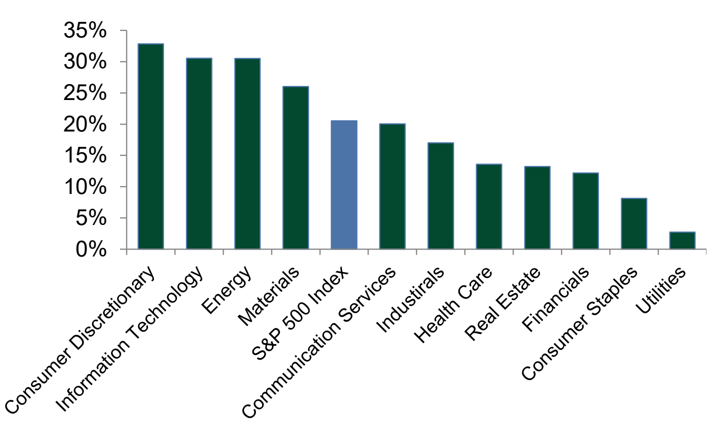
Source: TD Securities

Quarter % Change
Quarter Ending June 30, 2020



Source:Bloomberg *Total Returns

S&P 500 (US$ Total Returns)
Quarter Ending June 30, 2020



Source: TD Securities