CUMBERLAND

Private Wealth

Fourth Quarter 2022 Review

GLOBAL EQUITY AND INTERNATIONAL STRATEGIES

2022 was a challenging year for investors. Inflation had been percolating in the background when the year began and then the onset of the war in Ukraine served as a catalyst to drive inflation even higher. In response to inflation reaching levels not seen in 40 years, central banks in various parts of the world started hiking interest rates. Against this backdrop, both stocks and bonds lost money in 2022. It is very unusual for this to happen. Since 1926 there have only been two calendar years when stocks and bonds were both down. Those years were 1931 and 1969. According to Ned Davis, 2022 marked the first time on record that both stocks and bonds fell by more than 10%.

As seen in the chart below, the weakness in stocks was a global phenomenon.

Index	Currency	Total return with dividends
Morningstar Global Index*	70% USD / 30% Euro	-16.4%
S&P 500	USD	-18.1%
Euro Stoxx 600	EURO	-9.9%
MSCI Emerging Markets	USD	-19.9%

Source: Bloomberg

Portfolio Review:

During the fourth quarter, we established several new positions in our Global and International portfolios. The new holdings include Arthur Gallagher, Avery Dennison, Eaton, FinecoBank, Keyera, and Keysight Technologies. A brief description of each new holding follows:

- Founded in 1927, **Arthur J Gallagher & Co** has grown to become one of the leading insurance brokerage, risk management, and human capital consultant companies in the world. With significant reach internationally, the company employs over 34,000 people and its global network provides services in more than 130 countries. We like the insurance broker industry given its characteristics. It is a steady, picks & shovels type business for the global insurance, reinsurance, retirement, and health benefits industries. Arthur Gallagher does not assume any (or very little) insurance risk itself, but rather provides analytical and consulting services to help its clients manage their risk, acting as the middle person between the client and the insurance provider. Insurance is also defensive in nature given that most forms of insurance (home & auto for example) are non-discretionary in nature.

*70% Morningstar Developed Markets Target Market Exposure NR USD and 30% Morningstar Developed Markets Target Market Exposure NR EUR

- **Avery Dennison** is a materials science company specializing in the design and manufacture of a wide variety of labeling and functional materials. The company's largest segment manufactures pressure sensitive labels and packaging materials that are used in nearly every major industry. The pressure sensitive industry is an attractive market given that the two largest players control more than 50% of the global market. With global market share of approximately 35%, Avery Dennison benefits from pricing power and economies of scale. Outside of labels, the company also operates a radio frequency identification (RFID) business that serves retail apparel and other markets. The RFID business helps retailers to better manage their inventories. As retailers shift over to omni-channel, having a more accurate inventory count is crucial to be able to sell on-line but also deliver from the store. Approximately 70% of the RFID revenue is generated from apparel, but Avery has been expanding its target market. UPS is now a customer and it uses Avery's RFID chips to track its shipping packages. In addition, Walmart and Chipotle are running RFID pilot programs with Avery.

- **Eaton Corp** is primarily a power management company that benefits from the secular shift to renewable power and investment in electrification as the grid shifts from a static distribution model to one where there is a dynamic exchange of electricity and data from power producers, distributors, and consumers. Eaton's new order and backlog growth have recently accelerated, driven by manufacturing, EV charging infrastructure, renewable energy generation, energy storage, and grid resiliency products. Eaton also has a strong Aerospace segment that is benefitting from a recovery in commercial airline traffic and higher commercial OEM build rates. The secular tailwinds should support prolonged revenue growth at mid to high single digits.

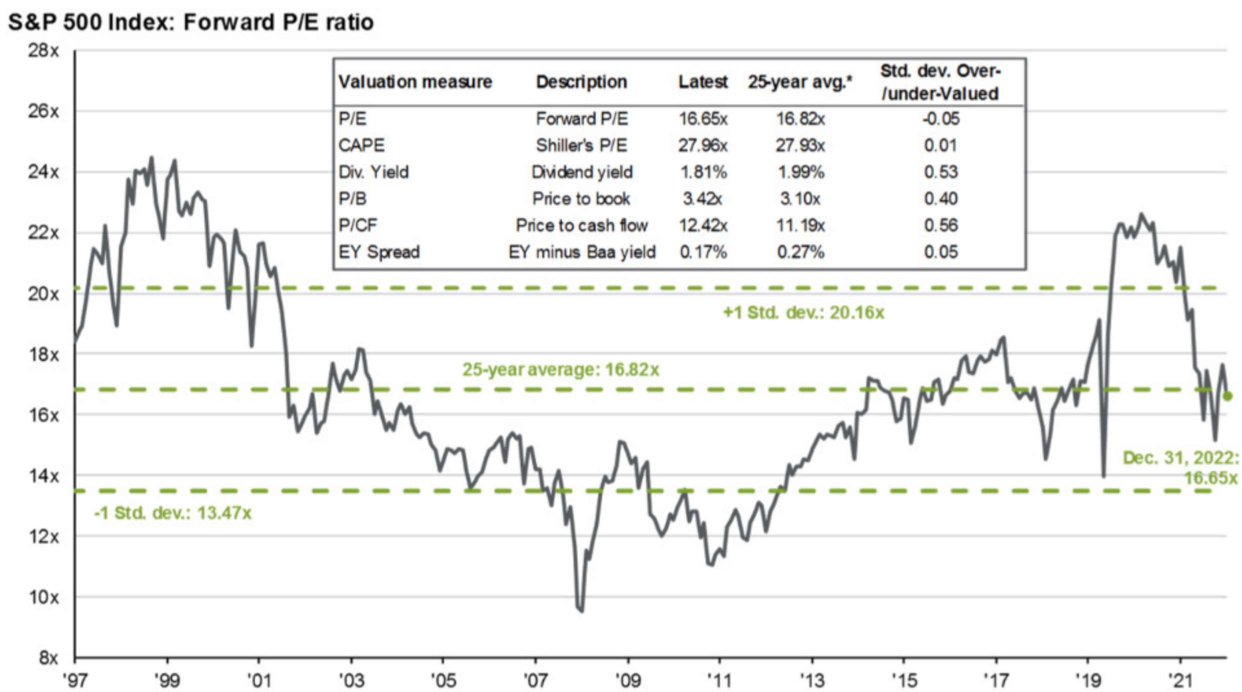
- **FinecoBank** is one of the most established and recognized online banks in Italy with approximately €100 billion in total financial assets. The bank offers comprehensive investing services as well as some traditional banking products. FinecoBank offers a business model that is unique in Europe, combining the best platforms with a large network of financial advisors. It offers a single account with banking, trading, and investment services, on transactional and advisory platforms developed with proprietary technologies. The bank offers a strong digital footprint coupled with competitive pricing, which gives it a competitive advantage in the Italian market which is currently dominated by the traditional banks. FinecoBank has been gaining market share over the past few years by leveraging its efficient and innovative digital capabilities. Demographics should be a tailwind given that on average, Italian households have high net wealth and are older than the European average. This gives the bank an opportunity as wealth gets transferred from older generations to younger, more digital-friendly ones. Finally, FinecoBank is benefitting as interest rates move higher across Europe.

- **Keyera Corp** is an integrated energy infrastructure business with extensive interconnected assets and depth of expertise in delivering energy solutions. The company owns and operates raw gas gathering pipelines and processing plants, which collect and process raw natural gas, remove waste products and separate the economic components – primarily natural gas liquids – before the sales gas is injected into pipeline systems for transportation to end-use markets. Over the last three years, Keyera has invested more than $2 billion into growth projects and acquisitions, which are underpinned by fee-for-service contracts. Through these investments the company has significantly reduced its dependence on commodity prices. Fee-for-service businesses currently account for 75% of total revenue, up from 60% a few years ago and is projected to reach nearly 80% by 2025. The steadiness of the fee-for-service business supports a generous dividend, which currently yields more than 6%. In addition to structurally improving the business in recent years, we are also encouraged by the company's pursuit of energy transition opportunities including low carbon fuels, hydrogen, solvents that reduce emissions intensity, and carbon capture programs.

- **Keysight Technologies** is a global leader in the testing & measurement equipment industry. The company offers a wide range of hardware and software measurement & testing solutions focused on several large industries including communication equipment, automotive, and aerospace & defense. In recent years Keysight has expanded its mix of recurring revenues by increasing its offerings of software and aftermarket services. Recurring revenue now accounts for more than 30% of sales and adds more stability to the business. Keysight has significant exposure to several themes that we like including electrification and reshoring. Within electrification, Keysight's solutions are being used to develop and test electronic components for hybrid and electric vehicles. The company's solutions are also being utilized in the development of charging infrastructure for electric vehicles. Keysight is also a beneficiary of US reshoring given that their test & measurement offerings will be used extensively in a number of areas that the US government is incentivizing whether it be new manufacturing plants and semiconductors factories, automation, and electric vehicles.

Outlook for 2023

We are cautiously optimistic as 2023 gets underway. Given what transpired in 2022, valuations are much more attractive relative to where things stood one year ago. With a decline of nearly 20% for the S&P 500 during 2022, the Price-to-Earnings (P/E) ratio for this index as of year-end 2022 was trading in line with the 25-year average.

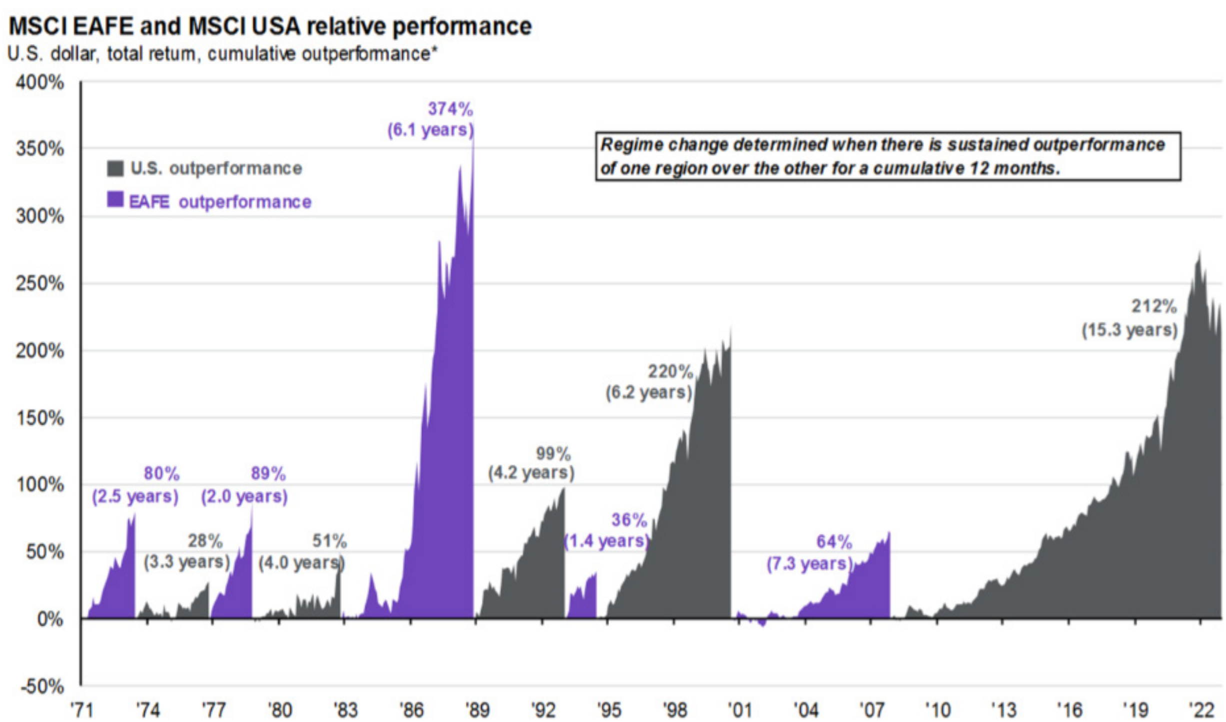


Source: JPMorgan – Guide to the Markets

https://am.jpmorgan.com/ca/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/

Although there are some signs that inflation is cooling, it seems a bit too early for central banks to declare victory. From our vantage point, it appears as though more interest rate hikes are on the horizon and the jury is out as to whether central banks can engineer a soft landing by avoiding a recession. Having said that, if a recession does materialize, we believe it will be a milder garden variety type recession. Global banks have robust levels of capital so a repeat of the 2008-09 Financial Crisis seems highly unlikely. Meanwhile, corporates and consumers are less exposed to credit risk and leverage risk than they have been historically. In the United States, debt servicing ratios are near multi-decade lows and 90% of U.S. mortgages are fixed, far below levels seen during previous tightening cycles. Similar to consumers, U.S. corporates have shifted to fixed rate debt. Today, over 75% of S&P 500 debt is long-term fixed versus 40% back in 2007. The average maturity of debt on S&P 500 balance sheets today is 11 years, which compares to 7 years in 2007. For all these reasons, we believe that any recession that unfolds should be shallow one as opposed to a deep, prolonged downtown.

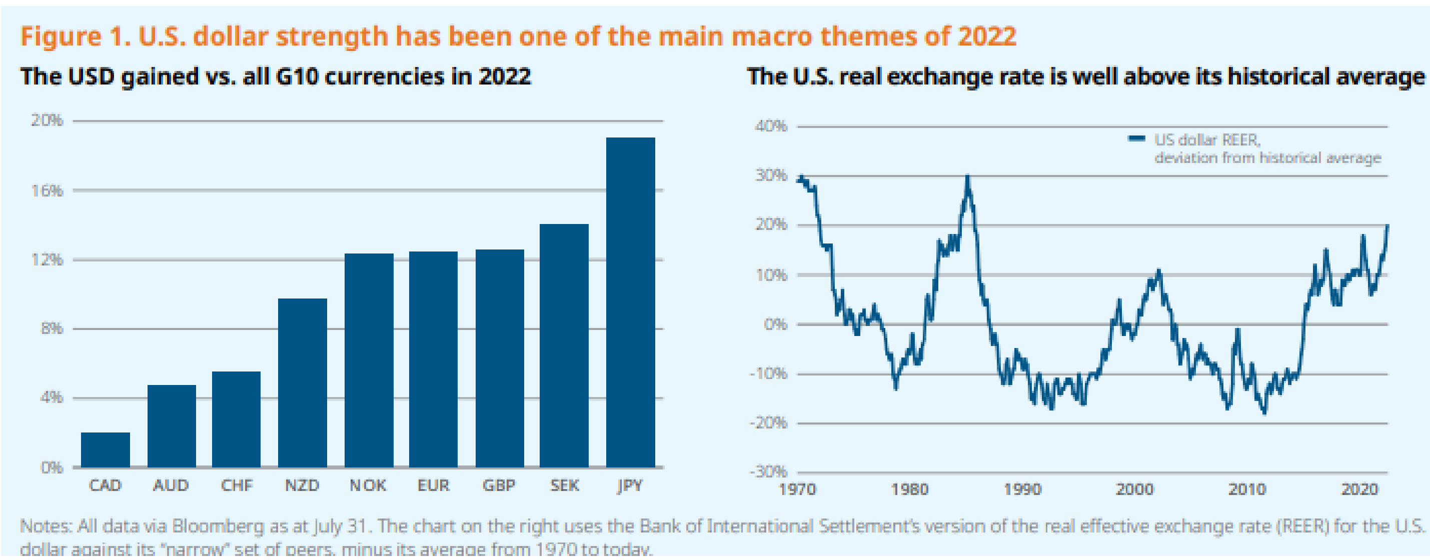
As part of our outlook, we also believe that a changing of the guard may be unfolding in terms of stock market leadership. The United States has had a great run as seen in the chart below with about 15 years of outperformance versus international markets. The outperformance is measured by comparing the MSCI USA index relative to the MSCI EAFE Index, which consists of 21 developed markets countries around the world excluding the U.S. and Canada.



Source: JPMorgan – Guide to the Markets

https://am.jpmorgan.com/ca/en/asset-management/institutional/insights/market-insights/guide-to-the-markets/

During the fourth quarter of 2022, the MSCI EAFE and MSCI Emerging Markets both outperformed the MSCI USA Index. We believe this trend may continue after 15 years of outperformance by the United States. One of the catalysts that will likely play a factor in this potential changing of the guard in the reversal in the strength of the U.S. dollar. As seen in the chart below the US dollar gained against all G10 currencies during 2022 and it now sits well above its historical average.

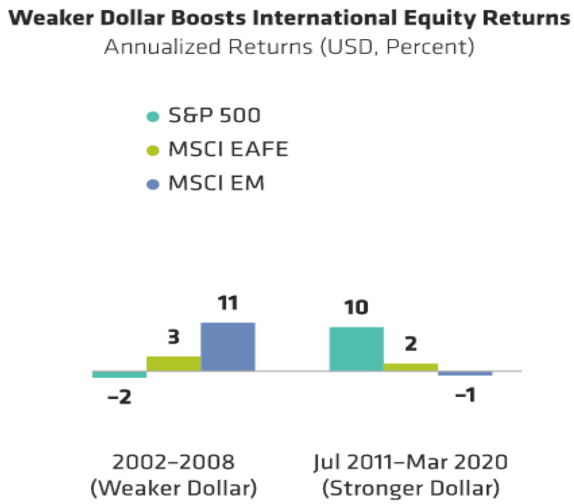


Source: Mackenzie Investments

https://www.mackenzieinvestments.com/content/dam/mackenzie/en/insights/mi-todd-mattina-monthly-commentary-august-2022-en.pdf

Although it's only been 3 months, a longer lasting reversal in the US dollar may have already begun. Since reaching a peak on September 28th, the U.S. Dollar Index (or DXY) has fallen by nearly 10%. The U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies. A reversal in the US dollar could have implications for stock market returns across different regions around the world. As seen in the chart below, sustained periods of US dollar weakness have been associated with outperformance from international stocks. The last period of sustained US dollar weakness occurred from 2002-2008. This period coincided with a period of underperformance for US stocks as measured by the S&P 500 relative to international stock ex-US & Canada (MSCI EAFE) and emerging markets (MSCI EM).

Is it time to Expand Allocations to International Stocks?

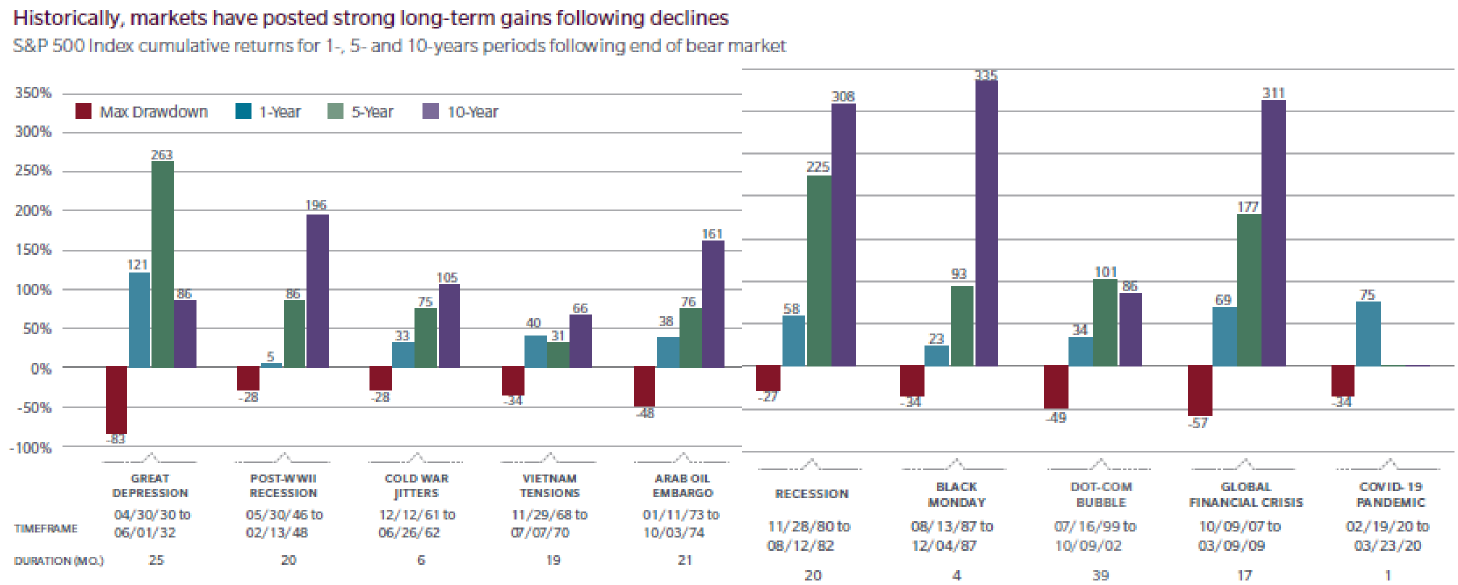


Source: Is It Time to Expand Allocations to International Stocks?
https://www.alliancebernstein.com/corporate/en/insights/investment-insights/is-it-time-to-expand-allocations-to-international-stocks.html

Our portfolios are well positioned for this potential changing of the guard given that we own dozens of companies headquartered throughout Europe and the emerging markets in our Global and International portfolios.

In summary, there are many reasons why we have a cautiously optimistic view as the New Year gets underway. First, the stocks that we own across our portfolios were caught up in last year's selloff so the valuations for our companies have become more attractive. Second, inflation is finally showing some signs of cooling which leads us to believe that we are getting closer to the end of the interest rate hiking cycle. Finally, we believe that the types of companies we own…with stable earnings, low leverage, and pricing power, will be well positioned for the current environment. While there could be more volatility in the months ahead, history suggests that forward returns are typically strong in the aftermath of a bear market. As seen in the chart below, S&P 500 returns are usually strong in the years following a 25% peak-to-trough decline, which occurred in 2022.

Market Declines: A History of Recoveries



Source: Market Declines: A History of Recoveries
https://www.mfs.com/content/dam/mfs-enterprise/mfscom/sales-tools/sales-ideas/mfse_resdwn_fly.pdf

Phil D'Iorio
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January 9, 2023

*Cumberland refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International mandates with Phil D'Iorio as its lead Portfolio Manager. Phil D'Iorio is a Portfolio Manager at CIC.