

ODLUM BROWN REPORT

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ODLUM BROWN
Investing for Generations®

INSIDE THIS ISSUE

Page 1
A Time of Transition

Page 2
Stocks Shine as Outlook Brightens

Page 4
Odium Brown in the Community

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Odium Brown Limited



Odium Brown Community



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A Time of Transition

A message from Debra Hewson:

As summer begins in BC, restrictions are loosening and our province is reopening – it feels like we are transitioning to brighter days. I am pleased to also announce a transition for Odium Brown, as we welcome Andy Eisenbock to the role of Chair.

Andy has been with Odium Brown for over 30 years. In addition to his roles as Vice President, Director and Investment Advisor, he is an active member of the firm's Executive Committee and previously served for three years as Vice Chair.

On behalf of the firm, I am delighted to welcome Andy as Chair. Over his career, he has demonstrated an admirable commitment to his clients and to the success of our great firm. I look forward to working with him in his new role as we lead Odium Brown into this next chapter.

I also want to thank outgoing Chair Ross Turnbull for his support and leadership over the past three years. Odium Brown will continue to benefit from Ross's experience and counsel as he remains on our Executive Committee and Board of Directors.

I would also like to take this opportunity to extend my gratitude to each of you, our valued clients, for the trust and confidence you have placed in Odium Brown, amid a time of crisis, and always. We look forward to continuing to serve you for years to come.



DEBRA HEWSON
President and Chief Executive Officer



▶ Vice President, Director, Investment Advisor
Andy Eisenbock is appointed **Chair**.

Stocks Shine as Outlook Brightens

DIFFERENT MAKES A DIFFERENCE

► Visit Our [Research Blog](#)



Want more commentary from our Research Department?

The *Odlum Brown Report* will be on summer vacation in August, but you can still enjoy commentary from our team of highly regarded Equity Analysts on our blog.

The Odlum Brown Research Blog, *Different Makes a Difference*, features timely insight on the investment topics that are on everyone's mind.

Subscribe today at odlumbrown.com/research/research-blog.

Have a safe and enjoyable summer!

COMPOUND ANNUAL RETURNS¹ (Including reinvested dividends, as of June 15, 2021)

	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	20 YEAR	INCEPTION ²
Odlum Brown Model Portfolio	13.1%	29.2%	10.2%	11.8%	13.5%	11.3%	14.5%
S&P/TSX Total Return Index	17.5%	35.7%	10.8%	11.1%	7.7%	7.7%	8.8%
S&P 500 Total Return Index (\$CDN)	8.8%	26.3%	14.3%	16.3%	17.7%	7.4%	10.4%

¹ Except for YTD period. ² December 15, 1994.

Equities have had a great first half of the year, with the Canadian and U.S. benchmarks registering gains of 17.5% and 8.8%, respectively, through to June 15, 2021. The Odlum Brown Model Portfolio* has benefited from the rising tide, advancing 13.1% over the same period.

Stocks are doing well because the economic outlook is bright. With increasing vaccination rates, economies are gradually reopening. That has stimulated impressive economic growth in the first half of 2021, and we expect the momentum to continue. There is tremendous pent-up spending potential in Canada and the U.S. due to the combination of above-trend personal income growth (thanks to government relief payments) and below-trend spending this past year (due to lockdowns). Moreover, the unprecedented levels of fiscal and monetary stimulus should help keep the world economy robust well into 2022. Economic stimulus typically takes 12 to 18 months to work its way through the economic system.

Indeed, the outlook is so bright that investors are starting to worry about higher inflation, which would put upward pressure on interest rates. While the reopening of economies has created supply bottlenecks and near-term pricing pressure in certain industries, we think the inflationary impulses will prove to be temporary. The still high level of unemployment, global competition and the deflationary influence of technology should keep inflation in check in the medium and long run.

Nonetheless, we are monitoring the rate of economic growth and inflationary pressures closely as these factors have a meaningful influence on the rate of corporate earnings growth and valuation multiples. We hedge the risk of higher inflation by owning high-quality businesses with pricing power and the ability to pass higher costs on to customers.

Popular, fast-growing firms are theoretically the most sensitive to rising inflation and interest rates, and we therefore limit our growth stock investments to those that we believe have reasonable valuations relative to their growth prospects. We tend to avoid the most speculative, highest valuation growth

businesses, as we think they are the most vulnerable. We also have a good complement of attractively priced value-type stocks that have performed well in recent months as the outlook has improved. Companies that pay good dividends, in particular, have become more fashionable, and we believe that will continue because dividend yields are currently higher than bond yields.

We have made modest yet meaningful shifts in our positioning this year to take advantage of the brighter economic outlook and also to hedge against the risk of higher inflation.

We sold our position in MarTel Corporation and added to our Royal Bank and Bank of Montreal holdings. With brighter economic prospects on the horizon and interest rates on the rise, the Canadian banks should experience a meaningful improvement in earnings. Moreover, we believe a sizeable amount of loan loss reserves will be added back to current earnings in future quarters as they are ultimately rendered unnecessary. That will make dividend increases and stock buybacks more likely. If we are correct about these developments, the odds are good that shares of Canadian banks will perform better than the general market.

Bank stocks are also a good hedge against higher interest rates. In general, higher interest rates exert downward pressure on stock valuations as fixed income alternatives become more competitive with stocks. However, banks' net interest margins benefit from rising interest rates. This means that their improved earnings power in this type of environment normally more than offsets the negative influence of higher interest rates on valuations.

With Canadian energy businesses trading at steep discounts relative to their American counterparts, we sold our two U.S. energy holdings – Cabot Oil & Gas and EOG Resources – and added three Canadian firms – Tourmaline Oil Corporation, Canadian Natural Resources and Cenovus Energy.

We sold our entire stakes in SPDR Gold Shares and Amgen, and reduced our positions in Berkshire

Hathaway, Alphabet and CP Rail to make room for five new companies: Vertiv Holdings, Netflix, Saputo, LendingTree and Thermo Fisher Scientific.



Vertiv has a strong position in an attractive industry, selling and servicing equipment for data centres and communication networks. Its products are essential to customers' operations as they prevent costly disruptions caused by overheating and/or power outages. Management is highly regarded, and there is ample opportunity for the company to grow sales and expand margins, which should produce very attractive long-term earnings growth.



Netflix came on the scene in 2007 and changed the way we consume entertainment. In 2013, the company began making its own original content in addition to licensing from others. Quality content is key to attracting and retaining subscribers, and Netflix expects to spend over \$17 billion on content creation this year. Disney is the only other peer with such scale and global reach. Looking forward, the runway for new subscribers is long.



Saputo sells a variety of dairy products, including cheese and milk, under brands such as Armstrong, Dairyland, Bari and Neilson. Management is superb and very focused on ongoing productivity gains, which in turn has made the company an industry leader in profitability. While growth prospects for the dairy industry are relatively modest, Saputo bolsters its growth by deploying its strong cash flow toward acquisitions. Management is patient and often able to improve the operations of newly acquired companies. Successful acquisitions have helped drive double-digit average annual earnings per share growth since Saputo became a public company in 1997.



LendingTree is the leading online marketplace for financial services in the United States, enabling consumers to comparison shop for loans and other financial services the same way they would for travel. The company generates referral revenue from its extensive network of financial institution partners. Management and the business model are impressive; the company has consistently gained market share and done very well with acquisitions. From 2013 to 2019, revenue increased eight-fold, with margins expanding along the way. In addition, the company has reached an inflection point with My LendingTree, a service that helps consumers monitor their financial health while identifying relevant offers from financial institutions. As revenue

contribution from My LendingTree grows over time, the company can expect longer-lasting consumer relationships, more efficient marketing spend and higher margins.



Thermo Fisher Scientific sells critical instruments and equipment such as pipettes, vials and specimen containers, as well as cold storage, water purification systems and centrifuges. It also provides disinfectants and chemical reagents used in the research and testing of new vaccines and medical treatments. With involvement in more than 50% of worldwide COVID-19 testing, the company played a significant role in responding to the pandemic. Accordingly, Thermo had a record year in 2020. Due to this remarkable "pull forward" in demand, performance expectations for the next two years are modest. Still, we believe the company will continue to be a leader and maintain its proven growth model.



MURRAY LEITH, CFA
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* The Odium Brown Model Portfolio is an all-equity portfolio that was established by the Odium Brown Equity Research Department on December 15, 1994, with a hypothetical investment of \$250,000. It showcases how we believe individual security recommendations may be used within the context of a client portfolio. The Model also provides a basis with which to measure the quality of our advice and the effectiveness of our disciplined investment strategy. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

Odlum Brown in the Community

We are committed to supporting initiatives that matter to the communities where our clients and team members live and work. Last year, many of our community partners had to take the difficult step of canceling or postponing their events. We are so pleased to welcome back many of these exciting summer events this year, and to continue supporting their important work.



Thunderbird Show Park – Odlum Brown Limited Grand Prix July 11, 2021 Langley, BC

With small gatherings and organized events starting to safely resume, we are proud to

return as the Investment Management Partner of Thunderbird Show Park and the Title Sponsor of the \$20,000 Odlum Brown Limited Grand Prix on July 11.

Despite a disruption in competition over the last year and a half, Thunderbird Show Park remains one of North America's top horse show venues. This premier equestrian facility is located in Langley, home to one of Odlum Brown's branches and the horse capital of British Columbia.

For more information, visit tbird.ca.

Harmony Arts Festival July 30 – August 8, 2021 West Vancouver, BC

We are thrilled to return as the Presenting Sponsor of the 2021 Harmony Arts Festival, one of the North Shore's most popular community events. This much-loved festival was put on hold last summer, but is returning this year in a modified way. Harmony Arts will look very different this year, but will play an important role in uplifting the spirits of the community this summer.



With something for everyone, this unique celebration of the arts includes visual art exhibits and free outdoor live performances (from a distance), all in a recreated format. Most events are free to the public.

Visit harmonyarts.ca for more information.

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