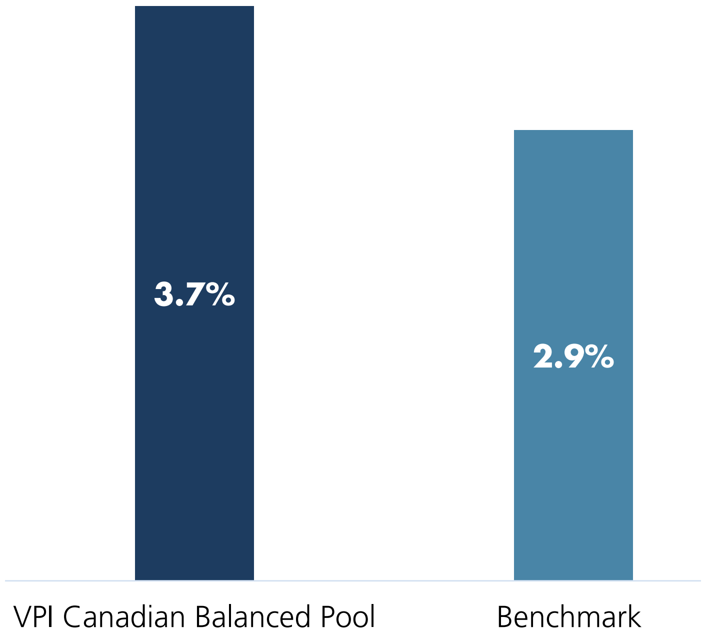
Q1 2021 | NEWSLETTER

VPI CANADIAN BALANCED POOL

BALANCED GROWTH

OUTPERFORMED IN THE QUARTER



ADDING VALUE

ADDED

Couche-Tard, element, DOLLARAMA

15%

TRIMMED

ENBRIDGE, Microsoft, DIAGEO

6%

"Outperformed In The Quarter" data for Series A units as of March 31, 2021. The Benchmark is comprised of 50% S&P/TSX Composite Index, 35% FTSE Canada Universe Bond Index and 15% S&P 500 Index (CAD). During the quarter we added to our holdings in Couche-Tard, Element Fleet Management and Dollarama by trimming Enbridge, Microsoft and Diageo. The return on the new additions, from January 1,2021 to March 31, 2021, was 15 per cent, surpassing the trims, which returned just 6 per cent. Source: Value Partners Investments and Dixon Mitchell Investment Counsel research.

COLD & HOT

Just as we had adapted to investing in an economic winter, markets started fretting that the temperature was about to get uncomfortably warm. Worries now abound that inflation will soon surge, the result of overstuffed household balance sheets colliding with our ability to move about freely once again and a supply chain that's strained in several areas. Unfortunately, the natural corollary of higher inflation is higher interest rates and the fear is that a jump in yields could undermine an important part of the valuation calculus that has helped to propel stocks up from their pandemic lows.

On the surface, the conditions for a bump in consumer prices would certainly seem to be in place. Alongside the record liquidity and pent-up demand, input prices for manufacturers are rising and major ports and distribution networks are bottlenecked, a condition that wasn't helped by the recent hold up in the Suez Canal. As we consider the implications for equity investment, two questions arise. First, if the growth rate in consumer prices increases, will it be a temporary acceleration or something more enduring? And second, if an economic rebound pushes inflation and interest rates higher, will the accompanying rise in corporate earnings be sufficient enough to overcome this drag?

In one of our recent investment committee meetings, we concluded that much of the inflation that will arise in the months ahead will probably be better characterized as "reflation".By this we mean that prices will simply return to the path that they would have been on had the pandemic not turned everything upside down in early 2020. (This development is probable with goods such as airfares and apparel and has already been experienced at the gas pump.) At the same time, goods which found themselves in extremely high demand during the pandemic (cleaning products, home office supplies and certain grocery items) should be under less pressure once we make our way back to a more normal economy. The unusual inflation situation that we're likely to face in the months ahead has been aptly illustrated by the used car market. Last spring, as lockdowns took effect, not only did wary consumers initially sit on their hands when it came to big ticket purchases, but new car production plunged as automakers were forced to shutter factories until mid-May. Soon afterwards, though, stimulus checks started arriving and sidelined commuters began to think about the idea of returning to crowded buses and trains in a post-pandemic world. As the demand for vehicles jumped, dealers had limited means to replace inventory and the perfect storm in the used vehicle market ensued -- prices jumped by 14 per cent from February to October. Since then, however, demand pressure has tapered off and factory output has resumed, allowing prices to fall back by four per cent.

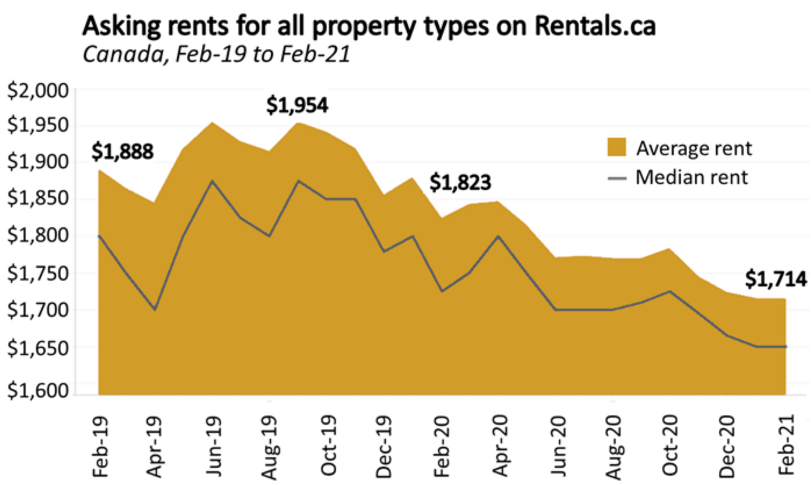
It often feels like Consumer Price Index (CPI) figures don't represent the real world and that the price increases we experience in our daily lives occur at a faster rate than the government leads us to believe. Last summer, the Bank of Canada produced a study that looked at how psychology and bias can play a role in our perceptions about inflation and they found two things -- that consumers assign significant weight to price increases but often disregard reductions and we are prone to focusing on one part of the economy or shopping basket, while overlooking others.

Source: Dixon Mitchell Investment Counsel Research

For those of us living in southern British Columbia, for example, much of our economic experience over the past two decades has been coloured by real estate and construction. Watching bidding wars now erupt for tear-down condition houses or hearing that lumber prices have doubled in less than a year can seem wildly inflationary to many of us. For much of the population, however, the cost of buying or building a home is dwarfed by what what it costs to rent accommodation. On this front, the past year has been uncommonly deflationary. In major US centres like Boston (-8.9 per cent), New York (-15.5 per cent), and San Francisco (-21.5 per cent), rent declines have been even steeper and are probably more than offsetting increases in other parts of many household budgets.

and the Bloomberg Barclays Treasuries Index suffered its biggest quarterly decline since 1980. Though we don't expect bonds to be under similar pressure for the balance of the year, the tail-wind of falling rates is unlikely to be with us for some time, given the strong rebounds expected in consumption, business activity and global trade. Because of this, fixed income allocations will continue to serve their dual purposes of risk mitigation and capital availability but are unlikely to make a significant contribution to aggregate portfolio return in the near future.

The upside to this expansionary backdrop is that corporate profitability should be equally buoyant, a market positive outcome which has recently been supported by both reported earnings and upbeat



With these and other examples, it seems unlikely that the inflation story will be as straightforward as many are suggesting or what our instincts might be telling us. (We shouldn't forget that the past year has seen a steep acceleration in technology and virtual commerce adoption, both of which tend to be deflationary in nature). To be sure, there will be several dramatic price jumps from year ago levels, but many of these gains will be coming off spectacularly depressed levels and others will last only until supply chains and distribution networks are able to adjust to a reinvigorated economy. This pattern is also evident in interest rates, which have climbed sharply over the past three months, but still sit below where they were at the beginning of 2020. While the effect and timing of rising rates on equity market has been nuanced through out the history he impact on bonds is always more direct and immediate, which we were reminded in the first three months of the year when fixed income prices turned sharply downward

management comments. Of course, the attractiveness of a stock is influenced not only by its expected income, but also by its current price level and the return offered by alternatives, especially interest bearing vehicles. In a setting that is likely to include an economic boom countered by meaningful shifts in consumer prices and interest rates, weighing these variables will present a new set of challenges as the economy catapults from frozen to superheated. And, just as pandemic conditions were a boon to some industries and crippling to others, this unique economic tide is also unlikely to lift all boats equally, a consideration which will impact much of our analytical work in the months to come.

Source: Dixon Mitchell Investment Counsel Research

STANDARD PERFORMANCE INFORMATION
Q1 2021

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
SERIES A	26.9%	9.1%	8.5%	7.3%

Note: Annualized returns as of March, 2021.
Inception Date: September 19, 2007.

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