

# WealthCo Asset Management

MARKET UPDATE  
SECOND QUARTER 2020



## The Long Run.

**Sam Roach** CFA  
PORTFOLIO MANAGER  
WEALTHCO ASSET MANAGEMENT

### Private real estate investing in a pandemic.

The real estate sector suffered its worst blow in years as a result of COVID-19, with many tenants not paying rents, and borrowers missing mortgages payments. The impact was so sharp that governments stepped in to support both tenants and borrowers, somewhat softening the blow. From an investment perspective, however, the impact varied significantly based on a number of factors, including the property-type, the terms of the investment, and the location.

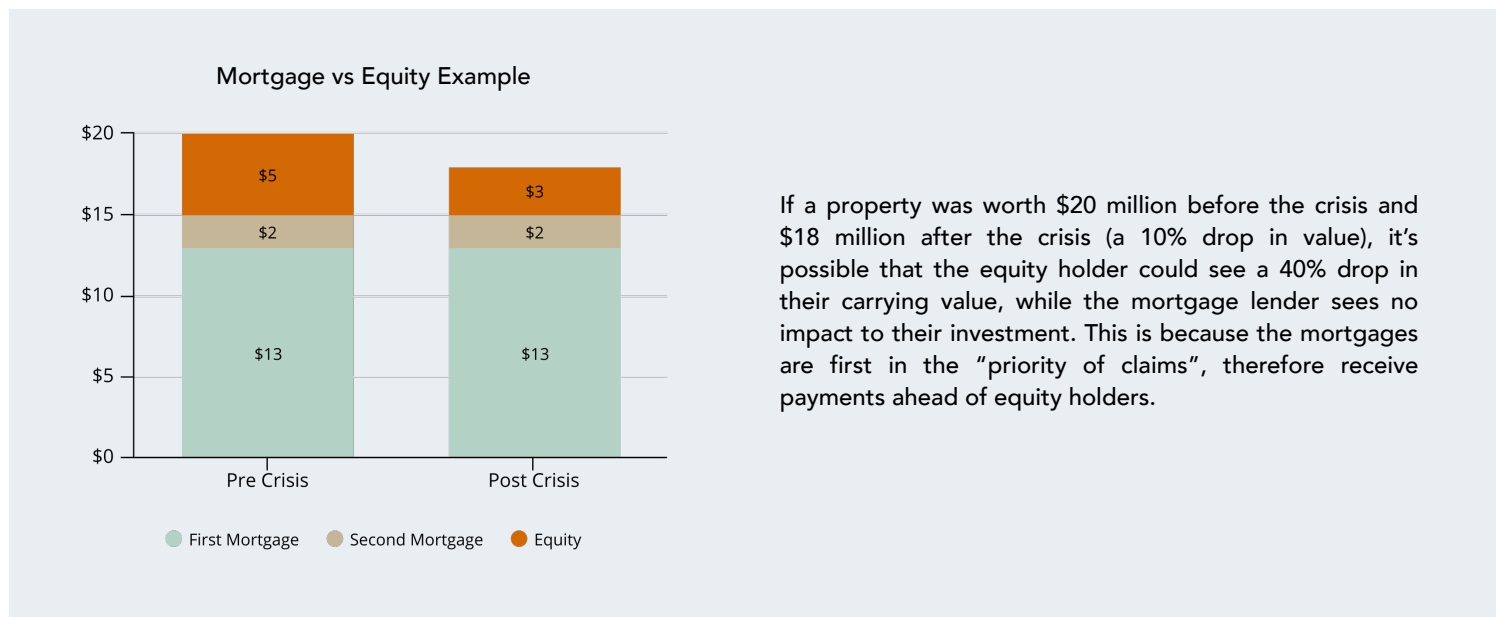
### Minimal impacts to multifamily & industrial; retail the worst hit.

From a property-type perspective, retail assets have been impacted the most. According to Nareit, rent collections in May were >95% for industrial and residential properties, >90% for office, ~70% for free-standing retail, and ~45% for enclosed shopping malls. Rent collections across our portfolio are similar, with the impacts of COVID-19 largely affecting our retail real estate holdings more than other asset classes.

### Mortgages fared better than equities.

Commercial mortgages have performed much better than real estate equity in 2020. Real estate equity, as measured by the S&P TSX Capped REIT index, has shed more than 20% of its value year-to-date in 2020; whereas most well-secured mortgage debt has barely been impacted (see Timbercreek Financial comment below).

To illustrate why mortgages held up better than equities, here's a quick example:



### Location

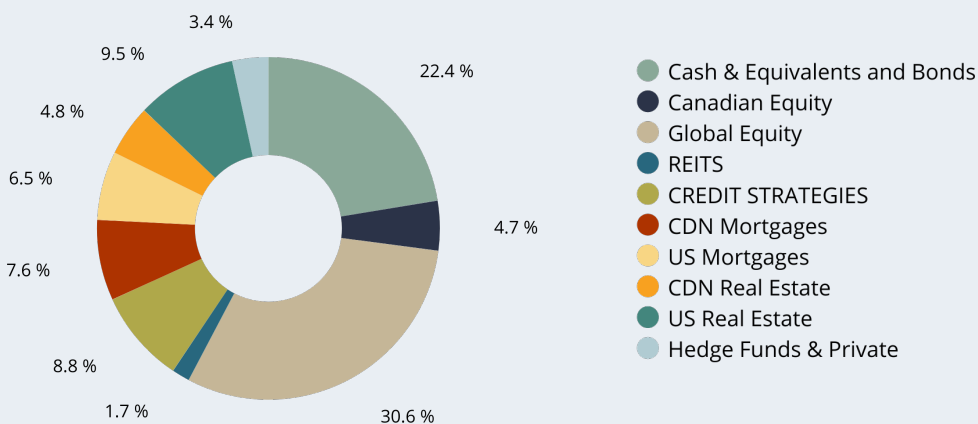
Our US real estate generally performed better than our Canadian properties, particularly those in Calgary. Calgary's real estate fundamentals have deteriorated even further with the impact of low oil prices causing significant weakness in the office market as well as retail.

### Portfolio highlights.

- On May 5, 2020, Timbercreek Financial stated "COVID-19's impact on April's interest and principal payments was negligible, and there have been no material signs of deterioration in the portfolio to date". Timbercreek Financial invests in Canadian commercial mortgages and generates a yield of ~8.1%.
- We made a new investment in Timbercreek's US Commercial Mortgage Fund in the second quarter. The fund invests in mortgages on real estate assets in the US, focusing on first mortgages with an average of ~70% loan-to-value in target cities such as Portland OR, West Los Angeles CA, and Tampa Bay FL. The fund is well diversified by location and property type, and has a target return of 9.0%.
- Adventus Realty Trust, which operates suburban office buildings in Atlanta GA and Chicago IL, collected 96% of rents in June. The company stated on its conference call that management is in discussions to refinance our 8.0% convertible debentures, to take advantage of lower interest rates.
- We reduced our fair value estimates for our retail-related real estate projects in the second quarter, including: the Tsawwassen Power Centre in Tsawwassen BC, the Blue Oaks Plaza near Sacramento CA, and the Poplar Medical Centre in Calgary AB.
- Subsequent to quarter-end, we reduced our fair value estimates for our Enercapita preferred shares, and our real estate holdings in Calgary.

### Diversification within real estate.

Our approach to real estate investing is much like our approach to our managing our client's wealth. We believe in the benefits of proper diversification. In addition to roughly 55% of our client's portfolios that are invested in public equities and fixed income, our typical client has a 14% allocation to private real estate equity, and a 14% allocation to mortgage debt. Further, within each of those asset classes, our real estate holdings are well-diversified by location and property type. The result is that our client's exposure to any one property-type or location is limited, and manageable during a crisis.



### Conclusion

COVID-19 and social distancing practices have had an adverse effect on the global real estate market. Some sectors have been hit harder than others, with retail and commercial properties being the most impacted. However, during the downturn private mortgages have held strong and outperformed equity positions. This is due to mortgages having a higher priority of claim on an investment property's cashflow. Using a robust diversification strategy, WealthCo has mitigated its downside risk by holding private mortgages and differentiating its real estate assets by property type and location. Despite some revaluations of our retail holdings, our mortgage investments have endured little volatility to date; and our strategic partners share a positive outlook on the sector. Overall, the real-life stress test of COVID-19 has showcased how alternative strategies offer greater market resiliency while driving consistent results.

## WEALTHCO ASSET MANAGEMENT POOLED FUNDS

### Quarterly Update - June 30, 2020

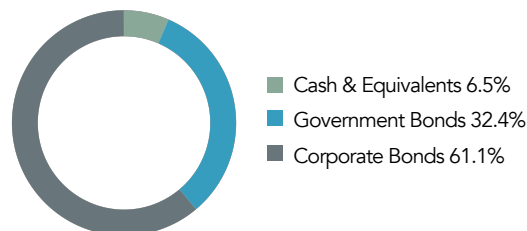
Inspired by the work done at many of the leading North American pension funds and endowments, WealthCo Asset Management offers portfolios that are rich in allocations to less-correlated assets and asset classes. We take our clients beyond the traditional 60/40 balanced portfolio. The intent of this approach to portfolio construction is to reduce volatility over time without curtailing the long-term appreciation potential of your assets. Our size and scale give us access to attractive real estate and private equity deals at preferential rates and lower costs. Here's a summary of the funds we currently manage:

### FIXED INCOME FUND

#### INCEPTION MARCH 30, 2018

#### Quarterly Update - June 30, 2020

This fund was launched at the end of Q1 2018, which entailed carving out the fixed income holdings that were previously held in the Core Growth & Income fund. The fund has a mandate to provide exposure to North American investment grade fixed income by owning high-quality government and corporate bonds, with the intention to preserve capital and earn positive long-term rates of return. Adding this dedicated fixed income offering to the WealthCo family of funds gives us greater flexibility in designing our client portfolios.

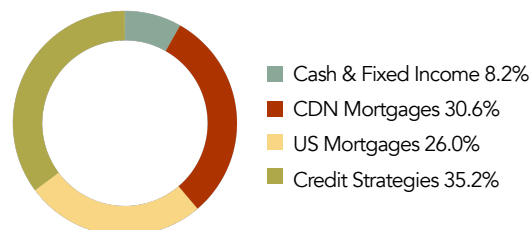


### ALTERNATIVE INCOME FUND

#### INCEPTION JUNE 30, 2014

#### Quarterly Update - June 30, 2020

This fund has a mandate to invest in alternative credit investments with the aim to earn superior rates of return versus what is anticipated to be available in the traditional bond market. Permitted investments include private mortgages, bonds issued by private organizations, and other interest-earning securities/vehicles. In our view, enhanced returns are more so a function of committing capital for a fixed duration than a willingness to accept high levels of credit risk. Our private mortgage investments, especially those in the US, mean we can own higher-interest investments, which contribute to our ability to generate a yield greater than what is generally available in the bond market.

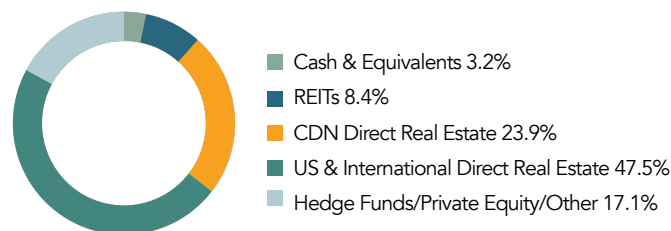


### ALTERNATIVE GROWTH FUND

#### INCEPTION JUNE 30, 2014

#### Quarterly Update - June 30, 2020

This fund has a mandate to generate capital gains from private and non-traditional real estate investments, which are largely uncorrelated with public market returns. The fund invests in a portfolio of REITs (real estate investment trusts), direct real estate holdings, private equity, hedge funds and other alternative strategies. Direct real estate investments typically focus on value-creating opportunities that include property development, building repositioning, and increasing operating efficiencies. Many of these investments have a lifespan of between two and five years so transactions within the fund tend to be a bit fewer and further between. There are attractive returns to be had, but we need to balance the appeal of those with the need to maintain adequate liquidity. For this reason, this fund tends to be a small allocation in our portfolios.

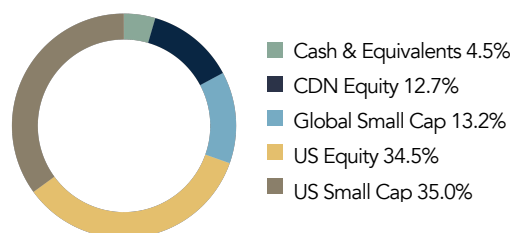


### CORE GROWTH & INCOME FUND

#### INCEPTION JUNE 30, 2014

#### Quarterly Update - June 30, 2020

This fund has a mandate to invest in Global equities of varying market capitalizations. The equity portion is sub-divided into four separate portfolios: Canadian large-cap stocks, Global small-cap stocks, US large-cap stocks and US small-cap stocks. Across these segments there is a strong focus on acquiring investments in companies with proven business models, low-to-moderate leverage and/or the ability to pay dividends. This fund is invested entirely in liquid capital market securities and will generally constitute the most sizeable portion of any WealthCo portfolio. This ensures we have ample liquidity to satisfy any cash flow needs, as all holdings are frequently traded investments.



\*Inception Date: In an effort to have our model portfolio representative of our continuing investment strategies there is a short adjustment in the inception date to accommodate portfolio development and the settling of private placements.

WEALTHCO BALANCED MODEL PORTFOLIO  
INCEPTION JUNE 30, 2014  
Quarterly Update - June 30, 2020

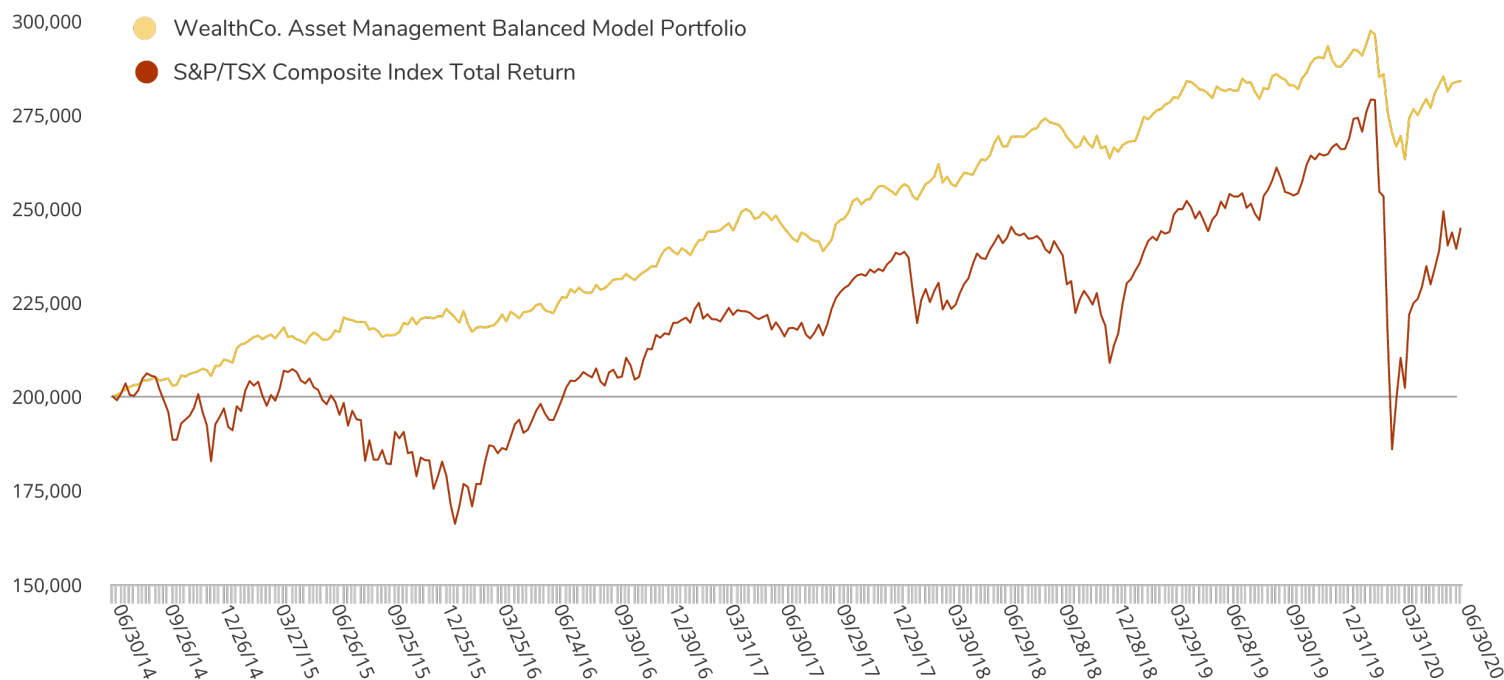
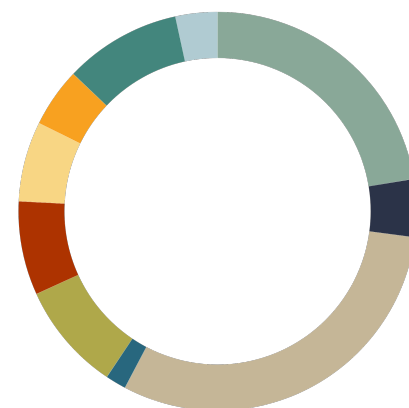
Each model portfolio is a blend of the WealthCo pooled funds, with different allocations based on risk tolerance as well as personal goals and objectives. And, if one of our model portfolios doesn't suit your needs, then we can build a customized asset mix that works for you. Key deliverables are enhanced diversification, reduced volatility, capital preservation and adequate cash flow.

Our approach is to gain clarity and insight into your goals and objectives so that we can build long-term plans that incorporate the ambitions and values that have been the foundation of your financial success. We endeavour to protect and grow your wealth via exposure to traditional capital market investments complimented by a meaningful allocation to alternative investments.

3mo	6mo	12mo
5.43%	-1.36%	1.26%

SINCE INCEPTION 6.07% ANNUALIZED

Cash & Equivalents and Bonds 22.4%  
CDN Equity 4.7%  
Global Equity 30.6%  
REIT's 1.7%  
Credit Strategies 8.8%  
CDN Mortgages 7.6%  
US Mortgages 6.5%  
CDN Real Estate 4.8%  
US Real Estate 9.5%  
Hedge Funds & Private Equity 3.4%



\*Return net of fund expenses, before management fees.

\*WealthCo. Asset Management Medium Risk Model Portfolio prior to January 2, 2019.

**WEALTHCo.**  
ASSET MANAGEMENT

**INVESTMENT COMMITTEE**

**DAVID UDY CIM, CFP, TEP**  
FOUNDER & PRESIDENT, CEO, CIO

**SAM ROACH CFA**  
PORTFOLIO MANAGER

**TIM COAKWELL CPA, CA, CFP, CIM**  
SENIOR VICE PRESIDENT, BUSINESS DEVELOPMENT AND SALES

**SOPHIE BLAIS CCO**  
CHIEF COMPLIANCE OFFICER

**STEPHEN LOGAN**  
FINANCIAL ANALYST

**INVESTMENT PORTFOLIO SUPPORT**

**MELISSA KEIR**  
MANAGER INVESTMENT OPERATIONS

**RYAN SAWKA CIM**  
INVESTMENT COUNSELLOR

**CINDY ACKLES CIM, CFP, CFDS**  
INVESTMENT ADVISOR

**MARCELA MORALES**  
PORTFOLIO ADMINISTRATOR

**JACKIE MAURO**  
PORTFOLIO ADMINISTRATOR



WealthCo Asset Management is a proud partner to the professionals within the Integrated Advisory community, and shares in the collective success of doing common things uncommonly well.

Integrated Advisory is a community of independent CPA firms and professionals who share a calling to provide a higher standard of care and elevate the financial services industry.

**WEALTHCo.**  
GROUP OF COMPANIES

210, 200 QUARRY PARK BLVD, SE . CALGARY, ALBERTA . CANADA . T2C 5E3  
P 403 537 5853 . TF 1 877 537 5853 . F 403 984 2400 . [www.wealthco.ca](http://www.wealthco.ca)

WealthCo. Asset Management Inc. ("WealthCo") is registered as an Exempt Market Dealer in the province of Alberta. It holds a Portfolio Manager registration in the provinces of Alberta, British Columbia, Manitoba, Northwest Territories, Ontario and Saskatchewan and an Investment Fund Manager license in the province of Alberta. The information provided herein is for general information purposes and should not be construed as an offer to purchase, sell or trade in securities. Important information regarding the WealthCo funds discussed herein is set out in the fund's trust agreement. A copy can be obtained from [info@wealthco.ca](mailto:info@wealthco.ca). The historic returns and their relative performance shown above may not be indicative of future returns. Performance cannot be guaranteed. Balanced Model Portfolio: The returns set out above reflect a time weighted average of the returns of a model portfolio invested in a Balanced model portfolio during the investment period shown and the asset mix set out herein reflects the composition of a typical Balanced portfolio as at 06/30/20. The actual result of a portfolio invested under this risk category may deviate from the composite because of differences in the composition and type of assets held. The performance of the S&P/TSX has been provided for general information purposes only. It may not be a fair comparative to the composite return because the types of securities in the index and the index's overall market risk differs from the model.

"WealthCo Asset Management is monitoring the outbreak of the novel coronavirus ("COVID-19") and its potential impact on the Pools. The outbreak of COVID-19 has increased volatility in financial markets. While the extent and duration of the impact of COVID-19 on global and local economies, financial markets, and sectors and issuers in which the Pools may invest in is uncertain at this point, the outbreak has the potential to adversely affect results."