

Equally Invested™

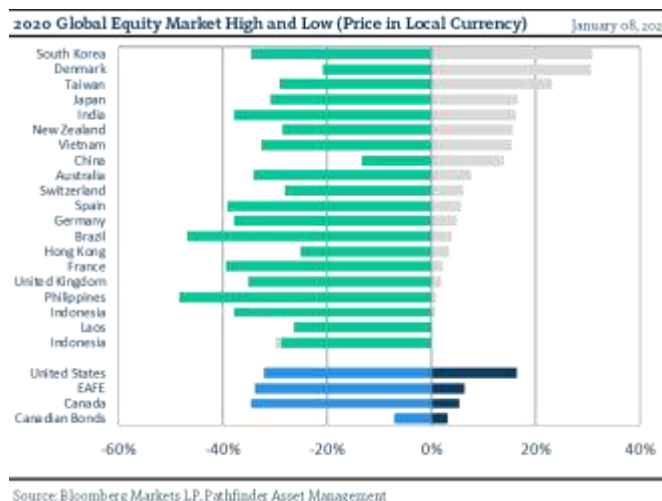
Our uniquely managed funds, fee transparency, and exceptional personal service allow our clients to maximize asset growth, focus on long-term objectives, and have a better understanding of where their money is invested and why.

EQUALLY INVESTED... WHAT THIS MEANS:

We believe we have created a better platform for money management. Our inception as a family office led to the creation of our Equally Invested™ culture: This means that everyone at Pathfinder invests in the same portfolios and funds and pays the same fee as our clients. Also, we (employees), along with our families are the largest investors at Pathfinder so your portfolios are invested right alongside ours.

January 2021

It was an historic year in financial markets. Equity markets rallied back to all-time highs after what was one of the most severe market crashes on record. The drop and subsequent rebound caught most investors by surprise. Without government intervention, financial markets were staring over a very ugly cliff that threatened to be worse than the Great Recession of 2009 and drew comparisons to the Great Depression of the 1930s. Fixed income markets also were severely impacted with yields reaching record lows globally. While it seems the equity markets have looked past the impact of pandemic in nominal terms, investors are now faced with a significant disconnect between the financial markets and the real economy that has yet to fully play itself, in our opinion.



Every year, we put the top and bottom performing equity markets (along with the markets that we focus on) in a chart; however, this year, we have added dispersion so that the reader can see how far the markets dropped from the start of year and then subsequently rose after governments from around the world intervened. As you can see the drawdown in essentially all major markets was greater than -30%. This happened very quickly, which is different than other recessions. The ultimate high for the year after the rebound was just as shocking but quite varied, ranging from small losses to +35% in South Korea. Please also look at the last item, which is the Canadian bond market. While less volatile, it also has significant drawdown. This and other items will be discussed in more detail in each of our mandate reports.



At Pathfinder, we draw a clear distinction between our Core Portfolios (segregated stocks, bonds and cash) and our Pathfinder Funds (our private specialty pooled funds). The investment profiles of these two “baskets” are quite different. The North American Equity Portfolio is managed to produce broad, equity-like market returns but with less risk. The Pathfinder Funds have specialty mandates and are very different vs. a traditional long-only blue-chip portfolio. Our investment thesis is that the combination of these two baskets should produce results that are better than broad equity markets for any given risk level when combined in various mixes, based on client objectives. Blending between these two baskets and treasury bonds, where appropriate, allows your portfolio manager to target essentially any return and risk level that is appropriate to your situation and financial goals.

Our investment thesis:

The **North America Equity Portfolio** is the blue-chip part of your portfolio. It should generate long-run equity returns. We select stocks from a list of high-quality, stable cash-flowing companies and allocate to cash when we feel there is too much risk in financial markets or when stock prices are too high (the two are not the same). We also use a 9% long-run cost of capital (similar to the long run return of global equities as represented by the MSCI World Index) as one of the more significant valuation tests when we consider adding a company as an investment into our portfolios. If we are doing our job correctly, we should generate equity like returns with less market risk. We then use the “budgeted risk” saving in this part of the portfolio to allocate capital to the Pathfinder Funds.

The **Pathfinder Funds** are more aggressive by comparison and are managed for performance (either absolute or relative). Furthermore, each of the risk profiles and investment processes are quite different. This is by design so that we do not introduce a high level of correlation between each fund and the Equity Portfolio. As a generalization, the funds are able to use derivatives, leverage, shorting, trade physical commodities, own private companies and typically have higher position concentration. Each fund has its own mandate and a short one-line description is outlined on the next page. Over the coming weeks, you will receive portfolio manager reviews that will dive into more detail about each fund.

The diversity of risk profiles among each of the mandates at Pathfinder allows our Portfolio Managers and Investment Counsellors to custom blend a portfolio for each client, depending on their needs and investment goals. Less risk taken in the North American Portfolio allows for the budgeted risk to be spent elsewhere. Much of this is accomplished by diversifying asset classes, management strategy and differentiation.

With respect to risk, most people think of risk in terms of losing money. Other more institutionalized investors think of risk in more relative terms - i.e. **their portfolio's return against a benchmark**. In the latter case, the absolute return is less important than the relative return. If you have read much of what Pathfinder has written over the years, you would know that we are not big believers in benchmarking. We are more concerned about buying the best companies that we can find and taking a real investment position, rather than hugging widely published index weights (investors can do this cheaply on their own by using Exchange Traded Funds). Thus, risk minimization for us comes from our process and our process allows us to customize this for each client.



PERFORMANCE:

A summary of the Pathfinder mandates and their performance follows:

Pathfinder Mandates, Benchmarks and Selected Indices (CAD)								December 31, 2020
<u>Pathfinder Large-Cap Stocks</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>5 Yr.</u>	<u>5 Yr.SD</u>	<u>Incpt*</u>
North American Equity	(1.3)	17.1	(4.9)	4.9	8.9	4.7	9.7	6.2
North American High Income	(7.1)	18.6	(5.2)	3.3	9.5	3.4	10.8	5.4
<u>Pathfinder Funds</u>								
Pathfinder Partners' Fund	50.6	26.3	(17.0)	36.6	40.3	24.8	16.5	8.8
Pathfinder Real Fund	6.5	15.3	(4.8)	12.2	10.3	7.7	17.4	6.4
Pathfinder International Fund	16.2	14.2	(9.0)	3.9	(1.1)	4.4	8.6	3.5
Pathfinder Resource Fund	69.9	15.6						24.4
<u>Fund Benchmarks</u>								
S&P/TSX Venture	51.6	3.7	(34.5)	11.6	45.0	10.7	26.3	(9.2)
Resource Fund Custom Benchmark	6.0	19.0						0.2
Custom Cost of Living	0.9	1.9	(1.2)	(1.7)	5.7	1.1	5.2	0.3
MSCI EAFE	3.7	12.8	(8.8)	13.4	(8.3)	2.1	12.1	4.8
<u>Selected Stock Indices</u>								
S&P/TSX Composite	5.6	22.9	(8.9)	9.1	21.7	9.4	13.6	5.8
S&P 500	16.5	25.3	4.0	13.5	7.2	13.0	12.6	16.6
MSCI EAFE	3.7	12.8	(8.8)	13.4	(8.3)	2.1	12.1	4.8
MSCI Emerging Markets	14.0	9.9	(9.3)	25.1	5.2	8.4	13.7	3.7
Source: Bloomberg Markets LP, Pathfinder Asset Management								* Please see Fund Fact sheets for inception dates

NORTH AMERICAN EQUITY & HIGH INCOME

This is the blue-chip part of your portfolio. It should generate long-run equity returns with less volatility.

PATHFINDER PARTNERS FUND

This fund invests in high-torque, early-stage companies that have the potential to generate superior returns.

PATHFINDER REAL FUND

This fund invests in assets exhibiting specific qualities that allow for growth beyond inflation.

PATHFINDER INTERNATIONAL FUND

This fund focuses on companies with revenue exposure to developed international & emerging markets.

PATHFINDER RESOURCE FUND

This fund is a concentrated portfolio comprised of natural resource companies.



FINANCIAL PLANNING 2021:

There is a significant amount of diligence, structure, discipline and care that goes into managing the different investment strategies we employ at Pathfinder. We firmly believe that investment portfolios should be based on a solid foundation, which is your personal financial plan. Pathfinder invests each of our portfolios with the goal of achieving a desired long-term rate of return with an acceptable level of volatility and risk. We believe that families should think about their personal financial goals in a similar way. As our clients know, we provide a regular quarterly update where we discuss both the portfolio and what we need to plan for in your financial life. We ask that you start to think about this over the coming weeks and have any questions or updates on your personal financial situation ready for our discussion.

There are a few important financial dates coming up that we would like to keep you abreast of:

January 1, 2021: Additional Tax-Free Savings Account (TFSA) Contribution Room of \$6,000

As our clients will note, in January of each year, we allocate the maximum allowable contribution from non-registered accounts (if available) to the TFSA. If you are a client and don't have any funds in your non-registered account and would like to make a TFSA contribution, we will be in touch to arrange this.

The TFSA was formally introduced in the 2008 federal budget. Fortunately, unused TFSA contribution room can be carried forward to future years so that the cumulative limit in 2021 for someone who has never contributed could be as high as \$75,500. In other words, if you were at least 18 years of age in 2009, a resident of Canada throughout that period and have never opened a TFSA before, you could contribute the entire \$75,500 to your TFSA as of Jan. 1.

March 1, 2021: RRSP Deadline

If you want to lower your 2020 tax bill through a registered retirement savings plan (RRSP), you must make your contribution before midnight, March 1. The limit is 18 per cent of the previous year's income up to a maximum of \$27,230. Any unused contributions from previous years can be used in future years (including 2020). Contributions can be deducted from taxable income and grow tax free through investments until they are fully taxed when you withdraw the funds in retirement. We will be in touch to confirm availability and arrange contributions.

April 30, 2021: Income Tax Filing Deadline

It may seem like a long way off but the deadline to file your 2020 income tax is April 30. It might be a good idea to gather and isolate relevant receipts and documents this week before they get mixed up with 2021 receipts and documents. Employers are required to send T4 slips with most of the tax information needed to file by March 1. A good tax plan will leave more of your tax dollars to compound as investments. To our clients: we will be in touch closer to the date, to confirm you are still using the same accountant and will arrange sending your tax package directly to them.

We will be in regular contact throughout the year but would also like to encourage all clients and readers to reach out to us any time with any financial concerns or questions.



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Sources: Bloomberg, Pathfinder Asset Management Limited

Disclosure

National Instrument 31-103 requires registered firms to disclose information that a reasonable investor would expect to know, including any material conflicts with the firm or its representatives. Doug Johnson and/or Pathfinder Asset Management Limited are insiders of companies periodically mentioned in this report. Please visit www.paml.ca for full disclosures.

*All returns are time weighted and net of investment management fees. Performance returns from the Pathfinder Partners' Fund and Partners' Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and the Pathfinder North American High Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014) and Pathfinder Resource Fund (May 2018). .

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