

# 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.

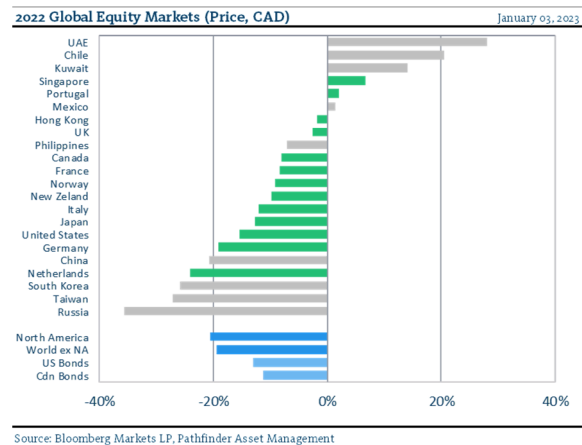
## EQUALLY INVESTED... WHAT THIS MEANS:

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 2023

Towards the end of last year, I came across a number of people that told me they are happy to say “goodbye” to 2022. For various reasons, personal, financial, political, etc., it seems like we collectively look forward to 2023. It was indeed another historic year in financial and geopolitical markets. After 2020’s severe market crash and rebound, markets continued to rally in 2021 and ended at all-time highs. Then right as the year turned, Russia invaded Ukraine, investors accepted that inflation was not transitory, China and the US seemed poised to disengage constructive relations, China had its own internal problems and that seemed to set the tone for the rest of the year.

Every year, we select the top and bottom performing equity markets and display them in a chart. This year we put countries in green (Developed) and grey (Emerging) and the major regionals, as well as fixed income, in blue. The returns are all in Canadian dollars for comparability. As you can see, the major markets (green) were essentially all grouped together and ended the year well below where they started. The grey markets are both positive and negative, but only very small markets were positive (AUE, Chile, Kuwait etc.) while the larger ones (China, Taiwan, South Korea, and Russia) were negative. We also added North American and Global stocks, as well as two fixed income indices (US and Canada). All were double digit negative. It was indeed a difficult year for financial assets.



In the coming weeks, each of our portfolio managers will publish their mandate reviews and investment outlook. It has been an interesting year and the opinions in the financial press are quite varied. However, given that some uncertainty continues, we remain ever focused on the quality businesses we own.



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 are specialty mandates and are very different vs. a traditional long-only blue-chip portfolio. We believe that the combination of these two baskets should produce results that are better than broad equity markets alone, for any equity risk level, when combined in various mixes based on client objectives: this is the core belief of Our Investment Thesis. Blending between these two baskets and investment grade bonds, where needed, allows your portfolio manager to target essentially any return and risk level that is appropriate for your situation and financial goals. This is also why your financial plan and relationship with your Investment Counsellor is so important. Clear communication and expectations should allow us to meet your goals over time.

### **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 equity capital (similar to the long run return of global equities) 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 either between each fund or 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 mandate and fund.

The diversity of risk profiles among the mandates at Pathfinder allows our Portfolio Managers and Investment Counsellors to custom blend a portfolio for each individual 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:

<b>Pathfinder Mandates, Benchmarks and Selected Indices (CAD)</b>								December 31, 2022
	2022	2021	2020	2019	2018	7 Yr.	7 Yr.SD	Incpt*
<b>Pathfinder Large-Cap Stocks</b>								
North American Equity	(7.8)	20.3	(1.3)	17.1	(4.9)	4.9	10.6	6.0
North American High Income	0.9	25.0	(7.1)	18.6	(5.2)	5.9	10.9	6.6
<b>Pathfinder Funds</b>								
Pathfinder Partners' Fund	(20.6)	19.6	50.6	26.3	(17.0)	16.3	16.9	6.8
Pathfinder Real Fund	(6.5)	20.7	6.5	15.3	(4.8)	7.3	16.5	6.4
Pathfinder International Fund	(18.1)	9.4	16.2	14.2				3.0
Pathfinder Resource Fund	(18.7)	23.6	69.9	15.6				13.2
<b>Selected Stock Indices</b>								
S&P/TSX Composite	(5.8)	25.1	5.6	22.9	(8.9)	9.2	13.4	
S&P 500 (CAD)	(12.4)	27.5	16.5	25.3	4.0	10.9	13.4	
Bloomberg World ex US Large & Mid Cap (CAD)	(10.8)	8.2	11.2	16.1	(6.3)	5.2	11.7	
Bloomberg Emerging Markets (CAD)	(14.8)	1.7	20.1	12.3	(5.3)	6.0	13.3	
iShares Core Canadian Universe Bond ETF	(11.8)	(2.6)	8.6	6.8	1.3	0.7	5.1	
<b>Fund Benchmarks</b>								
S&P/TSX Venture	(39.3)	7.3	51.6	3.7	(34.5)	1.2	25.3	(10.9)
Resource Fund Custom Benchmark	12.0	19.8	6.0	19.0				6.7
Custom Cost of Living	10.4	16.7	0.7	1.9	(1.2)	4.4	5.7	2.9
International Custom Benchmark (CAD)	(11.5)	4.9	15.7	15.0				5.6

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.




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## FINANCIAL PLANNING 2023:

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 allocation to the investment strategies 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<sup>st</sup>, 2023: Additional Tax-Free Savings Account (TFSA) Contribution Room of \$6,500

As our clients will note, in January of each year, we allocate the maximum allowable contribution from nonregistered accounts (if available) to the TFSA. If you are a client and don't have any funds in your non-registered investment account with Pathfinder, 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 2022 for someone who has never contributed could be as high as \$88,000. 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 \$88,000 to your TFSA as of Jan. 1.

### March 1<sup>st</sup>, 2023: RRSP Deadline

If you are looking to lower your 2022 tax bill through a registered retirement savings plan (RRSP), you must make your contribution before midnight, March 1. The limit is 18% of the previous year's income up to a maximum of \$30,780. Any unused contributions from previous years can be used in future years (including 2022). 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 RRSP contribution room and arrange contributions if appropriate.

### April 30<sup>th</sup>, 2023: Personal Income Tax Filing Deadline

It may seem like a long way off but the deadline to file your 2022 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 2023 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](http://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 Pathfinder 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).

Changes in Leverage. We are increasing the liabilities ceiling to 2.0 times the market value of equity for [Pathfinder International Fund](#) and [Pathfinder Real Fund](#) to be consistent with [Pathfinder Partners' Fund](#) and [Pathfinder Resource Fund](#).

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