



MAKING CLIENTS WEALTHY
OUR MISSION



MARKET COMMENTARY

Q1 2022

Karen Steinmann, MFin, CFA
Investment Analyst

Mandeville Market Perspective – Winter 2022

Every battle is won before it is fought
-Sun Tzu

The age old wisdom of Chinese military strategist Sun Tzu rings true as we watch Russia's invasion of Ukraine unfold. On several fronts political, military, and economic – it's not going well for Russia. President Putin seems to have misjudged the tolerance of the international community, been deficient in planning and misjudged the chaos that the Ukrainian people would unleash. The results serve as a useful reminder of investing principles – namely that the actions we take before investing often matter most. Put another way – what are your principles and process?

In our view, principles and process are precisely the Mandeville Difference. As a reminder, Michael Lee-Chin's five investing principles are:

1. Own a few high quality businesses;
2. Thoroughly understand these businesses;
3. Ensure these businesses are domiciled in strong, long-term growth industries;
4. Use other people's money prudently;
5. Hold these businesses for the long run;

AT MANDEVILLE WE KNOW THE COMPANY WE KEEP MATTERS

Why are these principles so important? Using the Ukraine conflict as an illustration, the company we keep matters. In the case of Russia, its alignment with China and alienation of the West has had negative consequences. As it relates to investing, aligning our investments with pre-eminent quality businesses, pays dividends – both figuratively and literally. In addition to great businesses, we scour the globe for private institutional quality managers that serve sophisticated high net worth investors.

Affording Mandeville investors the opportunity to participate in these offerings, means they are aligning their capital with investors that demand the very best risk/reward propositions the marketplace has to offer. As this relates to portfolio construction, our painstaking process and the 'company we keep' allows us to confidently deploy portfolio solutions that can dampen price volatility and give investors comfort – comfort that they don't have to lie awake at night worrying about what's going on 'under the hood' of their investments. When you keep excellent company, it's easier to face challenges in the world confidently.

PLANNING AND DISCIPLINE: THE WORK WE DO BEFORE INVESTING MATTERS

There is no shortage of points that can be made regarding preparedness in the Ukraine-Russian conflict - whether it's poor Russian logistics, military training, or the political miscalculation with respect to the international community. On the other hand, the significantly smaller Ukrainian force has produced some stunning victories. The groundwork laid by Ukrainian President Zelenskyy has garnered the international support, resources, weapons, and training necessary to deploy an effective fighting force. Taken together, these elements have produced something even more important: absolute faith and conviction in the outcome. The point is this level of conviction can only exist when you do good work early and remain disciplined over the long term.

As it relates to investing, thoroughly understanding the businesses you invest in, ensuring they are domiciled in strong, long term growth industries and being prudent in the deployment of capital – this is the upfront work that can bolster investor faith. If this work is done well, then the experience of investing is much smoother because investors are then well positioned for short term challenges and confident that the course to their long run destination is set – even if they happen to run into a well-armed band of Ukrainians.

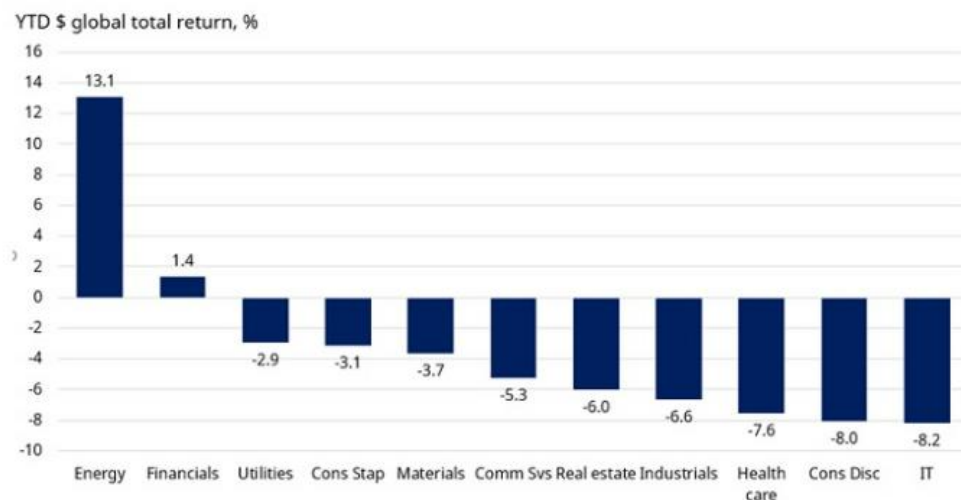
We firmly believe that these principles make all the difference both in the investment outcome and the experience of investing. In the short term, we should be able to feel confident – ‘have faith’ – that we are invested in productive assets whose quality is trustworthy, irrespective of market gyrations. In the medium term, we should be able to see the value of our wealth growing. In the long run, we should have confidence that we are on the path to achieving our investment objectives. These qualities are precisely the objectives Michael Lee-Chin’s five principles of investing intend to serve. They represent the philosophical cornerstone guiding Mandeville advisors and the heart of what we believe is a preeminent wealth offering in Canada.

WITH THAT SAID, LET’S LOOK AT WHAT HAPPENED IN Q1 2022

The world has been on a bumpy ride since March 2020 and the new year seems to have started largely where 2021 left off. With investor sentiment weighing interest rate hikes, increasing inflation, and concerns regarding the worsening situation between Russia and Ukraine, markets experienced considerable turbulence in January as all but the financials and energy sectors declined. Growth sectors, such as IT and consumer discretionary were hit the hardest.

Exhibit 1: Global equity markets have been turbulent to start the year. Only Financials and Energy sectors have produced positive returns year-to-date.

Global sector returns year-to-date



Source: DataStream Refinitiv, MSCI and Schroders. Data to 31 January 2022 in US dollars.

<https://www.schroders.com/en/insights/economics/monthly-markets-review---january-2022/>

The markets continued their move lower in February, driven in no small part by inflation fears and Russia's invasion of Ukraine. European equities were the worst performers for February; given the continent's reliance on Russian exports this comes as no surprise. The S&P/TSX composite index was down again in February, as was the S&P 500. The S&P/TSX composite index, however, experienced all-time highs in March, buoyed by rising oil prices and the heavily-weighted financials sector's gains from talk of rising interest rates and higher bond yields. US markets are looking up in March. While not at end of 2021 levels, the red hot US economy is driving the market forward as investors focus on strong economic fundamentals: low unemployment, wage increases, labour demand, and expected record growth in earnings.

Exhibit 2: Major US indices were down February and January.

INDEX	1-MONTH (%)	YTD (%)	3-MONTH (%)	1-YEAR (%)	3-YEAR (%)
S&P 500	-3.14	-8.23	-4.23	14.77	57.08
Dow Jones Industrial Average	-3.53	-6.73	-1.71	9.57	30.78
S&P MidCap 400	0.99	-6.35	-1.74	6.62	39.32
S&P SmallCap 600	1.30	-6.11	-2.01	2.94	35.16

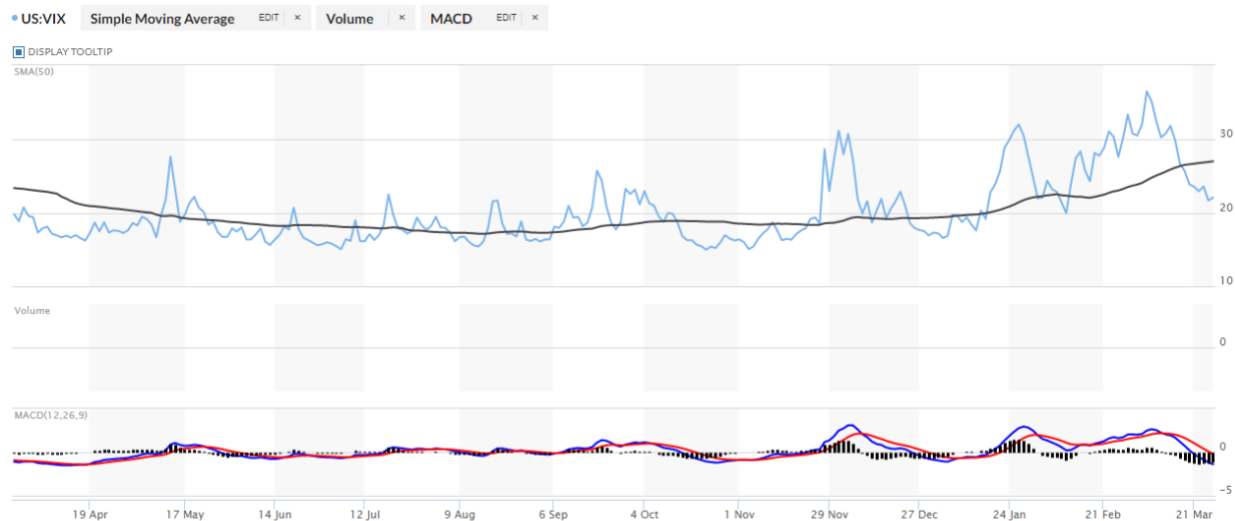
Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2022. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

<https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes>

THE VIX TELLS A STORY: INVESTORS ARE SKITTISH

The CBOE Volatility Index, known more colloquially as the VIX, (or more dramatically as the fear index,) represents the market's expectations for the relative strength of near-term price changes of the S&P 500. The VIX generates a 30-day forward projection of volatility by deriving its value from the prices of S&P 500 index options with near-term expiration dates. This volatility is used as a gauge for market sentiment. The greater the value of the VIX, the greater the fear of market turbulence. Throughout 2021, the VIX was at an average hovering around 20. In Q4, 2021, the average VIX reading was 19.3, suggesting investors were feeling fairly confident. However, by the time 2022 rolled around, investor fears were high. Already, the average is closer to 26, with thirty days in the first quarter closing at 25 or higher. For context, only 21 days in all of 2021 closed with the VIX at or above 25.

Exhibit 3: The VIX shows greater volatility in the first few months of 2022 than in all of 2021.



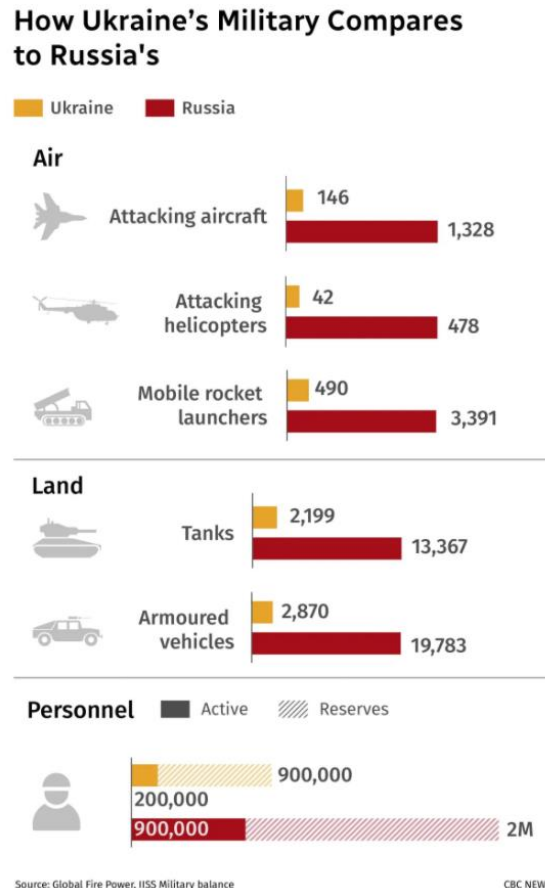
Source: <https://www.marketwatch.com/investing/index/vix/charts>

It is easy to see such volatility and feel the need to run for safety. However, it is time in the market, not timing the market that counts. Speak with your Mandeville advisor about any changes in your investment needs, otherwise, stick to your original plan. Knowing your investment strategy and goals will allow you to invest proactively, not reactively. Be mindful that public markets will fluctuate over the short-term and consider protecting yourself from that volatility with exposure to non-correlated and private assets with a proven ability to increase portfolio returns.

RUSSIA INVADES UKRAINE, UKRAINE SHOWS RUSSIA THE FOLLY IN UNDERESTIMATING THEM

On February 24th, Russia invaded the democratic country of Ukraine. With a population more than three times the size of Ukraine's, Russia would seem the likely victor in the conflict. Given the remarkable military disparities between the two countries, one could not be blamed for anticipating the worst for Ukraine. However, President Zelenskyy has proved to be a unifying leader; the 44 year old former actor and comedian is commonly seen on social media these days in a ballistic vest, imploring the West to do better in its support for Ukraine, pressing the North Atlantic Treaty Organization (NATO) to enforce a "no fly" zone over Ukraine, and remaining staunchly in Kyiv, despite being Putin's number one target. His bravery and leadership have gone over very well with the Ukrainian people (and garnered many supporters in the West).

Exhibit 4: A stark contrast between Russia and Ukraine's armed forces.



<https://www.cbc.ca/news/world/ukraine-russia-military-comparison-1.6365115>

As many as 3.4 million Ukrainians have fled the country for safety, many of them landing in nearby Poland. Zelenskyy has barred Ukrainian men between the ages 18 and 60 from leaving the country, but perhaps most interesting of all the figures is that nearly 80,000 Ukrainians, mostly men, are making the trip home. Often from neighbouring Eastern European countries, they are returning to Ukraine to join the military or territorial defence forces. While employers are largely sympathetic, the departure of so many Ukrainians will leave gaps in industries where they make up a significant portion of the workforce, particularly in transportation and construction.

In many ways, Russia is fighting on two fronts: The one being the physical front presented by a fierce Ukrainian enemy; the second being the battle for the hearts and minds of Russians themselves. It seems that on this second front, military arrogance, miscalculation and under-preparedness have worked against a swift victory. Zelenskyy's common appearances on all forms of social media, in parliamentary Zoom meetings and in twitter updates - remind us that this is truly a 21st century war. The story of a sleek, modern Russian drone being taken down by an older Ukrainian woman and her jar of pickles has gone viral, serving as a beautiful (and amusing) metaphor for Ukrainian resistance and Russian overconfidence. While the pickle jar versus the drone saga may not have reliable sources, other examples of Ukrainian resilience do, such as Ukrainian residents of occupied Kherson blocking the path of a Russian military

convoy, forcing it to turn away. Or the many Ukrainian farmers and their tractors now operating as tow trucks for defunct or abandoned Russian tanks. For Russia, its strict propaganda machine and yes-men surrounding Putin have worked largely against it. Perhaps because no one wants to be the one to say disparaging things about Russia's army, Putin has been caught off guard time and time again since the invasion. He was led to believe Ukraine would fold immediately, which has clearly not been the case. A pro-Putin tabloid recently published Russian casualty figures north of 9,800. However, these numbers were quickly removed, as they contradicted the Putin narrative of operational success.

A lack of transparency with the Kremlin's own military seems to have driven internal divisions and undermined the Russian army's morale. Many soldiers were surprised and dismayed to learn that their Belarus training exercise was actually an invasion of Ukraine. Across Ukraine, there have been reports of Russian soldiers simply walking away from their armoured tanks and vehicles to surrender. One video of a young soldier calling his mother, in tears, while Ukrainians fed him went viral earlier in the invasion. Even with a dedicated army, reports of tanks running out of fuel and pulling into ordinary gas stations to fill up are being met with derision. As are images of Russian soldiers plundering convenience stores after running out of military rations. These examples and more indicate the logistics and planning of this invasion were likely inadequate.

Meanwhile, Russian citizens at home and abroad are voicing their opposition to the invasion. Facebook and Instagram have been banned in Russia as extremist and are blocked (curiously, WhatsApp was not), yet Russians are still finding ways to speak the truth and protest. More than 15,000 people have been detained for demonstrating against the war.

SANCTIONS AGAINST RUSSIA and THE BROADER RIPPLE EFFECT

Most of the developed world has reacted with horror to Russia's invasion of Ukraine; much of the West has imposed strict sanctions against Russia. The Russian rouble has experienced incredible volatility in 2022, at one point hitting a record low against to the USD. In an already inflationary environment, prices are high and only getting higher with sanctions. In Europe, Russia is the largest source of natural gas and oil. While these resources cannot be switched off overnight for most of Europe, there is already legislation in place to move away from reliance on Russian oil and gas at an accelerated rate. The US have outright flipped the switch and will not be importing any more Russian oil. Russia has retaliated by forcing "traitor" nations still relying on their oil to pay in Russian roubles, in an attempt to prop up the currency. Time will tell how successful this campaign is.

On a global scale, Russia is one of the top-three exporters of wheat. Ukraine, with nearly two thirds of its arable land currently engaged in battle, has consistently been a top-ten exporter of wheat to the world. Zelenskyy is encouraging farmers to do their part in the war by planting and harvesting every surface area of their land, but the fact remains this year's wheat harvest will fall well short of 2021's. Economists are projecting wheat prices to triple. With food prices already rising due to inflation and global shipping issues, the scarcity of such an important staple will soon become another contributing factor in their upwards trajectory.

Russia is also the world's largest exporter of both ammonia-based and potash-based fertilizers. Prior to the war, fertilizer prices were 6-7 times greater than just one year prior. Now, with Russian supply cut off, prices will skyrocket. As they gathered in Brussels, US President Biden warned the G7 of the very real

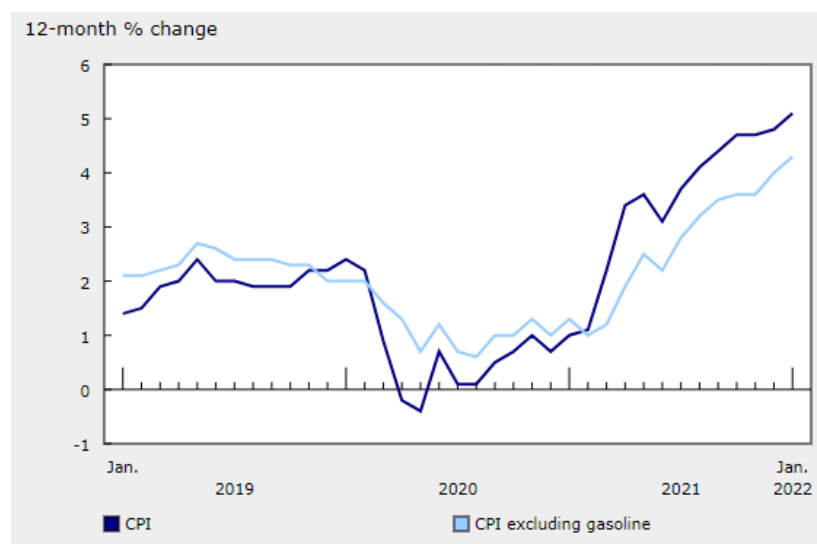
possibility of food shortages. For countries already experiencing severe food scarcity like Yemen, the risk of famine is all but guaranteed.

However, oil, natural gas, and wheat are not all of the commodities for which Russia is a major exporter. Russia is also a major global supplier of platinum group metals, which are used in most high-end electronics and all catalytic converters. Depending on the material, Russia is either the largest, second-largest, or third-largest exporter on the planet. Global supply chain issues and shortages of microchips can be expected to worsen.

INFLATION, INFLATION, INFLATION

Inflation has been the subject at hand for many months now. It is being felt across the world; in the US, inflation rose at its sharpest rate since 1982. US headline CPI rose to 7.5% year on year in January. Canada fared only slightly better, with an increase of 5.1% year over year in January. For Canada, this was the sharpest increase since 1991. The Bank of Canada targets an inflation rate of 1-3%, so this inflation is being felt across the country.

Exhibit 5: Canadian inflation rates as measured by the Consumer Price Index over the past three years.



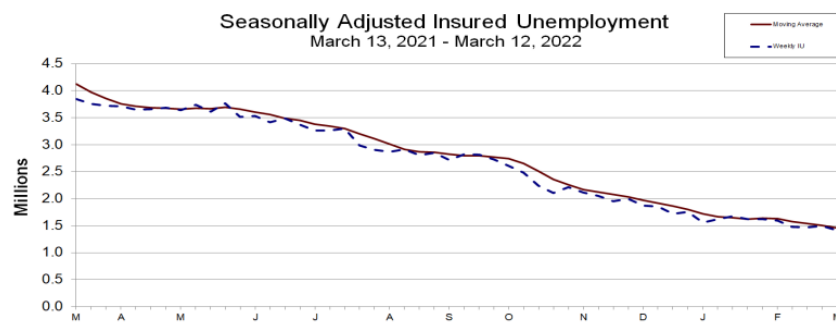
Source: <https://www150.statcan.gc.ca/n1/daily-quotidien/220216/cg-a001-eng.htm>

Higher grocery bills are being driven by multiple factors: input prices, shipping costs, and the ongoing supply chain disruptions. Perhaps the only place price increases are felt more keenly is at the pump. In Canada, gasoline prices rose 31.7% compared to the year prior. West Texas Intermediate Crude is up 49% for the year so far, and the S&P/TSX composite index all-time highs seen in March this year were driven in large-part from gains in the oil and gas sector.

INTEREST RATES GET INTERESTING

Worse than market sell offs, unemployment, or even a recession, the one thing central banks dislike more than anything else is inflation and its potentially destabilizing price effects. As much of the world slowly sheds the shackles of pandemic living, job markets are white hot. Canada's unemployment rate fell to 5.5% in February of 2022 and was much lower than market expectations of 6.2%. It was the lowest unemployment rate since January 2020, not only reaching pre-pandemic levels but also a mere 0.1 percentage point from an all-time low of 5.4% hit in May 2019. Similar unemployment trends can be seen across the border, where the US hit their lowest level of insured unemployment since 1970. Since it is an employee's job market, wage increases are being demanded and labour shortages can be felt with signing bonuses popping up for previously-deemed low-skilled jobs. Even still, prices in Canada are outpacing wage growth.

Exhibit 6: American seasonally adjusted insured unemployment rates show steady decline over the past year.

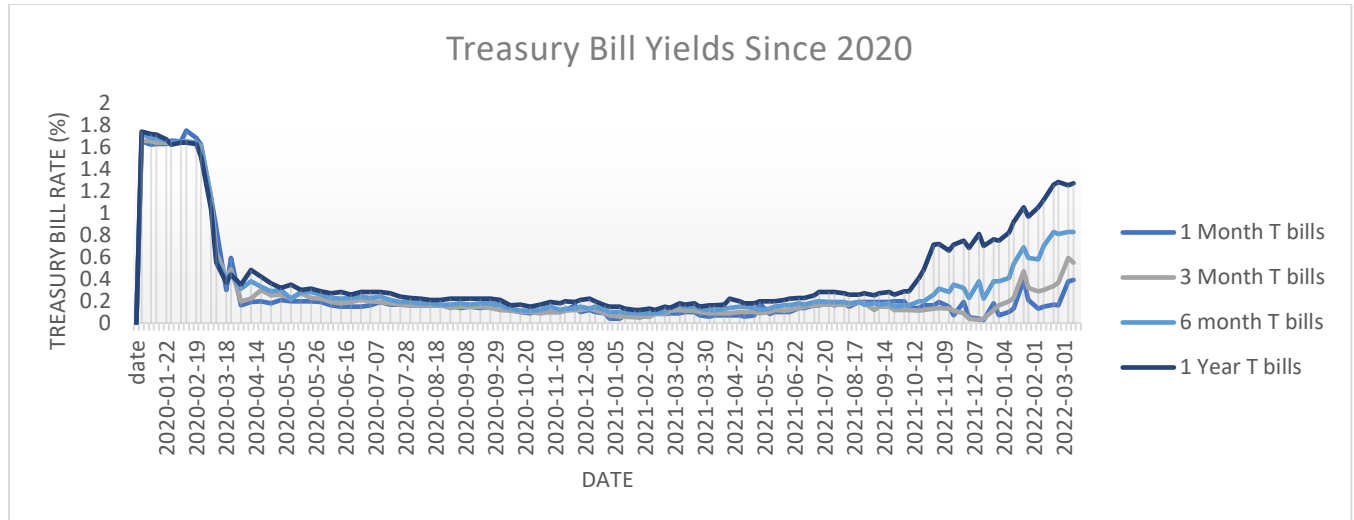


<https://www.dol.gov/sites/dolgov/files/OPA/newsreleases/ui-claims/20220537.pdf>

The ultra-loose monetary/fiscal policies that accompanied the global economy's shuttering during the pandemic have now produced supply/demand distortions that are driving excess inflation. For Canadians, unfavourable growing conditions in 2021 have also led to higher prices for fresh produce. As the world re-opens, the economic distortions created by COVID-19 are likely to become less severe, but Russia's invasion of Ukraine will likely encourage inflation to persist as the effect of sanctions and export disruptions ripple.

In Canada, Tiff Macklem took the helm as Governor of the Bank of Canada in the early stages of the pandemic (June 2020). Since then, he has had to navigate several Covid and unemployment waves. The Bank of Canada held its second meeting of the year earlier this March. Overnight rates have been increased by 25 basis points to 0.50%, and it is widely expected they will be raised another 75 basis points by the end of the year, bringing the key interest rate to 1.25%. The next interest rate announcement will be on April 13th, 2022.

Exhibit 7: Canadian Treasury Bill Yields all exhibit large movement from this time last year.



Source: bankofcanada.ca

In the US, the Federal Reserve acted similarly in an effort to curb inflation. For the first time since 2018, the Fed raised rates by 25 basis points, and have signalled to Americans to expect six more increases, with rates expected to reach 1.9% by the end of the year.

Of course, government interest rate hikes do not take place in a vacuum. Fixed income holders are taking a double hit: inflation and rising yields. This is where exposure to select private real estate funds and private debt funds can pay off. Historically, these asset classes have held their value well during rising interest rate and inflationary periods. Bearing in mind that these benefits can only be derived from quality private funds, rigorous research is necessary to understand each product prior to investing. You Mandeville advisor can assist in this regard, helping you to determine both the quality and degree of exposure that may be suitable for long-term investment goals.

So how should investors be thinking about all these challenges? Rising rates? Inflation? War in Ukraine? It's important to have perspective and remain focused on investment discipline. In the midst of transformative events good companies, good management teams don't sit idle – they adapt. As the world gyrates they re-orient, evolve and work to act effectively. In the short term, they may face challenges but in the longer term they uncover value. As investors, harvesting this value may take time and patience but maintaining investment discipline favours the investor in the long run. And certainly as it relates to inflation, remaining invested in productive assets can be critically important. Inflation erodes the value of cash. While a dollar in a bank account may look like the same dollar nominally, inflation injures its real value so that it acquires less. In this environment, being exposed to productive assets offers the opportunity to preserve purchasing power and grow real wealth over the longer term. In short, slow and steady investment behaviour wins the race. Erratic, inconsistent and unpredictable behaviour on the other hand - well, as Vladimir Putin is discovering, this pathway can be full of unexpected pitfalls.