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Portfolio Strategy

Model Portfolios Performance Update

December 2022

Markets Finish The Year On Sour Note

Equity markets finished the year with a sell-off in December and many global indices reporting double digit declines for the year. The Nasdaq 100 posted its worst performances since the financial crisis of 2008 and the dotcom bust in 2000. Big Tech and growth stocks like Tesla, Meta, Amazon, Intel, Nvidia, Alphbet were crushed due to rising interest rates and recession fears.

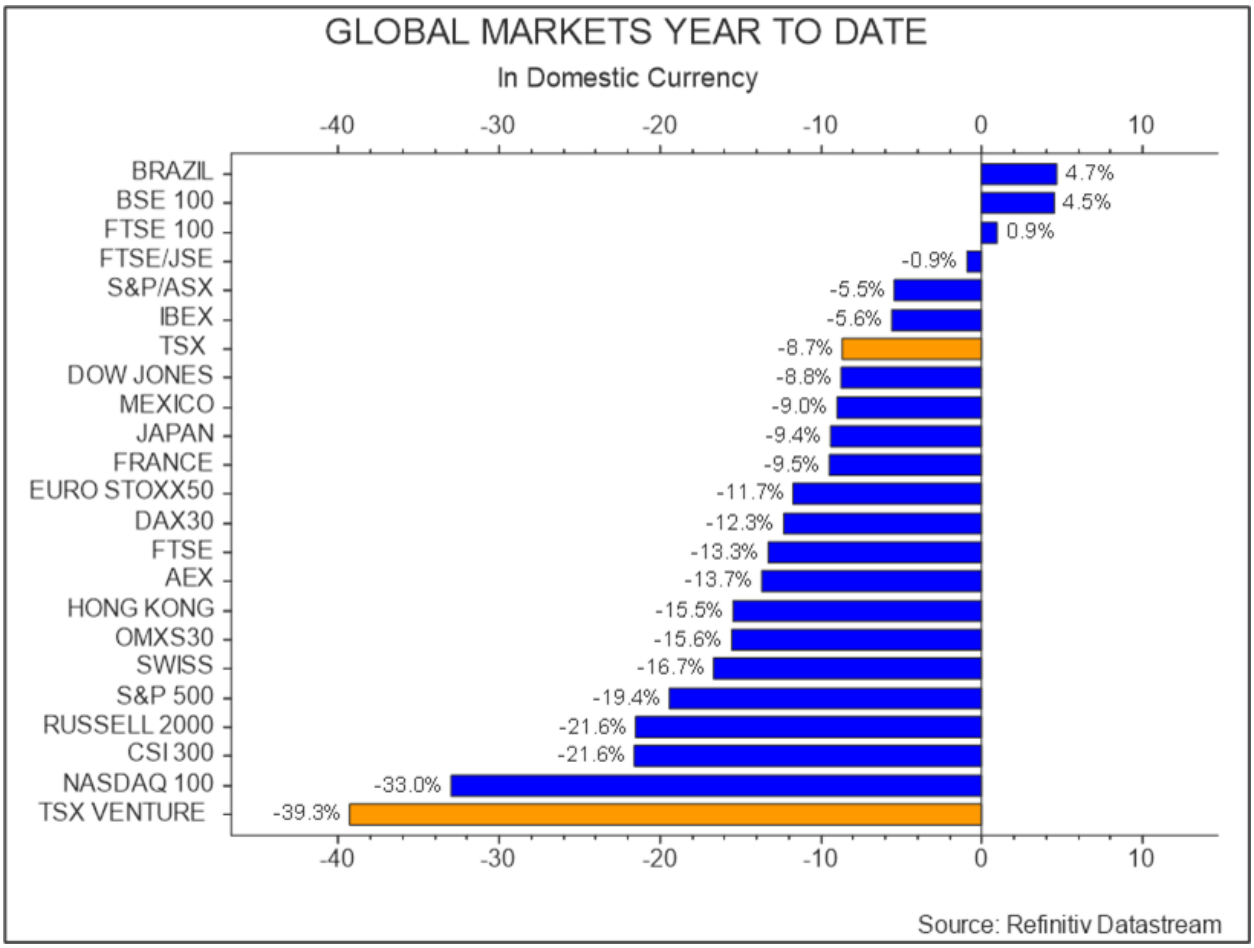
In a highly unusual year, bond markets also plunged, recording their worst performance on record and offering no protection for 60/40 investors. Long term bonds, those over 10 years, suffered the worst with losses approaching 25%. On a positive note, fixed income investors are finally seeing attractive returns above 5% in short to mid term maturities.

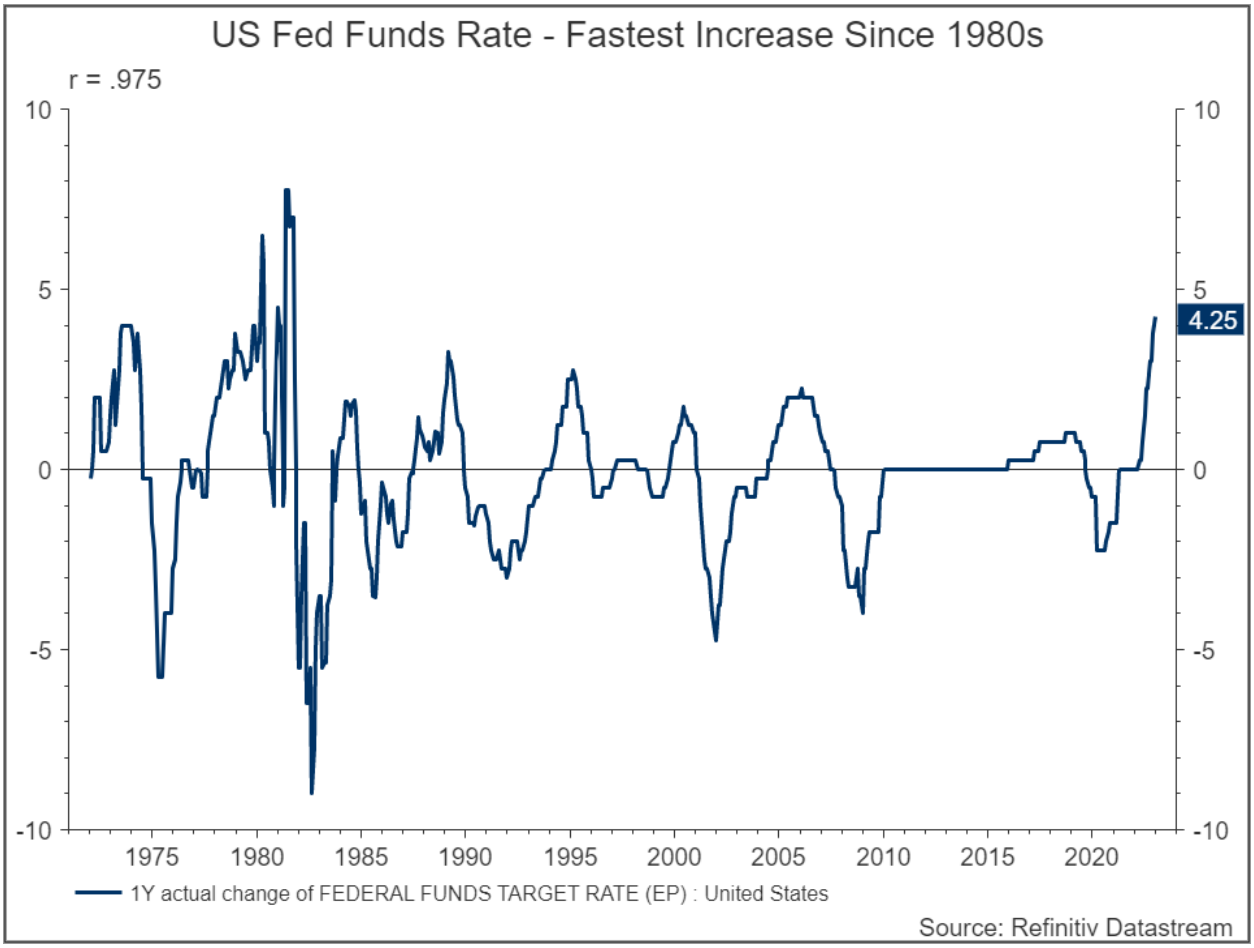
The 2022 bear market for risk assets was caused by a number of macro forces that resulted in the US Federal Reserve increasing interest rates at the fastest pace since the 1980s (see chart below). The US Federal Reserve, Bank of Canada, ECB and most other global Central banks raised rates aggressively to stamp out record high inflation with the goal to bring CPI back to 2%. The effective US Fed Funds rate ended the year at 4.25%-4.50% from 0% at the start of the year. Similarly, the Bank of Canada raised their rates from 0% to 4% in the past 12 months. Investors expect the US Fed (and Bank of Canada) to raise their rate above 5% in Q1 2023.

Stubbornly high inflation is the result of too much demand chasing not enough supply. Rising prices started with the Covid pandemic, which restricted supply and labour markets which was then made worse by the Ukrainian war. To avoid an economic depression, governments around the globe supercharged demand through record fiscal and monetary stimulus and pushed interest rates to zero - for far too long. The Russian invasion of Ukraine further fueled the spike in energy prices, commodity prices and economic and geopolitical risks.

Inflation is now easing as the global economy slows. It is clear from indicators like an inverted yield curve or negative Leading Economic Indicator that a recession in 2023 is very likely. By mid year we think the US Fed (and Bank of Canada) will pause rate hikes. However don't expect interest rates to fall back much in 2023.

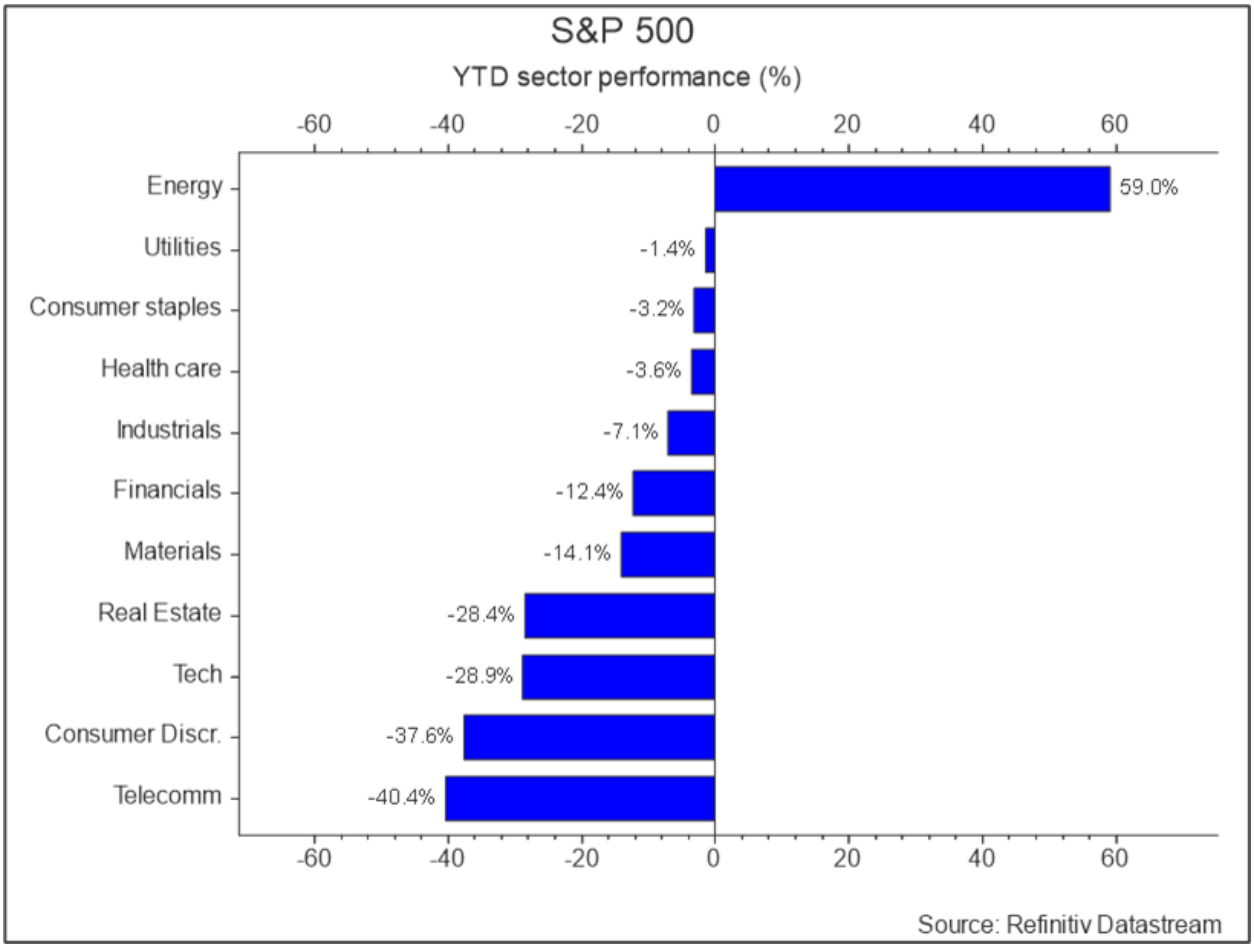
The hardest hit indices in 2022 was our high growth TSX Venture index which fell almost 40% followed by the technology heavy Nasdaq index, that recorded its worst performance since 2008. The more value-oriented Dow Jones and energy weighted TSX Composite faired much better with a loss of -8.8% and -8.7%. The resource heavy Brazilian exchange and Indian benchmark (benefiting from shifting supply chains) did record positive returns.



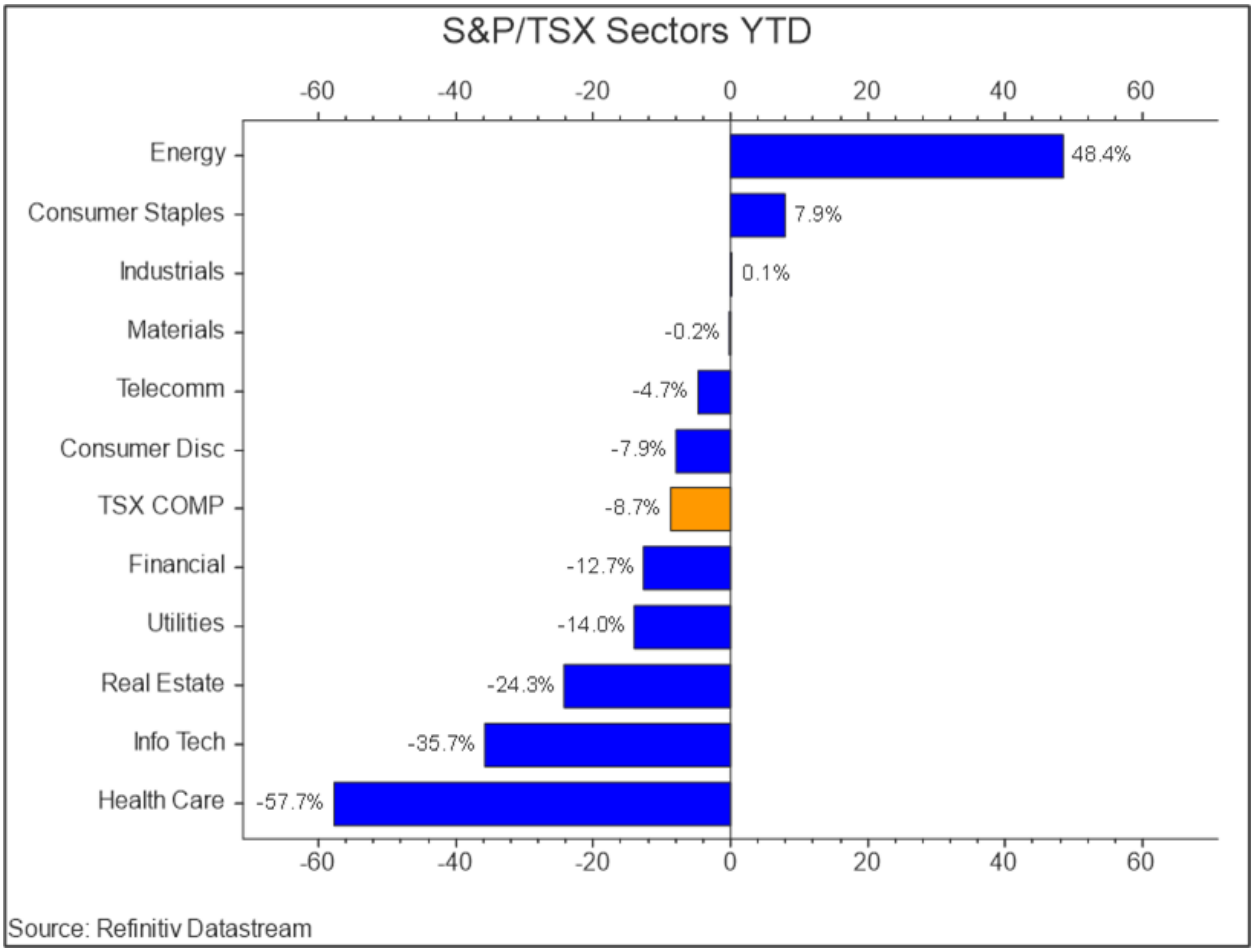


In the S&P 500, energy was the only sub-sector to post a positive return in 2022.However, with economic growth and demand slowing in the US, EU and China along with growing global oil surpluses we expect energy prices will likely remain softer in 2023 even with a China reopening.

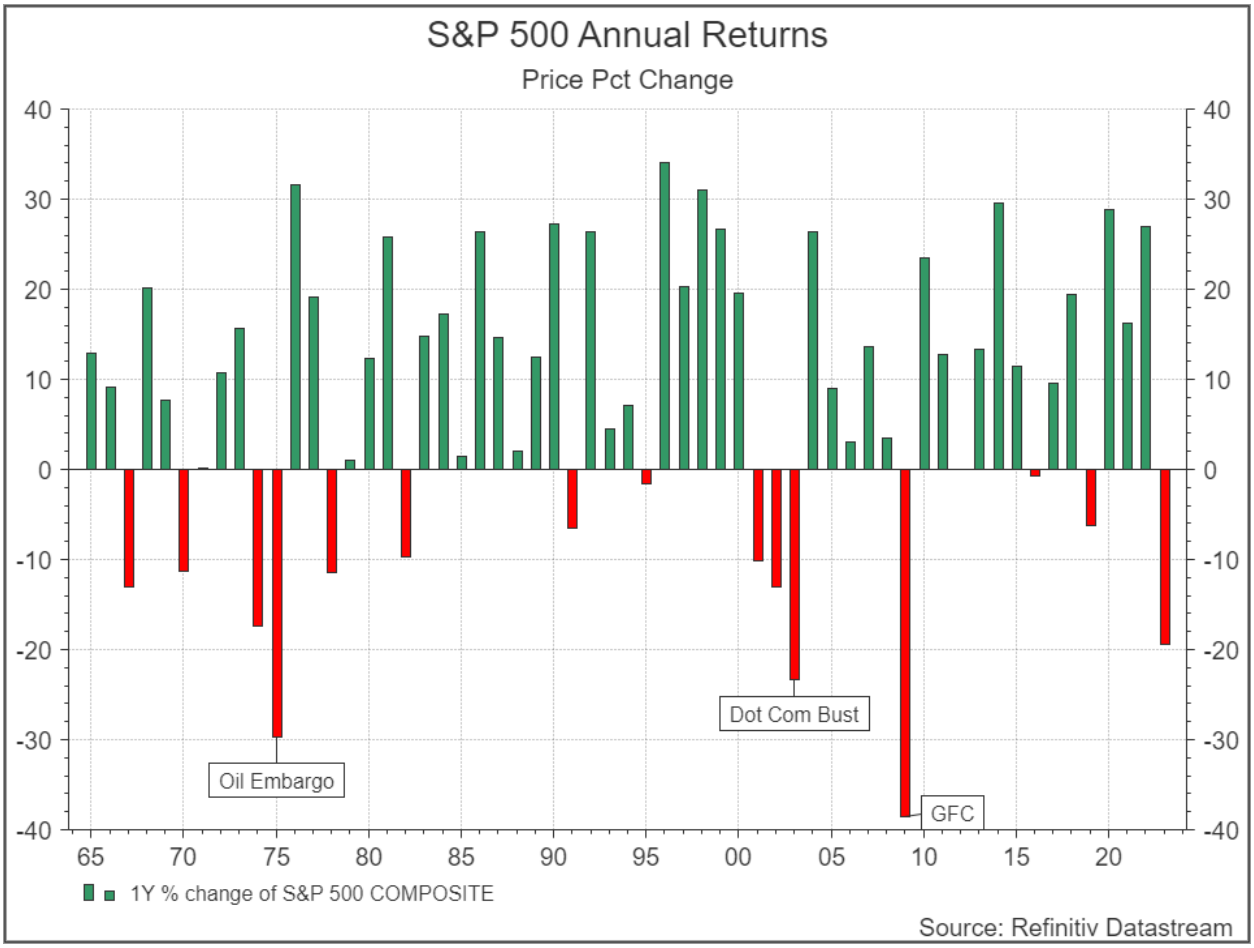
Growth stocks, high valuation, low profitability, and Covid benefactors, were harder hit by rising interest rates and slowing economic growth. Value stocks, like energy, healthcare and staples faired better in 2022.



The TSX Composite faired substantially better than the indices in the US thanks to our heaving weighting in energy and commodities.



On a positive note, history has shown that it is very rare for the US market to record two consecutive down years. In the past 58 years, the S&P 500 has only recorded 2 consecutive years of negative returns 3 times; during the 1973 oil embargo and twice during the 2001 dot com bust. Going back to 1964, when the S&P 500 declined more than -20% in that year, the next calendar year return was at least +23.45% and on average was +27.13% and positive each time.



PI Financial Managed Portfolios Hurt By Rising Interest Rates

Surging interest rates most negatively impacted our growth portfolios in December and in 2022. They also hurt our defensive, but interest sensitive, dividend growth portfolios due to our holdings in real estate, utilities, and financial companies.

Our best performing portfolio in 2022 (and since inception) is the large cap PI Canadian Equity portfolio. Our core positions in defensive low vol companies such as Dollarama, Intact Financial, Alimentation Couche Tarde and Pembina Pipeline held up well in volatile times.

Not surprising, surging rates and plunging growth stocks hurt our growth portfolios the most last year. Our US Growth portfolio, which holds numerous large cap technology and healthcare growth companies, posted the largest decline followed by our other two growth portfolios: Equity PLUS and Focus 15. Our Balanced portfolio, which holds only short term bonds in our bond allocation, was hurt by our equity holdings but held up substantially better than our benchmark.

During the year we raised our cash weight substantially above our target and reduced our positions in the more cyclical companies.

We believe we are approaching a bottom for both bonds and equities and as such have started to add a long term bond position to some of our portfolios. With the Chinese economy reopening, albeit rocky, we have started to add an emerging market position to our applicable portfolios.

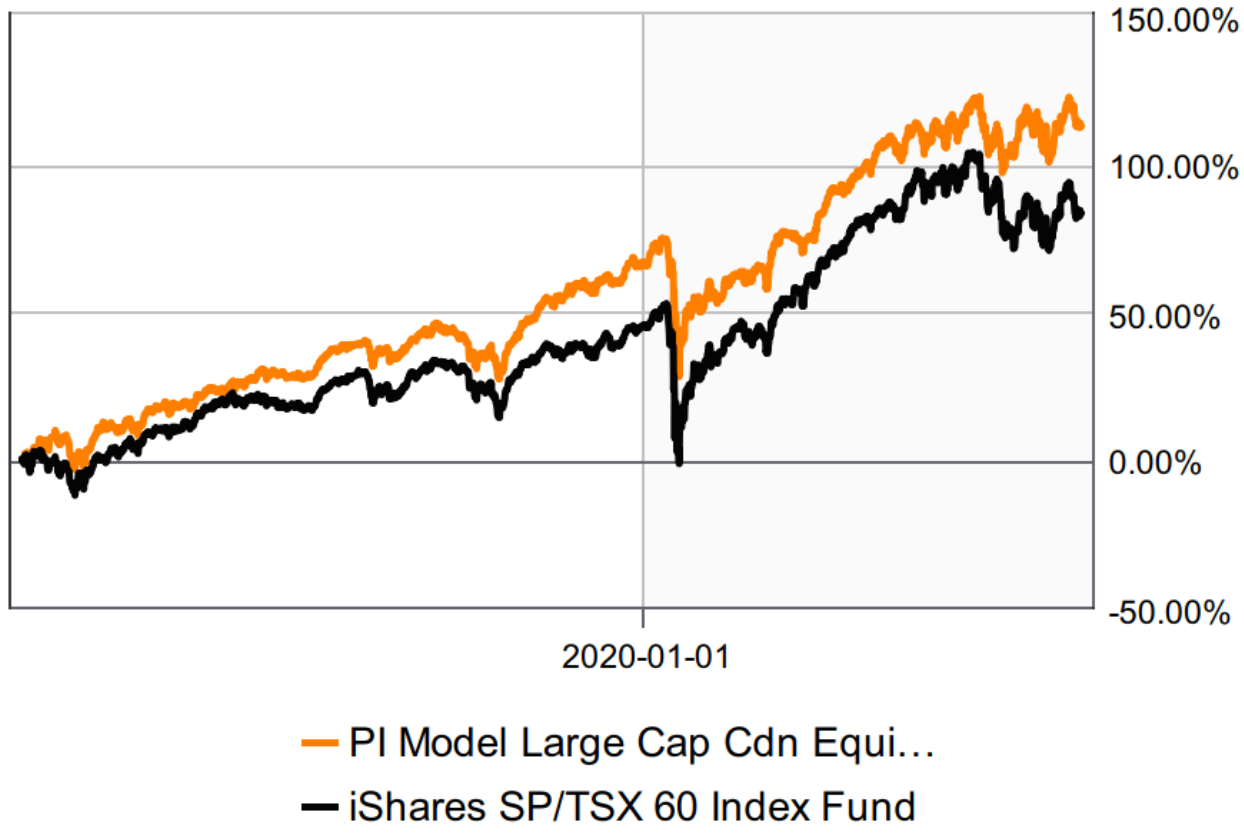
The key factor driving markets continues to be inflation and it is easing along with the global economy. The strong labour force is the last man standing but we are starting to see cracks like the broad tech company layoffs. We think the Fed stops raising rates in the first half 2023 which should drive stocks and bonds higher in 2023.

PERFORMANCE REPORT

				% Total return before fees - *ANNUALISED*			
MODEL PORTFOLIO	**OVERVIEW**	**YTD**	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**Since Inception**
PI Canadian Equity	Core Canadian equity large-cap growth	-0.7%	-0.7%	10.0%	8.7%	8.9%	10.8%
Benchmark	S&P	TSX 60 Total Return Index	-6.1%	-6.1%	9.6%	8.2%	7.3%	8.6%
PI Canadian Dividend Growth	Core Canadian equity large-cap dividend growers	-9.8%	-9.8%	5.1%	5.3%	6.9%	9.4%
Benchmark	S&P	TSX Div Aristocrat Total Return	-3.6%	-3.6%	10.2%	5.9%	6.5%	7.6%
PI Focus 15	Canadian concentrated equity growth	-10.0%	-10.0%	10.2%	10.7%	7.2%	8.3%
Benchmark	S&P TSX Composite Total Return Index	-5.7%	-5.7%	8.6%	7.6%	6.9%	7.7%
PI Canadian Equity *PLUS*	Equity growth with U.S. and international diversification	-11.0%	-11.0%	7.1%	9.0%	n/a	7.0%
Benchmark	65% S&P/TSX 60 Index / 35% MSCI All World ex. Canada	-7.9%	-7.9%	7.2%	7.5%	n/a	7.7%
PI High Yield Dividend Growth	Canadian equity focused high dividend yield growers	-5.5%	-5.5%	7.4%	3.5%	n/a	7.8%
Benchmark	S&P/TSX High Dividend Index	0.5%	0.5%	17.1%	8.4%	n/a	11.1%
PI Balanced	Multi-asset class (equity, fixed income, money market)	-5.4%	-5.4%	3.8%	4.7%	n/a	4.5%
Benchmark	40% Cdn Agg Bond Index, 30% S&P/TSX 60 Index, 30% S&P 500 Index	-10.3%	-10.3%	1.6%	4.2%	n/a	4.9%
PI US Growth	US equity large-cap growth	-20.8%	-20.8%	n/a	n/a	n/a	-6.7%
Benchmark	S&P 500 Index	-18.1%	-18.1%	n/a	n/a	n/a	-5.8%

Benchmark performance source: Refinitiv | Eikon

PI Canadian Equity Portfolio -4.22% in December

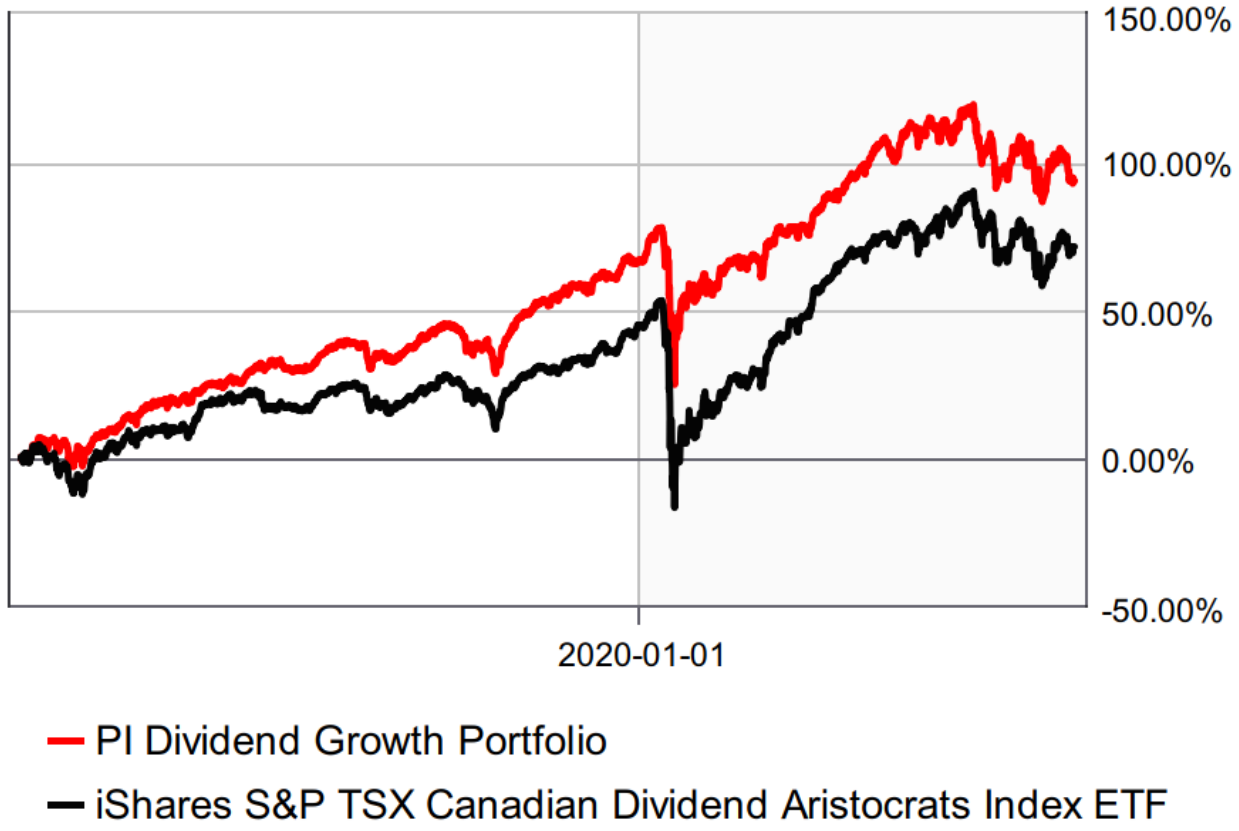


The PI Canadian Equity Model ('PICEM') Portfolio decreased by -4.22% for the month while its benchmark, the S&P | TSX 60 Total Return Index decreased -5.28%. The S&P | TSX Composite Total Return index decreased by -4.90%.

Year to date, the portfolio decreased -0.68% vs -6.09% for the benchmark and -4.90% for the S&P TSX Composite (total return).

Since inception, September 8, 2015, the PI Canadian Equity Model portfolio has produced a total return of +112.18% vs +82.80% for the benchmark. Thus, a $100,000 investment would now be worth $212,180 for an annualized gain of +10.8% per year vs 8.6% per year for the benchmark. All returns are exclusive of any fees.

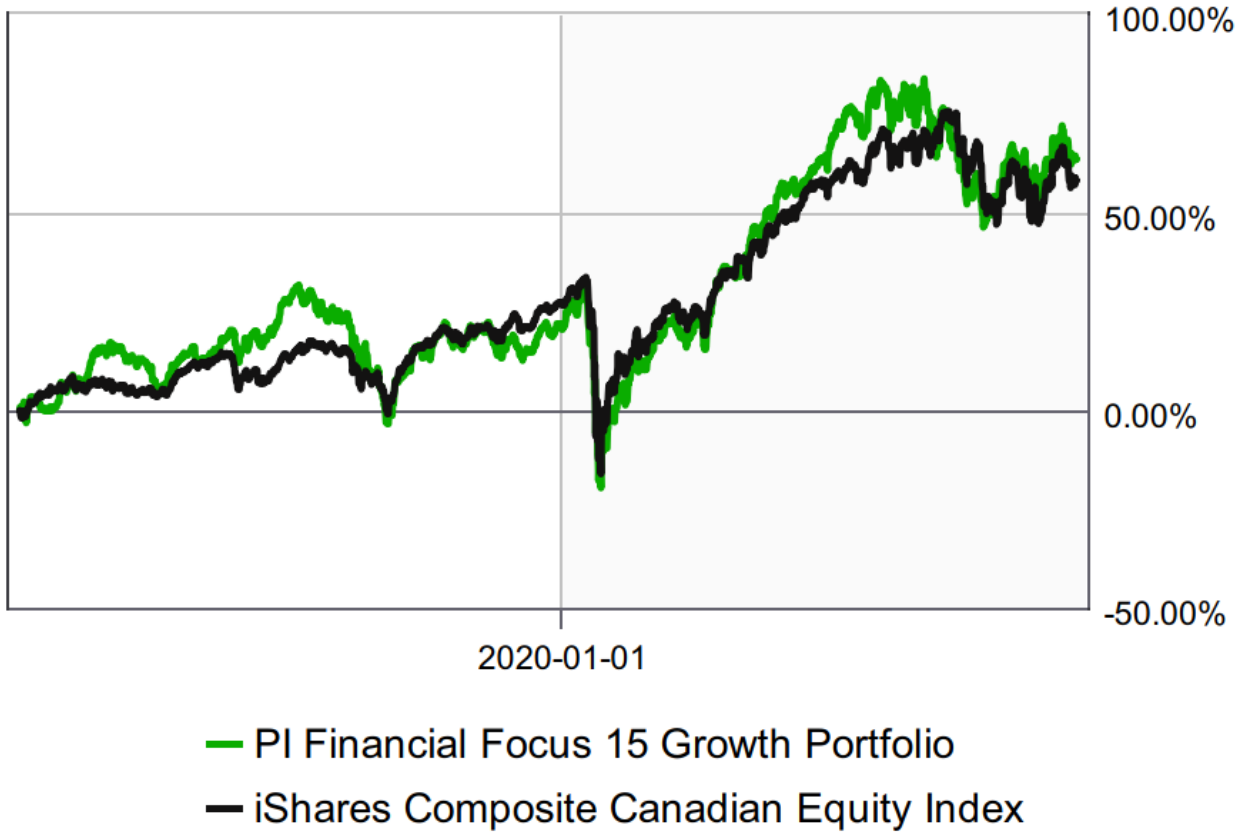
PI Dividend Growth Portfolio -4.73% in December



The PI Canadian Dividend Growth Model ('PICDGM') Portfolio decreased -4.73% for the month compared to the portfolio's benchmark, the S&P | TSX Dividend Aristocrats Index which decreased -2.60% in the month, while the S&P |TSX Composite index decreased -4.90% (total return).

Year to date, the portfolio decreased -9.83% on a total return basis compared to -3.57% by the benchmark and -5.84% for the S&P | TSX Composite Total Return Index. This portfolio underperformed its benchmark due to the large gains in energy stocks most of which do not meet our dividend growth mandate and the underperformance of real estate stocks. All returns are exclusive of any fees.

PI Focus 15 Portfolio -4.45% in December

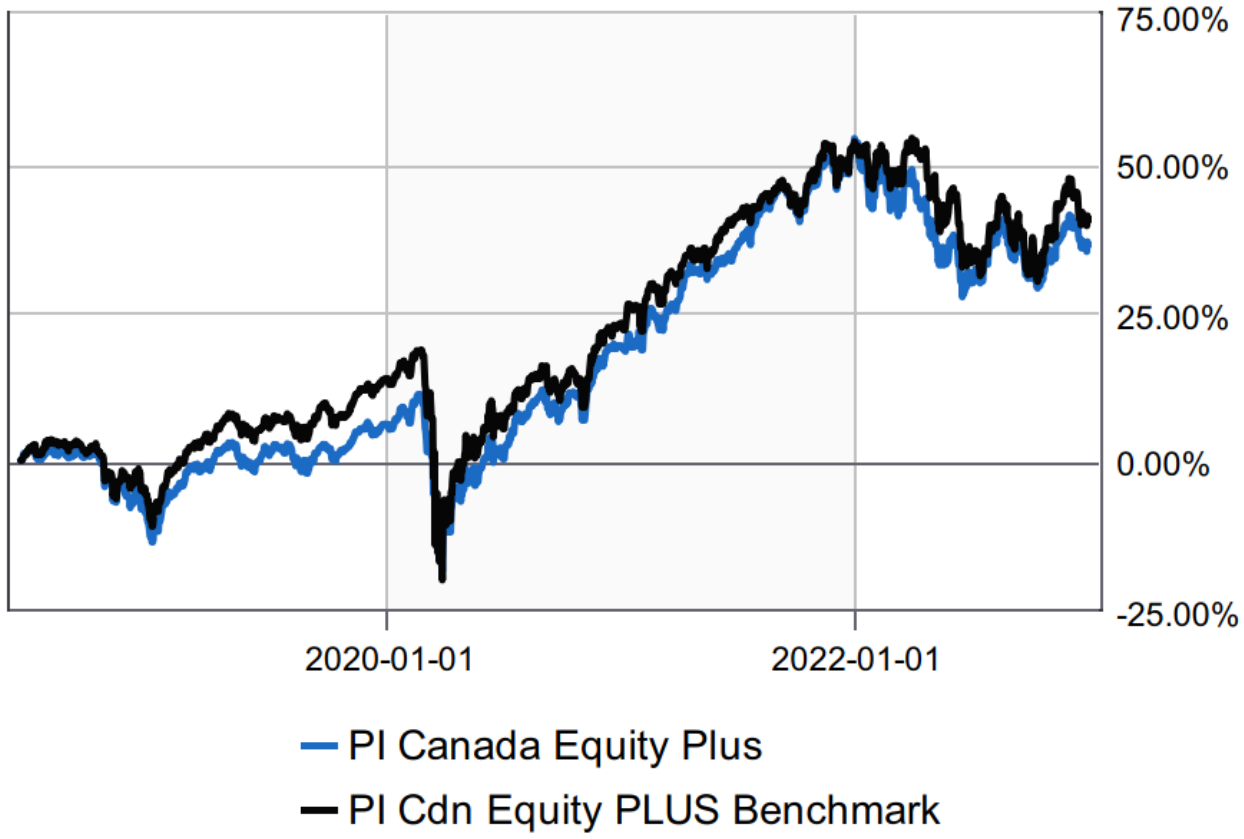


Our most growth oriented portfolio, the PI Focus 15 ('PIFF') Growth Model Portfolio, decreased -4.45% for the month compared to its benchmark, the S&P | TSX Composite Total Return Index which decreased -4.81%.

Year to date, the portfolio decreased -9.96%, while its benchmark decreased -5.69% (total return). The portfolios underperformance is reflective of our lower than benchmark weighting in energy and materials.

Since inception, October 31, 2016, the PI Focus 15 Growth Model Portfolio has produced a total return of +63.51% vs +58.01% for the benchmark. Thus, a $100,000 investment would now be worth $163,510 for an annualized gain of +8.3% per year vs +7.7% per year for the benchmark. All returns are exclusive of any fees.

PI Canadian Equity Plus -3.48% in December

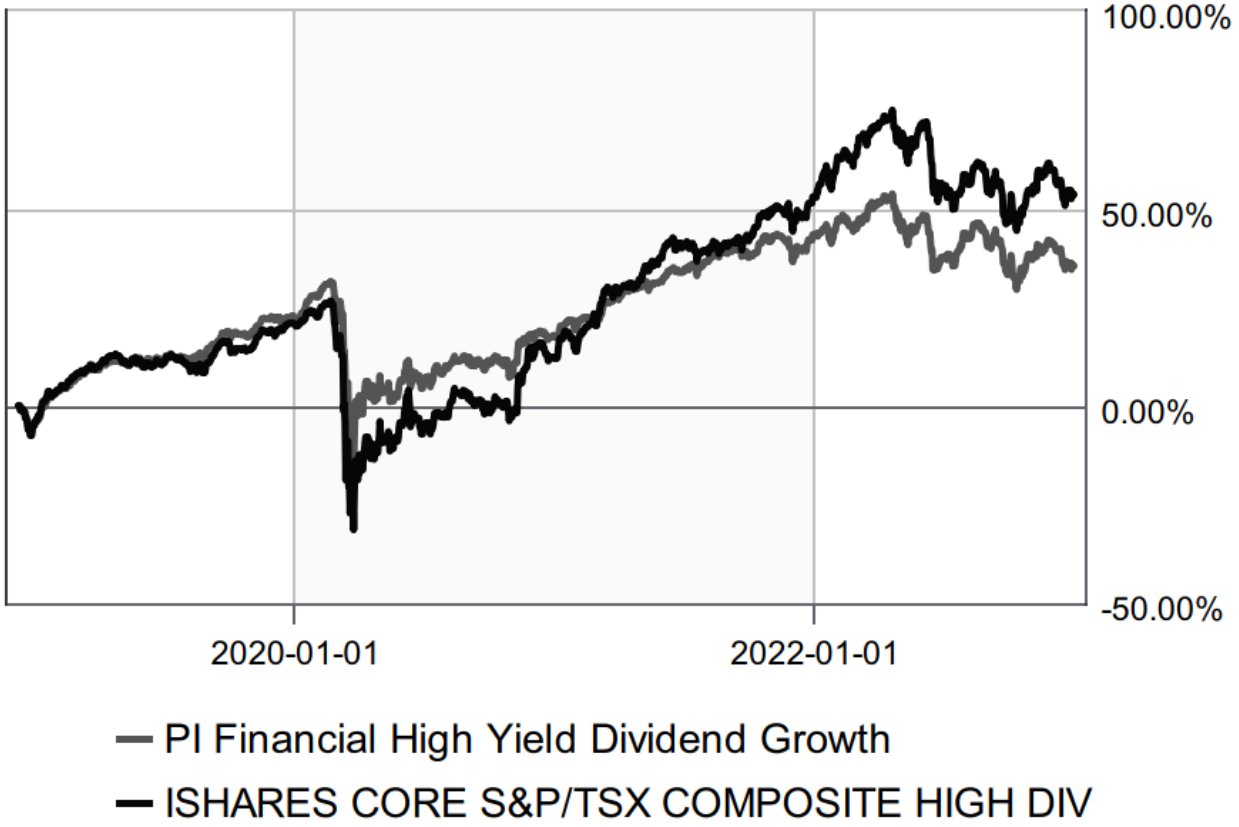


The PI Canadian Equity Plus Model ('PICEP') portfolio decreased by -3.48% in the month, while its benchmark, a blend of 65% weighting in S&P TSX 60 Index and 35% MSCI All Country World ex Canada Index decreased -4.88% and the S&P TSX Composite Total Return Index decreased -4.90%.

Year to date, the portfolio has returned -11.00% vs -7.85% for the blended benchmark; while the S&P TSX Composite has declined -5.84% (total return) and the S&P 500 has declined -18.11%.

Since inception, June 4th, 2018 the PI Canadian Equity Plus Model portfolio has produced a total return of +36.16 vs +40.24% for the blended benchmark. Thus, a $100,000 investment would now be worth $136,160. All returns are exclusive of any fees.

PI High Yield Dividend Growth -4.28% in December

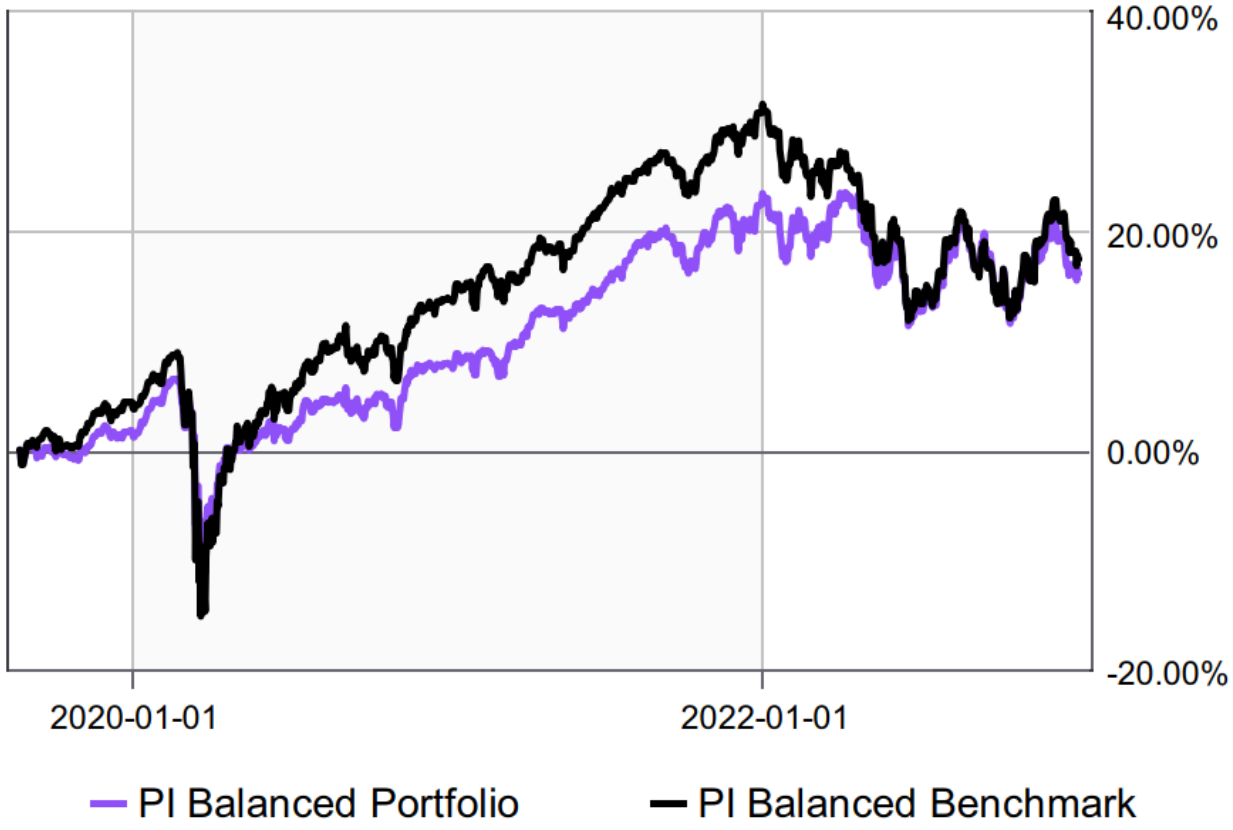


The PI High Yield Dividend Growth model (PIHYDG) portfolio decreased -4.28% in the month while its benchmark, the S&P TSX Composite High Dividend Index decreased -4.04% and the S&P TSX Composite decreased -4.90%.

Year to date, the portfolio decreased -5.45% vs +0.53% for the S&P TSX High Dividend Index and a decrease of -5.84% for the S&P TSX Composite (total return). This portfolio underperformed its benchmark due to the large energy sector benchmark weighting, large gains in energy stocks, most of which do not meet our dividend growth mandate and the underperformance of real estate stocks.

Since inception, December 7, 2018, the PI High Yield Dividend Growth Model portfolio has produced a total return of +35.56% vs +53.70% for the benchmark. Thus, a $100,000 investment would now be worth $135,560. All returns are exclusive of any fees.

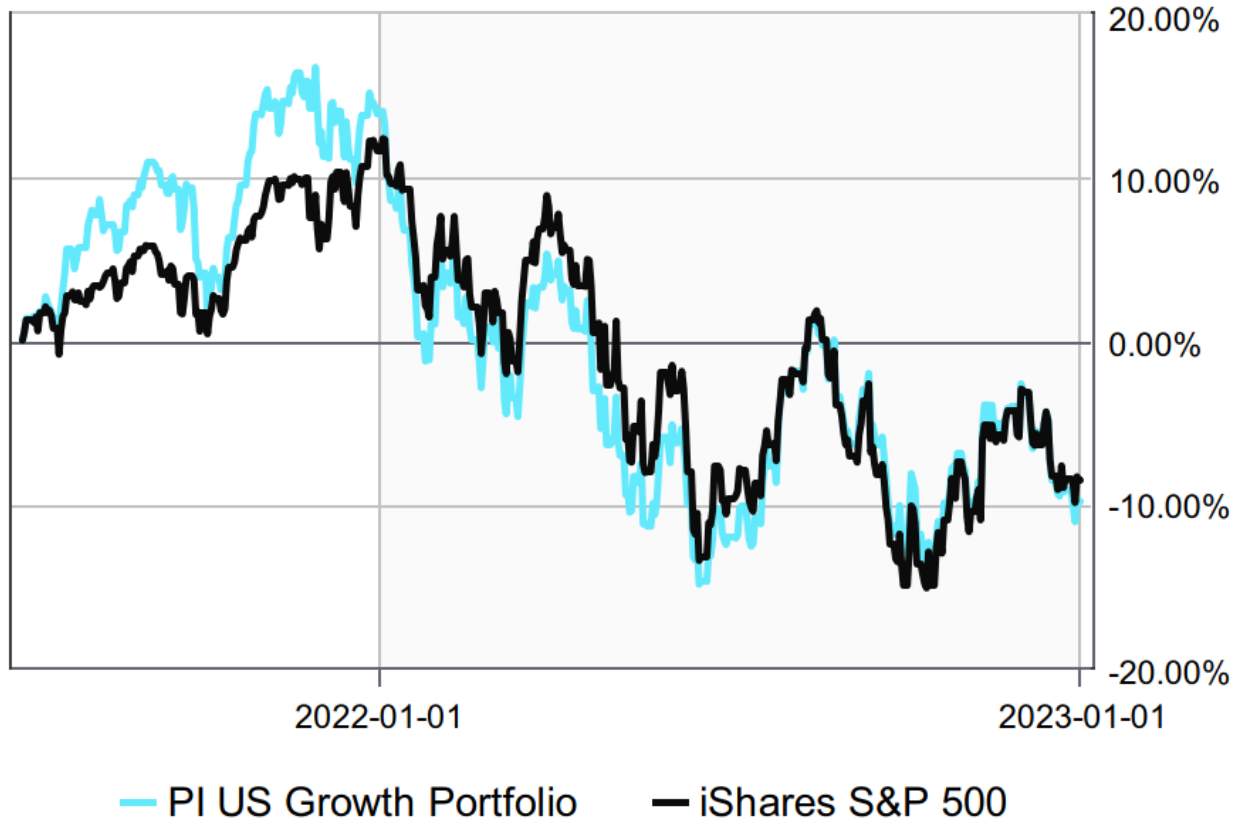
PI Balanced -4.05% in December



The PI Balanced Model ('PIBMP') Portfolio decreased -4.05% in the month while its benchmark, a blend of 40% Canadian Aggregate Bond Index, 30% S&P/TSX 60 Index and 30% S&P 500 Index decreased -3.81%. Year to date, the portfolio has decreased -5.35% vs -10.30% for the blended benchmark.

Since inception, August 21st 2019, the PI Balanced Model portfolio has produced a total return of +16.11% vs +17.49% for the blended benchmark. Thus, a $100,000 investment would now be worth $116,110. All returns are exclusive of any fees.

PI US Growth -7.42% in December



The PI US Growth Model ('PIUSG') Portfolio decreased by -7.42% for the month while its benchmark, the S&P 500 Total Return Index decreased -5.76%. The NASDAQ 100 Total Return index decreased by -9.01%.

Year to date, the portfolio declined -20.84% vs -18.11% for the benchmark and -32.38% for the NASDAQ 100 (total return).

Since inception, June 29, 2021, the PI US Growth Model portfolio has produced a total return of - 9.86% vs -8.57% for the benchmark. Thus, a $100,000 investment would now be worth $90,140. All returns are exclusive of any fees.

For more information about all of the PI Financial model portfolios please contact your PI Financial Portfolio Manager or Investment Advisor.

If you do not currently have a PI Financial professional assisting you and would like to learn more about our discretionary model portfolios please click here pifps@pifinancialcorp.com.

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