The Heward Global Leaders Fund & Strategy

MAY 2020

HEWARD
INVESTMENT MANAGEMENT INC.

"I've found that great investors are unafraid of being wrong or challenging their own assumptions, especially when those assumptions are strongly held."
-Jason Trennert, Strategas Research Partners, New York

We have been expecting the economy to slowly recover as the world economies gradually re-start and re-open, however global stock markets are indicating an assumption that life would be back to normal as soon as economies re-start. We are skeptical. As we are approaching the end of the quarantine, investors now look towards the re-opening of the economy and the immediate consequences of the lockdown. The news is filled with wild projections about the immense challenges of the world returning to work and the path that the recovery will take. There are so many "experts" with wild predictions and potential catastrophic scenarios but despite these scary possibilities, this has not stopped markets from going up. In fact, despite discussions about a second wave of the virus and so much debate about the possible shape of the recovery, indexes and certain stocks seem to defy gravity.

An interesting summary from Jason Trennert Partner at Strategas Research Inc LLP; "Since the global financial crisis in 2008 and 2009, the average investor has enjoyed, in essence, the best of both worlds – the mostly simultaneous appreciation of both his stock and bond holdings." "Unfortunately, the policy of financial repression became tantamount to a pilot throwing his most valuable indicator on the control panel out the window. If we have learned anything since the emergence of economics as a social science, it is that prices are better allocators of capital than small groups of men and women, perhaps especially when such a group is unelected. One would presume that fixing the price of the world's benchmark risk-free rate, the U.S. Treasury, would only compound the error." So, we find ourselves today in the midst of global pandemic that forced policymakers, rightly or wrongly, to shut global economic activity down almost completely. What appeared to be a supply shock from China in February turned into the mother of all demand shocks in March, April, and still today in May. Learning from the GFC in 2009, the Fed (appropriately in my estimation) dusted off the alphabet soup of programs created during the last crisis to forestall an even greater economic catastrophe in which we find ourselves now. The Fed's balance sheet has swelled to more than $6 trillion. Since the broader market fell to its nadir on March 23rd, the S&P 500 has retraced about 60% of its decline from its all-time high, while 10-year Treasury yields have fallen further still. Year-to-date the note has fallen in yield from 1.92% to a mere 70 basis points. Despite all the drama, the S&P has only fallen about 10% since the start of the year after appreciating more than 30% in 2019. Not too shabby.

Unfortunately, it seems unlikely that the peaceful coexistence between stocks and bonds present during so much of the last decade is unlikely to continue during the current one. An examination of the amount of assets in money market funds suggests that the fuel for the next leg higher in stock prices will almost certainly need to be derived from the bond market rather than cash. Money market fund assets represented nearly 60% of the market capitalization of the S&P 500 at the low in 2002 and nearly 40% at the low in 2009. Today, money market assets represent only 20% of the current market cap of the broad index. The point, however, is that a loss of principal in bonds may be a prerequisite for fresh all-time highs in stocks."

PERFORMANCE—Compounded Annual Returns %

AS OF APRIL 30, 2020	1M	3M	6M	YTD	1YR	2YRS	3YRS	5YRS	10 YRS	Since Inception*
Heward Global Leaders Fund	**+7.55%**	**-1.76%**	**+3.54%**	**+0.20%**	**+4.83%**	**+5.35%**	**+4.05%**	**--**	**--**	**+4.05%**
Global Leaders Benchmark	+8.41%	-7.47%	-2.83%	-6.34%	-2.37%	+3.01%	**+3.27%**	**--**	**--**	+3.27%

Management fees and administrative expenses all may be associated with pooled fund investments. Please read the offering memorandum before investing. The indicated rates are the historical compound total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Pooled funds are not guaranteed, their value changes frequently and past performance may not be repeated. The Global Leaders Benchmark has been used since the inception of the Heward Global Leaders Fund on April 30th, 2017. It reflects the Fund's investment policy of 80% global equities, 10% Canadian equities and 10% cash (+/- 20%). The blended returns are calculated by Heward Investment Management Inc. using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilizing any MSCI Data, models, analytics or other materials or information.

Cash levels: ICI All Money Market Funds Total Net Assets jumped to another record high of $4.8 trillion last week.

SOURCE: Bank of America, Merrill Lynch

Heward Investment Style and Philosophy: Growth at a Reasonable Price "GARP"

Despite these uncertain and unprecedented times, this remains a great environment for stock pickers and long-term investors. We are focusing on strong companies that are growing with unlevered balance sheets, where our clients can access a portfolio of resilient stocks whose survivability is not questionable under the most extreme scenarios. We increasingly feel that the traditional characterization between "growth" vs. "value" or "small-cap" vs. "large-cap" has now shifted to a choice between "solid" / "predictable" or "levered" / "risky". The Heward Global Leaders Fund and strategy focuses on and invests in the "solid" camp, with companies that have a leading market position, a leading global brand and paying a healthy predictable dividend.

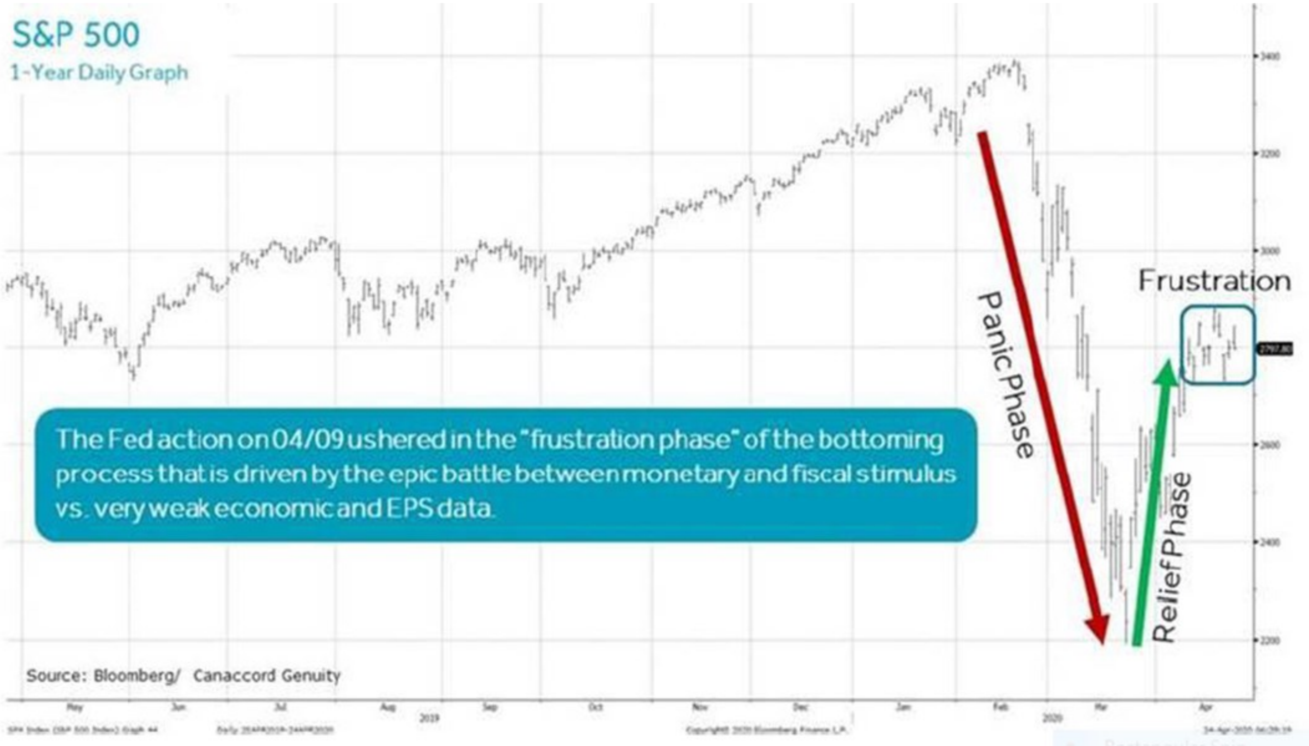
"Don't be impatient when it comes to your money… The stock market is designed to transfer money from the impatient investor to the patient one." – Warren Buffett

One of the more difficult things investors and portfolio managers have to do is to mange one's patience. Given the selloff and the sharp rebound recovery, we have to wait and see what the fundamentals look like. In periods of crashes or crisis, markets go through several phases. After the "panic sell-off" and subsequent "relief rally" which has generated the fear of missing out (FOMO) by investors, we appear to be entering what Tony Dwyer at Canaccord in New York calls, the "frustration phase", where markets and stocks go sideways, while many investors worry about a possible retest of the prior lows. This occurred back In 1987, 1998, and again in 2008-2009.

We remain patient and cautious with higher than normal cash reserves as the "frustration phase" of the long-term bottoming process plays out in global equity markets. The record central bank stimulus argues against getting too negative, and the adage of "don't fight the Fed" should be heeded for now. With the unknown economic recovery and how companies are going to get back to business and questions abound over consumer spending, **all of the uncertainty argues against excessive exuberance and "defense" and being patient being the game plan for now.** The fund and global strategy has solid exposure in gold, great investments in US growth technology and several positions in leading healthcare and pharmaceuticals in Switzerland, the UK and the US. All have excellent balance sheets and are generating huge free cash flows despite the COVID-19 impact.

Some of our holdings are near all time highs and are growing their business and dividends.

The "frustration phase" is appropriately named!

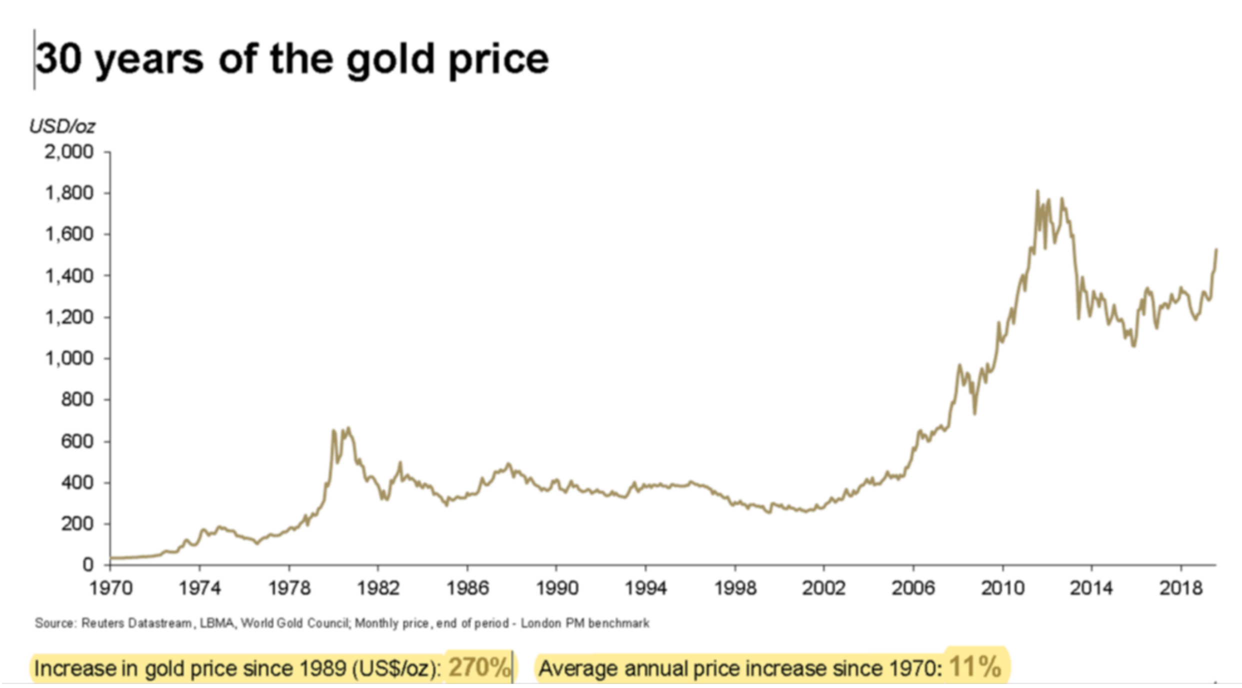


SOURCE: Bloomberg/ Canaccord Genuity

Gold – Average Annual Increase Since 1970 = 7%

As we have written, the excessive debt levels globally will eventually have to be repaid. With limited arrows left to shoot, central banks and monetary authorities globally have had no choice but to increase the money supply (some call it "printing money"), trying to re-inflate the economy or face the consequences of massive deflation and worse.

What many fundamental investors either don't know or are simply ignoring, is that many gold mining companies such as Barrick Gold, Newmont Mining and Gold Fields Inc (and practically most gold companies large and small!) are generating significant free cash flow, are extremely profitable and have great balance sheets. The management teams that have shown discipline in returning money to shareholders via dividends and good balance sheets have been rewarded and we see their share prices higher. At $1500+ Gold, the industry is very profitable and many companies are trading at very reasonable price to earnings and price to cash flow multiples.



SOURCE: Reuters Datastream, LBMA, World Gold Council, Monthly price, end of period– London PM benchmark

In Summary: "Keep Calm and Carry On" -Winston Churchill

My good friend Rupurt Kimber at Quaero Capital Funds in London quoted famed broker and investor Dean Witter, who wrote to his company's management in May 1932 with stock prices at their lowest level in that century;

"All of our customers with money, must some day put it to work into some revenue-producing investment. Why not invest it now, when securities are so cheap? Some people want to wait for a clearer view of the future. But when the future is clear, the present bargains will have vanished. In fact, does anyone think that today's prices will prevail once full confidence has been restored?"

In these unprecedented times, it is easy to feel overwhelmed by the uncertainties and the negative news flow for the immediate future. Like a sailor whom navigates during uncertain weather, we do see some storm clouds ahead with likely "line squalls". As every sailor is taught, we will prepare and have "two reefs in the main and head up closer to the wind", and ride out the waves of turbulence. Remaining true to our investment style has helped us many times in the past in identifying great investment opportunities. We have positioned the portfolio for the "inevitable turn" that will come once the clouds lift.

More than ever we believe that by sticking to our core beliefs, investing in great leading global companies at a "growth-at-a-reasonable-price" stance, will enable us and our clients to safely sail through to the other side of the storm. While cautious over the short term, we remain constructive on global equities in a longer-term horizon.

We will monitor the economic and market landscape closely, and constantly reassess our investment positions.





THE HEWARD GLOBAL LEADERS FUND AND STRATEGY CORE INVESTMENT THEMES

- Dividend growth
- Technology / Digital
- E-Commerce
- Demographics: Rise of the Millennial and Gen X & Health and lifestyle of the aging population
- Gold

For more information or to schedule a meeting;

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