

## Investment Manager Commentary - December 2022

Investors continue to be watchful of inflation but companies' earnings are becoming more of a focal point. Our expectation that the Canadian market would outperform the U.S. market in 2022 proved correct. Information technology stocks, a large part of the U.S. market, struggled while energy stocks, a material weighting in Canada, were aided by strength in energy prices. Stocks are currently trading at more reasonable valuations despite the possibility of downward revisions in estimates as the full impact of high inflation is felt. Despite this correction, the valuation gap between the U.S. and Canada remains wide with the price to earnings multiple of the S&P/TSX Composite Index trading well below its long-term average making it more attractive.

In the first half of 2023 it is expected that corporate earnings will not be as robust as the year prior. Earnings will be impacted not only by continuing high levels of inflation for as long as they persist, but also by the BoC's decisions in respect to inflation (either to continue to impose policy to stabilize prices, or conversely to initiate liquidating events). With the expectation for an additional rate hike in January followed perhaps by no movement on the rate front for several months until a slow decline in interest rates at the end of 2023 or at the beginning of 2024, a recession is not out of the question in Canada. Even if Canada avoids a recession, the effects of recessions experienced by the U.S. and other global economies are expected to have an impact on Canada. However, given the more attractive valuation of the S&P/TSX Composite Index any downside is expected to be milder than its U.S. counterparts.

The attractiveness of Canadian equities this past year relative to other developed markets helped the S&P/TSX Composite Index outperform other countries' market indices for most of 2022. While this outperformance has narrowed the valuation gap there remains a reasonable discount resulting in the prospect for the S&P/TSX Composite Index to maintain its outperformance into 2023. It should be noted that since 1979 the S&P/TSX Composite Index has outperformed the S&P 500 in seven of the past ten rising interest rate cycles. Once it becomes certain that inflation has been curbed the expectation is for a strong recovery in the stock market.

The best performing stocks in the Fund for the year were Intertape Polymer Group Inc., Ag Growth International Inc. and Chemtrade Logistics Income Fund. Sectors that contributed the greatest positive performance to the Fund were Industrials, Utilities and Energy.

The most recent measure of Active Share for Blue Ribbon Income Fund was a very high 80.8%. Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. We believe this high Active Share gives the Fund a greater ability to take advantage of upside opportunities or protect against downside risk very distinctly in comparison to the great number of less active manager's with performance that closely follows the benchmark.

It remains unclear as to whether Canada will be able to avoid a mild recession in 2023. This combined with the uncertain global economic outlook are the basis of Bloom's rationale for remaining cautious. Bloom's focus on dividend paying equities which have over many decades outperformed non-dividend paying equities provides it with comfort as Bloom continues to navigate what it expects will be continued stock market volatility this year. Bloom maintains its patient and prudent approach to investing together with a focus on capital preservation to tackle all types of markets in 2023.

Bloom Investment Counsel, Inc.

January 3, 2023

Annual Compound Returns <sup>1</sup>	1-YR	3-YR	5-YR	10-YR
Blue Ribbon Income Fund	(7.1%)	1.7%	1.4%	3.3%
S&P/TSX Composite High Dividend Index	0.8%	8.3%	7.4%	7.5%
S&P/TSX Composite Index	(5.8%)	7.6%	6.9%	7.7%

<sup>(1)</sup> Returns are for the periods ended December 31, 2022 and are unaudited. Inception date September 17, 1997. The following table shows the Fund's compound return for each period indicated compared with the S&P/TSX Composite Index ("Composite Index") and the S&P/TSX Composite High Dividend Index ("Composite High Dividend Index") (together the "Indices"). The Composite Index tracks the performance, on a market weight basis and a total return basis, of a broad index of large capitalization issuers listed on the TSX. The Composite High Dividend Index tracks the performance, on a market-weight basis and a total return basis, of 50-75 highest dividend yielding securities within the Composite Index. Since the Fund is actively managed, the sector weightings differ from those of the Indices. For these reasons, it is not expected that the Fund's performance will mirror that of the Indices. Further, the Indices are calculated without the deduction of management fees, fund expenses, and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

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You will usually pay brokerage fees to your dealer if you purchase or sell units of the Fund on the Toronto Stock Exchange or other alternative Canadian trading system (an "exchange"). If the units are purchased or sold on an exchange, investors may pay more than the current net asset value when buying units of the investment fund and may receive less than the current net asset value when selling them.

There are ongoing fees and expenses associated with owning units of an investment fund. An investment fund must prepare disclosure documents that contain key information about the Fund. You can find more detailed information about the fund in the public filings available at [www.sedar.com](http://www.sedar.com). The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account certain fees such as redemption costs or income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

Certain statements contained herein constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to matters disclosed in this document and to other matters identified in public filings relating to the Fund, to the future outlook of the Fund and anticipated events or results and may include statements regarding the future financial performance of the Fund. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.



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