



INVESTMENT OBJECTIVE

To achieve long-term capital appreciation with a focus on diversification and downside protection by investing across asset classes in Canadian and Global companies with market cap exceeding \$500 million.

INVESTMENT PHILOSOPHY

The team employs a disciplined approach by combining a systematic and fundamental selection process that favours quality companies with growing earnings.

When building a balanced portfolio, the Fund will invest in a mix of fixed-income securities and equities across a diverse range of regions and sectors.

The team has flexibility with the asset mix, strategically taking advantage of market opportunities.

MARKET COMMENTARY

Global equity markets' positive returns continued in the second quarter of 2021. Economic growth expectations further accelerated as economies opened for business. Some regions remain challenged as vaccine rollouts and continued strong case counts cause some governments to take a slower path than others.

As has been discussed in previous letters, inflation and interest rates dominated discussion in the financial media but we saw a significant reversal in some of the key market trends witnessed in Q1. Markets overall were strong with the TSX Composite up 8.5% (CAD), precisely matching the S&P500 total return for the quarter, which was also up 8.5% in USD. The Canadian dollar was volatile in the quarter but knocked 1.4% off the S&P total return with performance of 7.1% in CAD. The Dow Industrials and US Small Cap underperformed, returning 3.2% and 2.8% respectively in CAD. Global markets continued to improve with International Developed Markets excluding the US up 2.6%. Emerging markets were held back again by large cap stocks in China returning 2.0% for the quarter.

Global bond markets rallied after the severe sell off in Q1. The FTSE Canadian Bond Universe returned 0.5% in the quarter with the Barclays Global Aggregate Bond Index up 2.6%. Interest rates stabilized and fell slightly in the quarter but remain significantly higher than the lows of last year. Inflation expectations are driving rates as we discussed in our previous two quarterly letters.

Inflation expectations will remain a key topic for the year as investors struggle with the high inflation statistics and the somewhat relaxed commentary from global central banks. The US Federal Reserve has consistently stated that most of the inflation we see today is transitory and related to reopening bottlenecks.

Sector returns reversed the trend of the last two quarters with Technology and growth stocks leading, while value stocks took a breather. The exception within value was Energy which had another excellent quarter. WTI (oil) was up 24% in the quarter while our local farmers should be smiling as corn was up 27.6% (USD) in the quarter. Drought in the USA and Western Canada is driving up soft commodity prices, another concern for inflation hawks.

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TOP 20 EQUITY POSITIONS

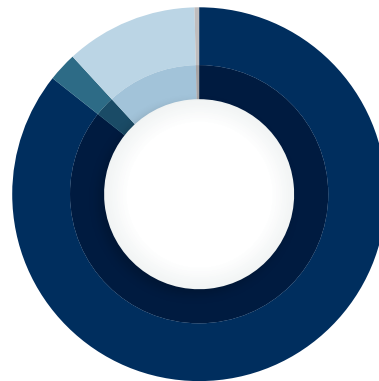
PAYPAL HLDGS INC	1.9%
NVIDIA	1.8%
ROYAL BANK OF CDA	1.8%
JPMORGAN CHASE & CO	1.6%
PALO ALTO NETWORKS INC	1.5%
ALPHABET INC. CLASS C	1.3%
LOCKHEED MARTIN	1.3%
FREEPORT MCMORAN PLC	1.3%
ISHARES MSCI EMRG MKT ETF	1.3%
T-MOBILE US	1.3%
SUNCOR ENERGY INC	1.2%
LVMH MOET HENNESSY L VUITTON	1.2%
PORSCHE AUTOMOBIL HLD SE	1.2%
MICROSOFT CORP	1.2%
APPLIED MATERIALS INC	1.2%
RIT CAP PTNRS PLC	1.2%
WHEATON PREVIOUS METALS	1.2%
VIACOM INC	1.1%
APPLE INC	1.1%
UNITEDHEALTH GRP INC	1.1%

TOP 5 FIXED INCOME & ALTERNATIVE POSITIONS

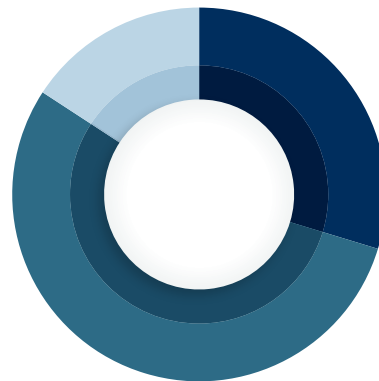
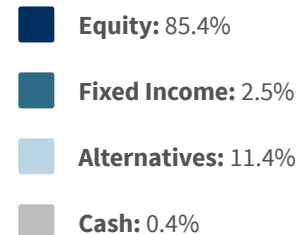
NINEPOINT TEC Private Credit	4.2%
PICTON MAHONEY Special Situations Credit	3.6%
YTM Credit Opportunities	2.1%
TIMBERCREEK Global Real Estate	1.4%
INVESCO GLB ST HY Bond ETF	1.4%

Current Asset allocation is above our long-term target of 75% for equities. Our positive stance is due to improving global economic conditions post lockdowns, helped by government stimulus. North American equities are slightly lower with a 200bps shift to international as reopening goes global. Fixed income was reduced further to increase our equity exposure.

All data is as of June 30th, 2021

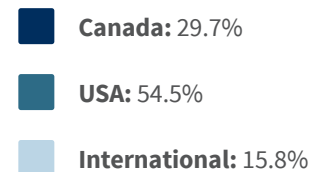


OVERALL ASSET ALLOCATION

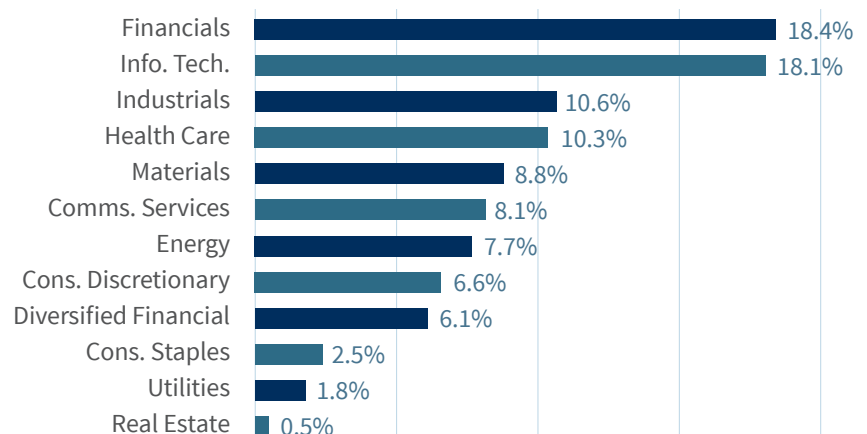


UNDERLYING BREAKDOWNS

Equities - Geographic Breakdown



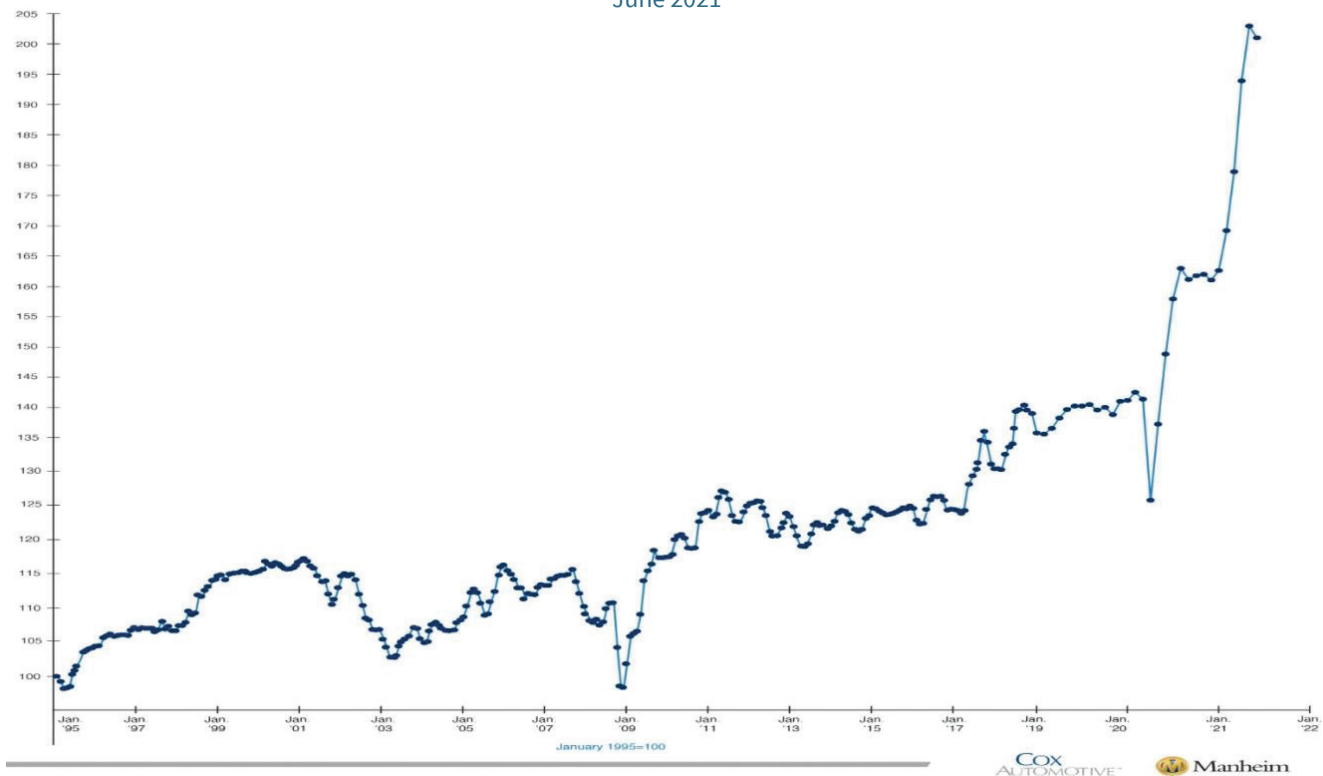
EQUITIES Sector Breakdown



We mention commodities prices above as we believe the most important issue investors must be aware of is the trajectory for inflation and of course growth. We do think that the bulk of the headline inflation figures today will be transitory. Pockets of excess supply disruption have had a large impact on headline inflation. Used cars are a prime example.

MANHEIM USED VEHICLE VALUE INDEX

June 2021



As new car manufacturing ramps up, we expect used car prices to moderate considerably, dragging inflation back to a more normal 2-2.5% range. However, this more normal range is somewhat higher than we have had over the last decade or more. While we expect severe price increases to be transitory, we expect overall inflation to settle at a slightly higher rate than what we have been used too. In the review and outlook section of this note, we will focus on what we believe to be the key issues beneath the market surface that do not get the attention they deserve. Issues relating to the current extraordinary policy support and the future without it. These issues, beneath the surface are far more important today than stock level positioning. Therefore, asset allocation, risk management and being firmly aware of your portfolio exposures will be our focus in this letter.

FUND PERFORMANCE

Returns for the second quarter of 2021 were positive; the Tall Oak Capital Appreciation Pool returned 5.64% and 13.83% since inception on August 27th, 2020. We believe this to be a solid start in light of market volatility and changing interest rate regimes. Our focus on long-term winning companies in growing industries, such as software, technology, healthcare and balancing the portfolio with more cyclical issues in the material, industrial and consumer sectors has helped balance returns over the year. We have taken a barbell portfolio approach to portfolio construction in this regime changing environment. This strategy will be expanded upon in the following review, but the basic approach recognizes that we are at a turning point for growth and stimulus and therefore interest rates, valuation and subsequently the investing environment. The timing of this is a challenge we will discuss further below but for now the portfolio is barbelled between long-term structural growth companies with excellent fundamentals, and those companies that will benefit from a continued economic tailwind combined with supportive valuation.

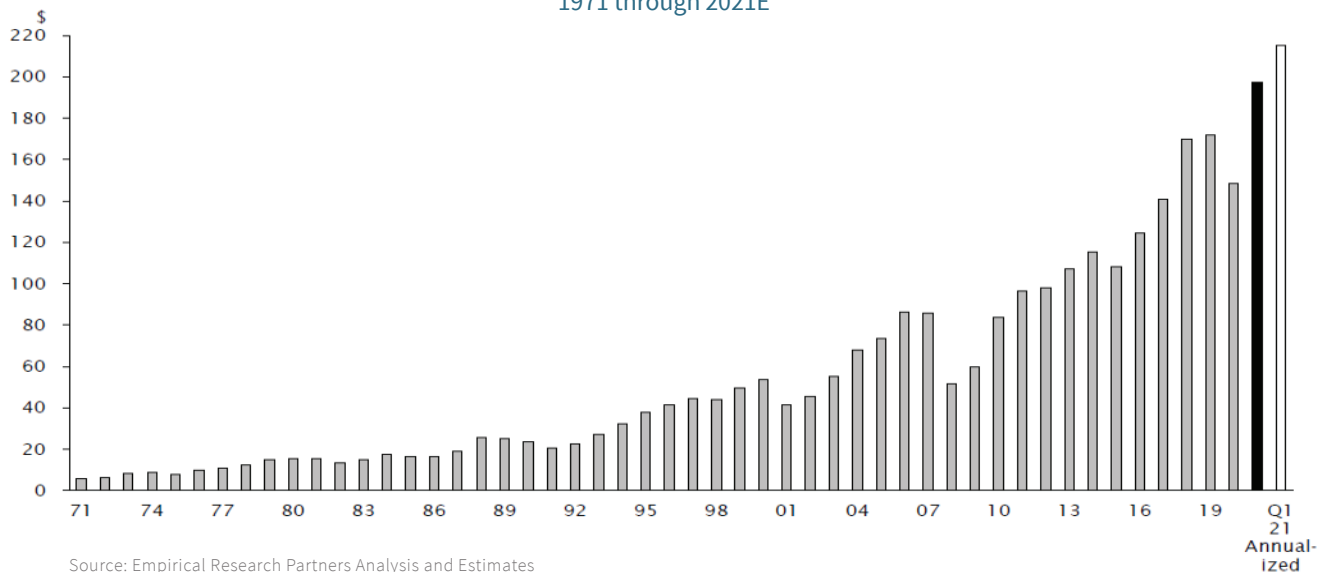
REVIEW

The portfolio performed well in the second quarter of the year. Our balanced approach to growth and value has paid off over the last six months as the second quarter saw growth stocks significantly outperforming value stocks, a reversal of what took place in Q1. Your long-term holdings in companies like PayPal, Palo Alto, Microsoft and Nvidia all performed well in the quarter, some of which (MSFT, NVDA, PYPL) we added to on weakness during Q1. The big winner in this group is Nvidia which was up almost 50% in the quarter. We like and remain long-term holders of the company. Another sector that performed well, communication services with Charter Communications and Alphabet, (the parent company of Google), up 17% and 18% respectively over the period. Financials and select industrials performed poorly over the period. Wintrust Financial and Zions Bancorp, both US regional banks were down -0.2% and -3.8% respectively. Aecon, a long-term holding was down -7.4%, while France-based semiconductor company ST Micro was down -5.8%

Some of our newer international holdings also performed well in the period with Louis Vuitton Moët Hennessy (LVMH) up 18% and UK-based Diageo up 17% in the quarter. While the fundamentals of tech, communication services and consumer discretionary continue to improve, there has been some profit taking in other economically sensitive areas like financials, select industrials and materials. We expect this to normalize as the recovery continues to strengthen globally. Equally important is the trajectory of earnings and, thus far, we have seen outstanding progress in this regard. On current estimates, the S&P 500 Index is forecast to produce \$210 of earnings, a level higher than the peak of 2019. Furthermore, current expectations for 2022 are upwards of \$220 per share. This could prove to be too low if the economic recovery continues apace. This forward data is discussed in the review section because, as we have pointed out before, the market is a forward discounting mechanism, and these forward estimates are precisely what the market has priced in over this amazing run from the bottom in March of 2020. The market rally from the lows has been correct thus far. Indeed, earnings growth in some cases has outpaced share price performance, resulting in a derating in selected issues.

THE S&P 500 - EARNINGS PER SHARE

1971 through 2021E



We are pleased with our balanced, barbell approach to growth and value. The transition to a new regime with changing liquidity conditions and possible higher short-term interest rates will influence our positioning going forward. Deep cyclical stocks have performed fantastically well. Freeport McMoran, the US based copper producer, has risen over 100% since our first purchase in September. Economic conditions remain excellent and we love the prospects for copper in the next Gen EV Auto industry, but names such as this are no longer as cheap as they once were and we are reviewing all of our most cyclical positions as we move towards tighter monetary conditions.

OUTLOOK

The environment today is as challenging as we can recall. As discussed previously, there are bubble like behaviours emerging in this bull market. Some of which was diminished in Q1. It is however hard to ignore an economic boom taking place, although the rate of change has probably seen its peak in terms of economic growth. We are likely living through an economic boom few investors today have ever experienced before. From a low base no doubt, but a boom nonetheless, and as mentioned above, earnings have surpassed the previous peak. Rising stock prices, economic growth exceeding expectations, profits never higher, interest rates low, extraordinarily supportive monetary and fiscal policy, and the euphoria of exiting one of the most challenging economic/social/health crises in generations. With all these economic positives, why so challenging?

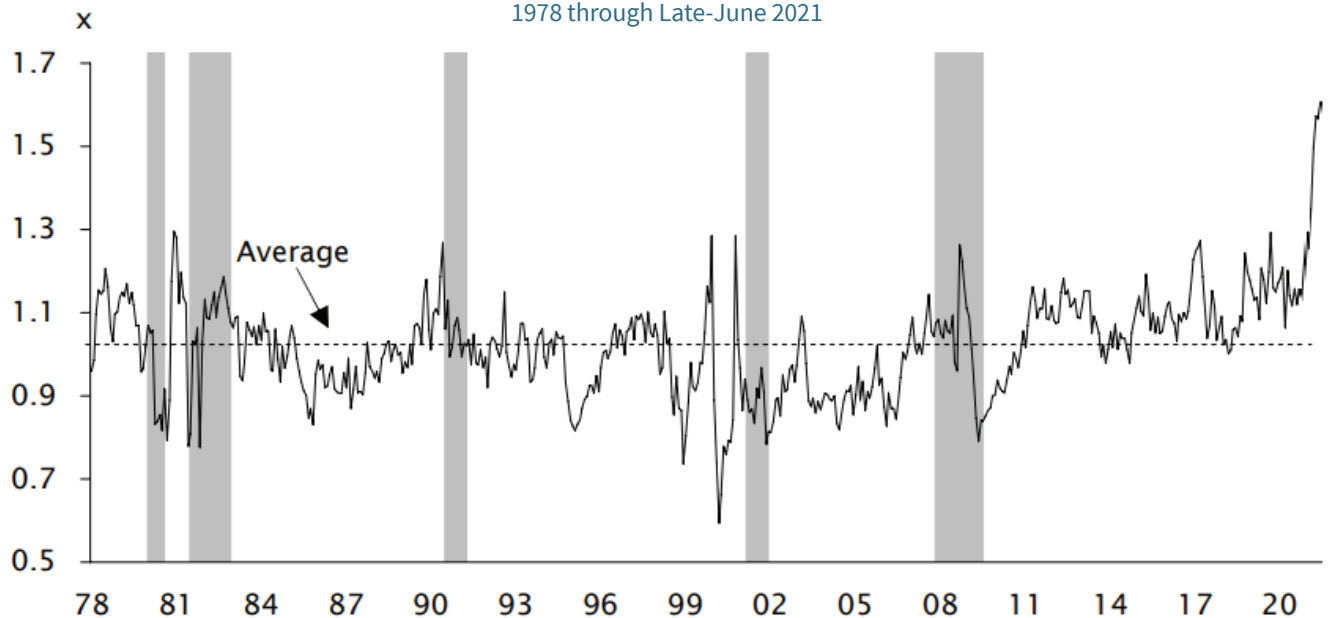
It is hard to avoid talking about inflation. This is the subject getting most of the airtime in the media and financial press. House prices, oil, gasoline, food, used cars, all get highlighted as important to the future inflation outlook. The US inflation rate has just printed at levels not seen for 30 years. The Federal Reserve (FED) believes this to all be transitory in nature and, as economic recovery continues, bottlenecks will diminish, and inflation will fall back into range. While policy will be going from emergency accommodation to an environment of easy money, this slight transition could have a significant impact on the markets' ability to manage a liquidity transition. Extraordinary monetary policy of zero rates is an addictive drug that may make withdrawal a real problem. Markets today are far more reliant on low interest rates than they have been in the past. Indeed, according to Empirical Research Partners, a NY based research company, more stocks today are positively correlated to higher bond prices than at any time since the late 90's. In other words, a lot of market capitalization of the US market moves in sync with the bond market. Adding fuel to this potential fire is the fact that this very cohort of highly bond correlated stocks trade at price earnings multiples that are at record premiums to the market. Valuations of this very large group - over 35% of the US market - have never been higher. This creates an environment in which a significant portion of the equity market is at risk of derating in a world of falling bond prices. As a reminder, higher interest rates mean falling bond prices. Interest rates rise to help mitigate inflation expectations. High and persistent inflation is a real risk to the bond and equity market (see chart below).

LARGE-CAPITALIZATION STOCKS

The Quintile with Relative Returns that are Most Correlated with the Performance of the Treasury Bond Market¹

Relative Forward-P/E Ratios²

1978 through Late-June 2021



Source: National Bureau of Economic Research, Empirical Research Partners Analysis.

¹ Correlations with the ten-year Treasury bond returns, measured over the trailing 126 days.

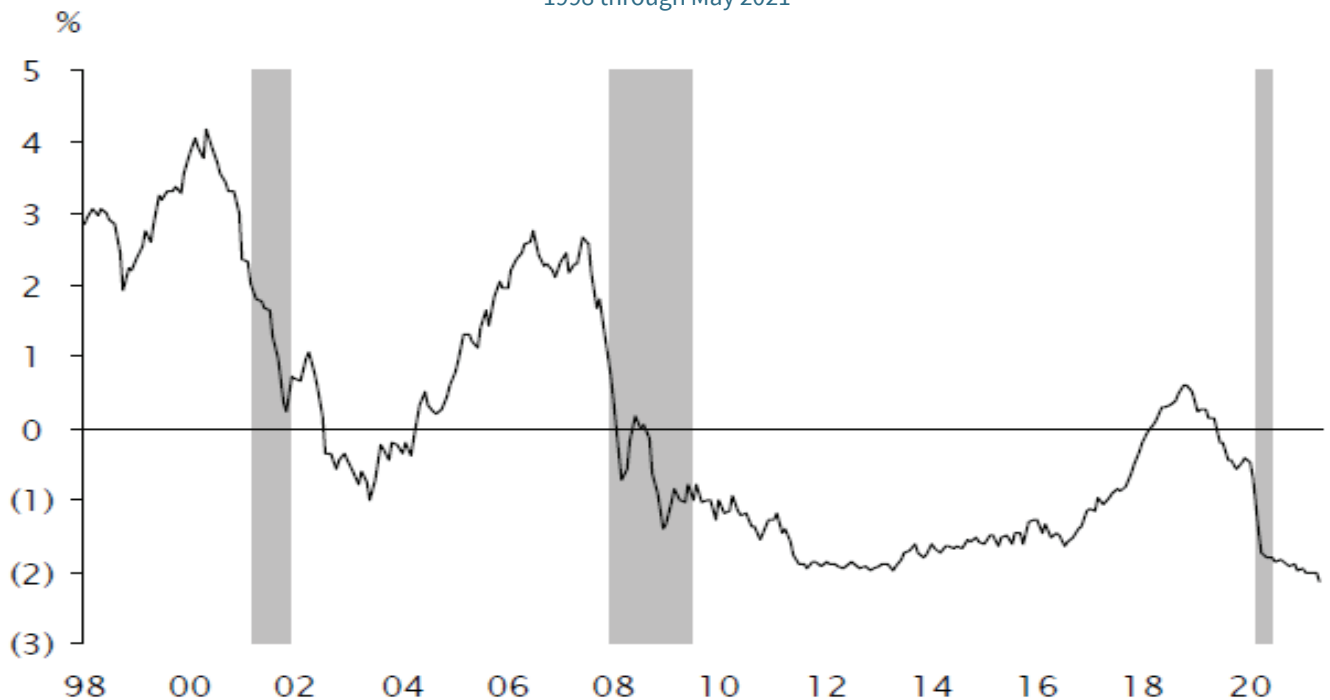
² Capitalization-weighted data.

Recessions

The combination of high realized inflation and a policy environment that is extraordinarily accommodative is one to be cautious of. In the last FED meeting, policy makers brought forward interest rate increases; officials now see two rate hikes by the end of 2023. If this seems a long time away, just consider how different our lives were 18 months ago compared to today. This is a long way off, but the market has reacted, pushing real rates (inflation minus fed funds rate) to the lowest levels since the European Debt crisis. See the next chart below. This was a time in which the markets were far more worried about growth than we ought to be today in an economic boom. This is where the conundrum lies. Real rates are severely negative. This implies that the bond market is more worried about economic growth than inflation. A circle hard to square for multi-asset investors.

EXHIBIT 9: THE TERM STRUCTURE OF REAL INTEREST RATES

Two-Year Forward Expectations
1998 through May 2021



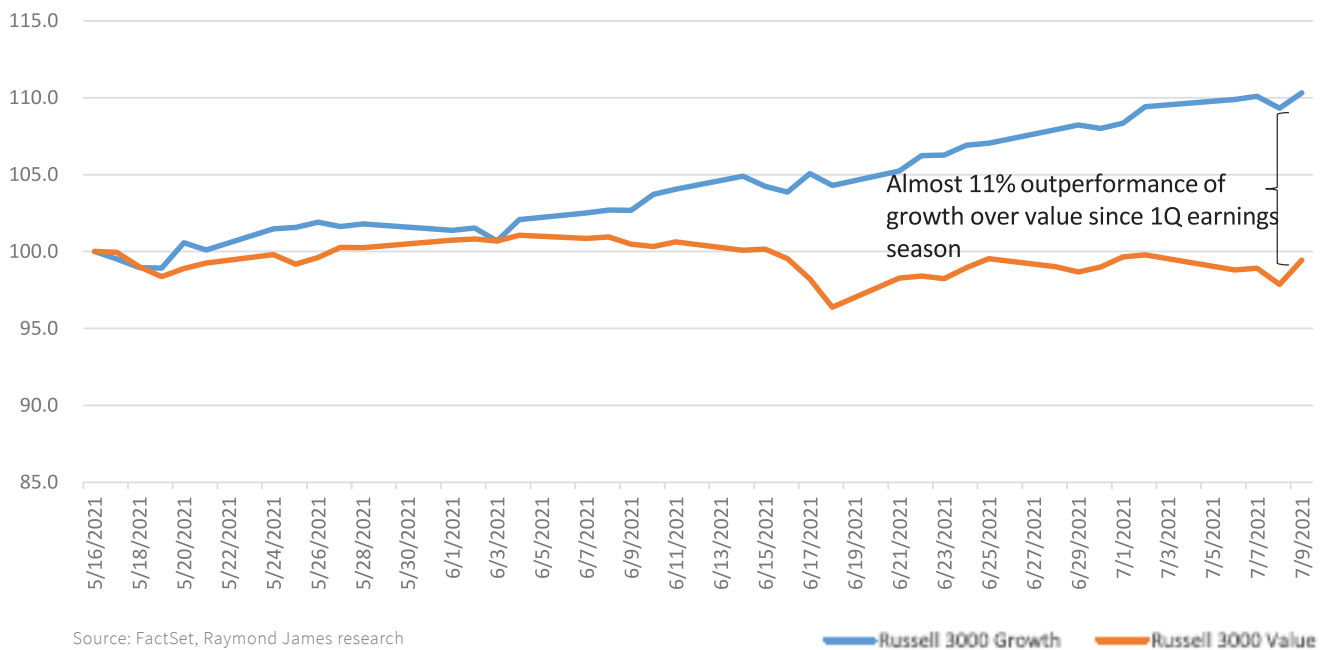
Source: National Bureau of Economic Research, Federal Reserve Bank of Philadelphia.

■ Recessions

Negative real rates during the pandemic triggered a significant run-in growth stocks, which culminated in massive growth stock outperformance up and until the vaccine rollout began and value took over. Like then, after the recent Fed meeting, growth stocks significantly outperformed as per below chart. The out-performance of over 11% in the period is extremely rare.

RUSSELL 3000 GROWTH OUTPERFORMANCE OF VALUE IN JUNE 2021

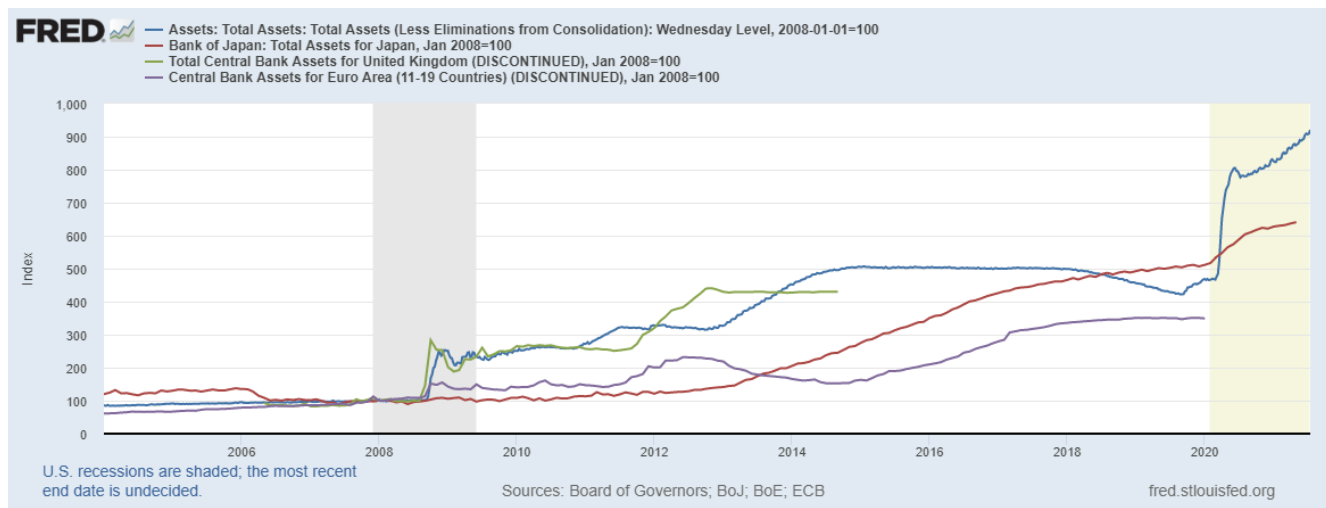
Russell 3000 Growth vs. Value Trading Since 5/15/2021



- Since the end of 1Q earnings season, growth has outperformed value by ~11%, all of it since 6/2/2021.
- There have been only 39 trading days (0.7% of the time) in the past 25 years where growth outperformance of value has been this severe over such a short period.
- In all 39 of those times, value outperformed growth in the next 12 months, by an average of 28% over the following year. Historically, when moves like this happen, they do not usher in a new era of growth outperformance, but a return to a value-biased market.

We expect severe inflation pressure to be transitory. We do not foresee bottlenecks persisting. However, we may have a period of inflation that runs a little hotter than that of the last 20 years. Over the course of the bond bull market, a period over 30 years in which buying bonds has been a sure way to enhance risk adjusted returns in a multi asset portfolio, investors could look to income generating assets such as fixed income and investment grade credit with good confidence of making real returns or returns above inflation. Today, even high yield bonds are trading below the last inflation print in the US. This is transitory, but inflation adjusted returns should be the focus of all investors, hence our low fixed income exposure currently. The last 20 year period witnessed annualized inflation of sub 2%. Real rates for most of this period were positive.

Today we have the unprecedented combination of investors reaching for yield, lower and lower down the quality spectrum, and a collection of global central banks that are printing money at unprecedented levels (see chart below).



The current central bank balance sheet makes the Global Financial Crisis policy action look small. We mentioned this phenomenon in previous letters but highlight it again to emphasize just how much policy intervention needs to come out of the system in order to “normalize” interest rates. This flood of liquidity, justified to stabilize a terrible economic condition caused by the pandemic, is having a profound effect on the cost of money. Interest rates are artificially low, as shown by current real rates (discussed and shown above). The accommodation phase of this cycle is approaching an end, and this may be painful if not managed properly. It may also be painful for portfolios that are not well structured to withstand policy shifting from emergency monetary accommodation to just supportive policy.

The good news is that the economy is in excellent shape to endure this transition. Main Street and Wall Street are not always in sync, and it is our view that over the longer-term Main Street should be the focus. The interest rate normalization process will be fraught with challenges for policy makers and Wall Street alike. We are keeping an eye on the US consumer and recognizing that the undeniable strength of the economy should be the primary factor influencing asset allocation at present. As we discussed in the last two letters, policy responses are important. We are mindful of changing regimes and have been positioning the portfolio for the changing regime ahead. The regime change we are focused on is related to inflation but of much greater importance is the change in monetary policy towards “normalization” of rates and policy accommodation. Or more bluntly, central banks reducing their printing of money. As stated, inflation is important and much discussed. But far more important is the potential changing policy stance of governments and global central banks.

High inflation may indeed be transitory, our best guess is that it will settle somewhat higher than Fed’s 2% target level. The level is important but with a strong economy and even slightly above target inflation the withdrawal of continuous emergency policy as we currently have, will begin and result in higher interest rates across the economy. This normalization is in the best interest of all policy makers and eventually Main Street. How painful this process may be for Wall Street is our focus and mitigating downside while seeking out upside in this environment will remain our primary focus going forward.

STOCKS AND POSITIONING

Identifying strong long-term structural themes is a key pillar of our investment process. So too is a fundamental approach that is guided by GARP (Growth at a Reasonable Price) principles. Discounting future free cash flow (FCF) and not overpaying for this future cash flow is the bedrock of this process. We also recognize that opportunities arise in areas that may not be traditional growth sectors. When looking here, the valuation portion of the model takes precedent. A stock we mentioned earlier in this note, Freeport McMoran was trading at mid-teen FCF yield when we acquired the stock in September. Today we estimate the stock has an equity FCF yield around 9% on current spot prices. Still an attractive valuation after a run of such magnitude.

So, what does one do now with an attractively valued stock that has more than doubled in an economic environment that could hardly be better for cyclicals? We refocus on the outlook going forward, re-underwrite our investment thesis and ask ourselves if this is a fresh money buy, hold or sell? Today we sit at the hold level as the market is adjusting to the latest gyrations caused by the Fed and growth takes the reins in returns. Value stocks remain a decent sized portion of the portfolio, and FCX is a good example, but with the changing regime, the valuation hurdle will be a little higher going forward. Structural growth and higher quality companies, or companies with low earning volatility will be the focus of new money buys going forward. We anticipate a transition from growth and value bias to one of growth and quality. To be clear, we believe all our companies are of high quality, solid returns on invested capital, excellent management teams, strong balance sheets and clear LT strategies. The portfolio transition to quality in this sense is referring to how well the company performs from an earnings perspective without the strong tailwinds of economic growth. We are scouring our models for companies to add to the portfolio that exhibit qualities such as pricing power, low demand elasticity, very strong brands, and deep moats. Consumer staples fall into this category and currently we have quite a small position here. Expect this to increase as we move through the year. As has been the case thus far in 2021, we will also look to diversify the portfolio regionally by adding more positions outside of North America.

The transition to a more normal interest rate environment will be long and fraught. How the global economy manages this transition will determine the outlook for most portfolio returns in the years ahead. We remain quite positive on economic prospects from here and our ability to find winning companies going forward. We believe strongly, however, that the transition to less central bank support, or less liquidity will be the key to portfolio construction and returns. Inflation is important, but not nearly as important as the tightening of monetary conditions to come, regardless how transitory inflation is. A normal inflation rate of 2-2.5%, a sub 4-5% unemployment rate and an economy growing at a pace that may exceed 3% next year cannot justify emergency monetary accommodation from central banks. This transition to less money printing will be our focus for your portfolios. The risks in ignoring these pressures are too great.

A few new companies made it into our top 20 positions this quarter. All three were in the portfolio previously, were added to and all have performed their way into the top. LVMH is one such name. We bought it last year for numerous reasons. Not least in order to have exposure to a great brand company. Most will be aware of the brand Louis Vuitton, and some may know Moët, the champagne brand. But what most do not know is that under the incredibly talented management team led by Bernard Arnault, LVMH has amassed numerous world class irreplaceable brands. LVMH is home to 75 distinguished houses in six distinct sectors including, wine and spirits, watches and jewelry, cosmetics, leather goods, and others. This company, with its incredibly strong pricing power, fits nicely into numerous themes we like. Their moat is wide, profit margins exceptional. A growing customer base in North America and Asia, and a very loyal customer base. LVMH is now the largest company in Europe by market capitalization. We have had the pleasure of meeting management over the years and believe this to be one consumer goods company that will not succumb to the lowest cost producer trap.

Nvidia is another company making it into the top 20. We have owned this company for years and believe its trajectory as one of the leading semiconductor companies on the planet will be very difficult to unseat. Again, the management team is second to none, they are in the sweet spot for next generation processing, unrivalled in GPU processors and their acquisition of ARM Holdings last year will catapult the company into the lead in mobile, low power consumption microprocessors. This is not a cheap company, but the growth, pricing power and excellent management team make it a long-term holding.

We are happy to discuss any stocks or positions in the portfolio so please feel free to contact us. If you would like a full list of positions, we would be happy to supply this as well. We wish our clients health and happiness for the rest of the summer and remainder of 2021. We are resolutely focused on your financial well being and thank you for the confidence and trust you show in the team at Tall Oak Private Wealth.

Sincerely,

Your Tall Oak Private Wealth Team

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WINE PICK Q2 2021

We have had solid feedback to our initial wine recommendations. We thought we would add a red and a white each quarter. Our picks will be mid-priced and, hopefully, from a region, producer, or grape you have not tried before.

ROSÉ MIRAVAL ROSÉ 2020, CÔTES DE PROVENCE

As it is July and rather warm outside, I thought I would try something more seasonal, a rosé. This wine comes from a place of summer romance, Provence. Miraval is located close to the ancient town of Correns, just to the north of Brignoles, right in the heart of Provence. The Miraval site was a monastery in the Middle Ages but is somewhat more glamorous today. Miraval is a popular place for stars of film and music with a local music studio said to have hosted Sting, Sade, and Pink Floyd. Our younger readers may not be impressed. You may have heard of this vineyard recently as it is also caught in the battle of Brad and Angelina. The good news is the wine maker is not likely interested in the Hollywood set and the wine is refreshing and does not disappoint. The salmon-coloured liquid will fill your glass with summer. The wine will bring red fruit flavours encased by acidity and a bounty of texture. Strawberries, rhubarb, peach yogurt and nectarines all work beautifully with the flinty, stony notes. Sipping on its own, or with a Mediterranean lunch, there is much to enjoy. Clean and fresh, Miraval is perfect for the summer. Available at the LCBO.

RED CUNE RIOJA RESERVA 2015

Also, for the summer, this one is for BBQ evenings. Bodegas C.V.N.E is one of Rioja's most respected names with a history dating back to 1879. Although an older producer, they are also known as an innovator. This wine is an interesting blend of Tempranillo, Garnacha, Graciano and Mazuelo, a rare Rioja combination. The wine is aged in French and American Oak for 18 months, bottled and then aged a further 18 months. This producer was one of the first Rioja producers aging in oak barrels and the wine expresses this. Dark berries, vanilla spice, liquorice and coconut round out the flavours. Tannins and acidity balanced well. Perfect for a mixed grill BBQ. Available at the LCBO.

WHITE SONOMA-CUTRER RUSSIAN RIVER RANCHES CHARDONNAY

This wine is one of my favourite summer whites, and although many view California Chardonnay as too clawing or oaky, this is a clean and fresh wine with brisk green apple on the palate, light butter, and quite moderate oak. Tropical fruits also add to the freshness. Medium acidity and decently long finish. The wine comes from an area north of Napa called the Russian River Valley. The winery states that they marry Burgundian practices with new world Californian innovation. The wine is hand crafted with all bunches sorted by hand. 270 acres of rolling hills, the geography works well with the Burgundian tradition. While not everyone loves Chardonnay, this wine, perfectly chilled, is a very well balanced and decent value Chablis alternative. Available at the LCBO.