2021 Performance Update

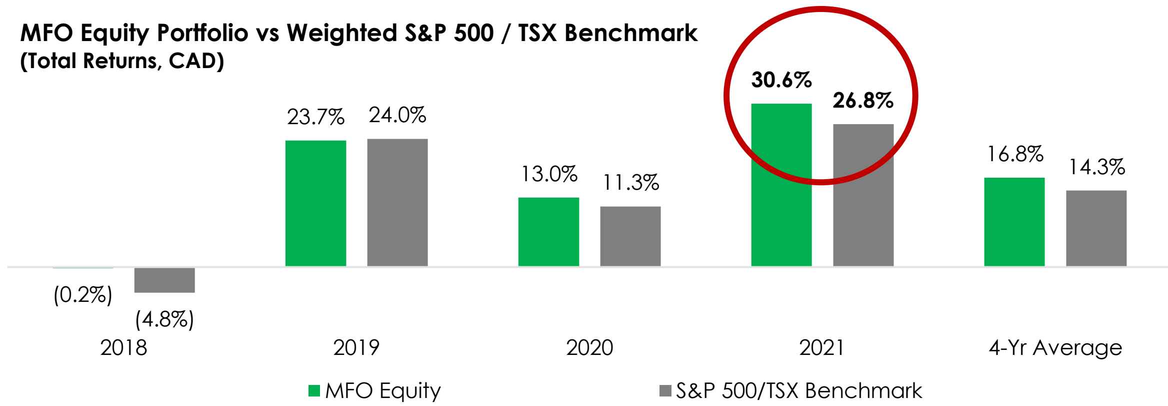
The track record strengthens

→ Performance Update

Summary

*"We are happy to report that **our equity portfolio outperformed our blended benchmark by 380 basis points for the full year 2021"***

MFO Equity Portfolio vs Weighted S&P 500 / TSX Benchmark
(Total Returns, CAD)



Source: *MFO, Bloomberg*
Notes: *Benchmark equity weights for 2021 were 67% US and 33% Canada*
Total returns for 2021 were +28.7% (USD) / +27.5% (CAD) for the S&P 500 and +25.2% for the TSX
Currency contributed -0.8% to MFO equity total returns

Strategy Update ←

Summary

"We are more cautious heading into 2022. *After two years of a perfect set up for equity returns—low global interest rates, central bank balance sheet expansion, and enormous government stimulus—**this unprecedented liquidity party is coming to an end.** We are going from the Federal Reserve buying $120 billion worth of bonds every month to $0 by the end of March. Plus, the Fed Funds Rate will increase 3 or 4 times this year. But the real clincher could be the normalization of the Feds balance sheet, as they begin to be a net SELLER of bonds over the next couple of years. Even if they only sold $40 billion worth of bonds every month to put a dent into government deficits, the liquidity differential would amount to about $2 trillion a year! **Simply put, a significant loss of liquidity + higher interest rates = lower valuations.***

One offset to this will likely be a significant increase in commercial bank lending**, as all the stimulus (i.e., free cheques) liquidity is now behind us. Total bank credit is now beginning to increase significantly after years of stagnation following the Great Financial Crisis. Constructively, commercial bank balance sheets are the strongest in decades to support such growth. **Keep your Bank stocks.** When the Central Banks print money, it flows into assets. When Commercial Banks multiply money via lending, it goes into the real economy, so **we should continue to see reasonable GDP growth of 2–4% over the next two years."

***"We believe our Disciplined Compounder Method™, should allow us to continue to outperform in this environment.** Reasonable Price is the key to doing well in 2022. We are currently favoring true compounders that have more conservative valuations, pricing power, and strong, sustainable earnings growth."*