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.

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PERFORMANCE REVIEW MARKET COMMENTARY

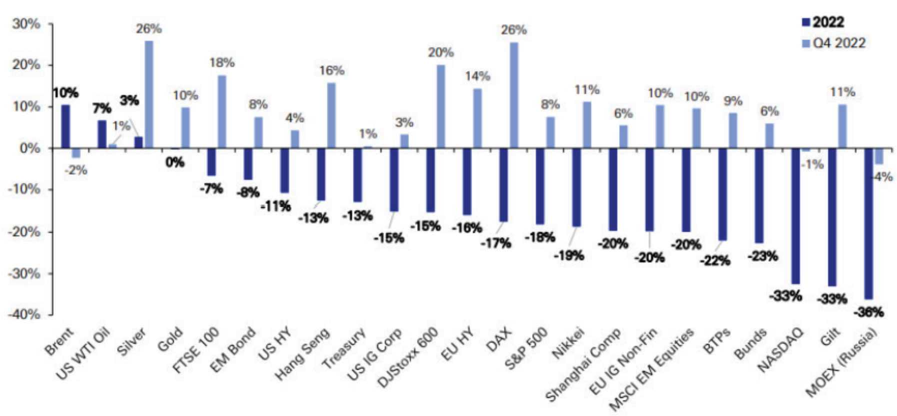
Annual return highlights

Few global asset classes had favourable outcomes for the year, despite the fourth quarter ending on a positive note (see Figure 1: Performance of Global Financial Assets in 2022 and Q4). In 2022, the World Equity Index was down 19.3%, in U.S. dollar terms. Eurozone shares were down 16.6%, while global Emerging Markets fell 22.4%, driven by a very weak Chinese stock market, down 21.6%. These returns reflect the market's worry over high inflation, slowing growth, and tightening monetary policy which could cause a recession. Many private assets posted positive returns; however, those valuations aren't tied to the daily swings of public market sentiment and lag in performance reporting.

Broad equity sector performance was also poor for the year with the Energy sector being the exception. Higher energy costs driven by geopolitical events contributed to Energy's gains. Silver was another bright spot, notching gains to end 2022 with a positive annual return (in U.S. dollar terms), while gold remained unchanged. Traditionally, and certainly, more recently, these sectors have been overlooked as major features of most investment portfolios. Consumer Staples in Canada was another outlier, advancing over the year. The big sectors in the US that led global markets for most of the last 10 years were exceptionally weak. Communication Services (META, Alphabet), Consumer Discretionary and Information Technology (Microsoft, Nvidia, Apple) lagged the wider market, down 40.4%, 37.6% and 28.9%, respectively.

The Canadian dollar lost 6.7% of its US dollar purchasing power in the year, blunting the global headline index figures. This is a false positive, as weak currencies are inflationary and we lose global purchasing power.

FIGURE 1 | PERFORMANCE OF GLOBAL FINANCIAL ASSETS IN 2022 AND Q4



Source: Bloomberg Finance LP, Deutsche Bank

*All returns in local currency unless otherwise stated.

TOP 20 EQUITY POSITIONS

NEWMONT CORPORATION	2.0%
ACTIVISION BLIZZARD INC	1.9%
MCDONALDS CORP LTD	1.9%
SUNCOR ENERGY INC NEW	1.8%
BERKSHIRE HATHAWAY INC CL A	1.7%
NOVO NORDISK AS S/ADR	1.7%
CAMECO CORP	1.6%
CDN NTRL RES LTD	1.6%
INTACT FINL CORP	1.5%
SCHLUMBERGER LTD	1.5%
UNITEDHEALTH GRP INC	1.5%
JOHNSON & JOHNSON	1.5%
AUTOZONE INC	1.4%
MICROSOFT CORP	1.4%
FREEPORT MCMORAN INC	1.4%
DEVON ENGY CORP NEW	1.3%
TENARIS S A S/ADR	1.3%
GNRL DYNAMICS CORP	1.2%
SHELL PLC ADS	1.2%
WINTRUST FNCL CORP	1.2%

TOP 5 FIXED INCOME & ALTERNATIVE POSITIONS

PICTON MAHONEY SPECIAL SITUATIONS CREDIT	4.7%
INVESCO AGRICULTURE COMMODITIES FUND	2.0%
HORIZONS USD MAX CASH YEILD ETF	1.9%
ROYAL BANK BOND USD 24NOV2023	1.7%
FOUR QUADRANT GLOBAL REALESTATE PARTNERS	1.2%

Current Asset allocation is below our long-term target of 75% for Equities and well below the average equity exposure in 2021. Our decision maintain our low equity exposure in Q4 is due to the changing economic environment and expected volatility. Equities, and Alternatives are lower, while Cash is higher and Fixed Income has increased to its highest level since inception as short duration, high quality investment grade corporate issues are much more appealing offering attractive yields. International exposure in equities is mostly unchanged.

All data is as of December 31st, 2022.

OVERALL ASSET ALLOCATION

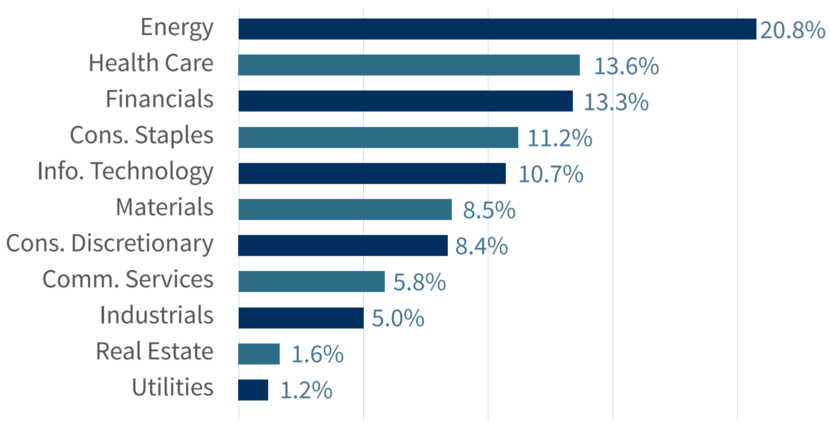
- **Equity:** 62.7%
- **Alternatives:** 10.1%
- **Cash:** 9.1%
- **Fixed Income:** 18.0%

UNDERLYING BREAKDOWNS

Equities - Geographic Breakdown

- **Canada:** 29.2%
- **USA:** 56.1%
- **International:** 14.7%

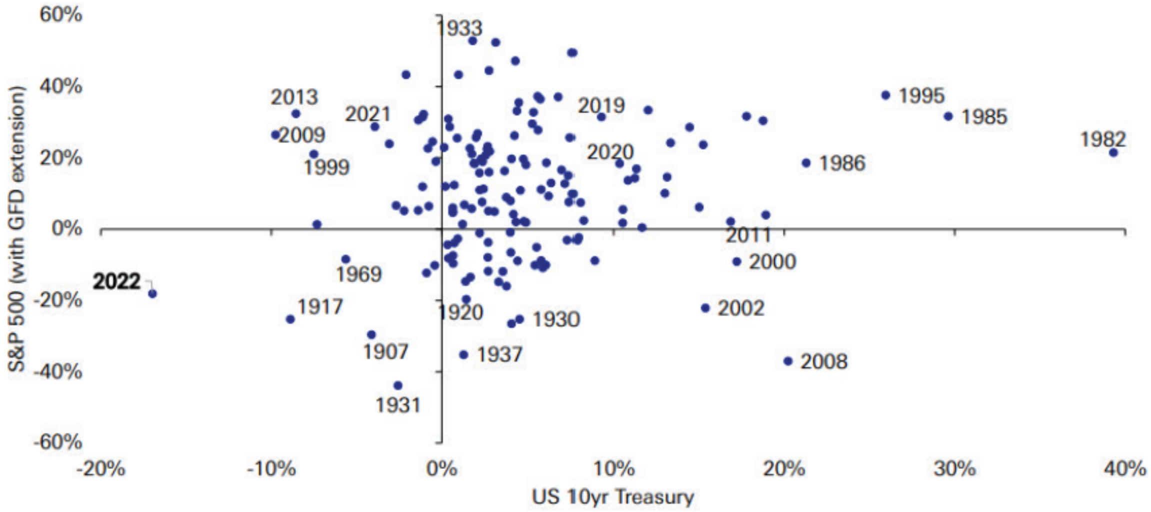
EQUITIES Sector Breakdown



Bonds

What highlighted the challenges investors faced in 2022 better than possibly any other metric, was how dismal government bonds performed. The normal ballast of a long-term liquid investment portfolio. A 60/40 portfolio had one of its worst years on record. The bond rout created an environment most current investors have never faced. An inflationary bear market is one where bonds do not hedge equities, and conversely, equities are unsuitable for hedging bonds. This rare event is highlighted below (see Figure 2). Bond returns, asset price inflation and the road ahead for both will be discussed further in this note.

FIGURE 2 | ANNUAL TOTAL RETURN PERFORMANCE OF THE S&P 500 AND US 10YR TREASURY SINCE 1872



Source: GFD, Deutsche Bank
*All returns in local currency unless otherwise stated.

Q4 at a glance

In the fourth quarter, the S&P 500 Composite Index rallied over 7% with the Canadian S&P/TSX not far behind, up 6%. European equities advanced strongly, delivering double-digit returns. Asia was mixed - Hong Kong's Hang Seng made robust gains, up 14.9% while the Nikkei and China's CSI 300 were up 0.6% and 1.8%, respectively. On the fixed income side, the Federal Reserve (Fed) raised rates twice during the quarter, ending at 4.5% while the Bank of Canada continued raising rates, increasing its overnight rate to 4.25% from 3.75%, the highest level in nearly 15 years. The iShares Core Canadian Universe Bond Index ETF returned 0.5%.

Portfolio performance

The Tall Oak Capital Appreciation fund was up slightly in the quarter, maintaining its defensive, capital-preservation strategy in the face of shorter-term opportunities. The Fund outperformed all multi-asset funds we monitor for benchmarking purposes over the course of 2022 and more importantly, the Fund maintained solid outperformance since its inception (August 2020). There will be months and quarters when our approach will be in and out of favour. A strongly bouncing market in the form of a relief rally may well be an example. We are not yet confident in the near-term outlook to commit more assets to risk. We prefer stronger, more stable companies and investment grade short-term bond issues for now. We will adhere to our capital preservation philosophy until we see better risk-reward opportunities.

WHAT'S AHEAD FOR MARKETS?

Enduring structural themes

Our outlook has not changed materially since the first quarter of 2022. Enduring structural themes continue to guide our long-term view on what will shape the markets over the course of the coming years. However, we believe that 2023 may very well be a year in which several structural themes compete for investors' attention. In previous quarterly notes, we have discussed our views on the changes to long-term trends including global central bank liquidity, inflation, and a changing multi-polar world. We also see longer-term inflationary trends like reshoring of manufacturing, commodity, and technology nationalism in the form of realpolitik national interests continue to take hold. However, after a very aggressive central bank response to inflation, we could see a real slowdown in economic activity leading to a short-term deflationary environment. We will not mistake this disinflationary push as a return to normal state, but rather a short-term outcrop of aggressive central bank policy measures. The big picture remains, inflation and rates will be higher and likely more volatile as we traverse through a new world order.

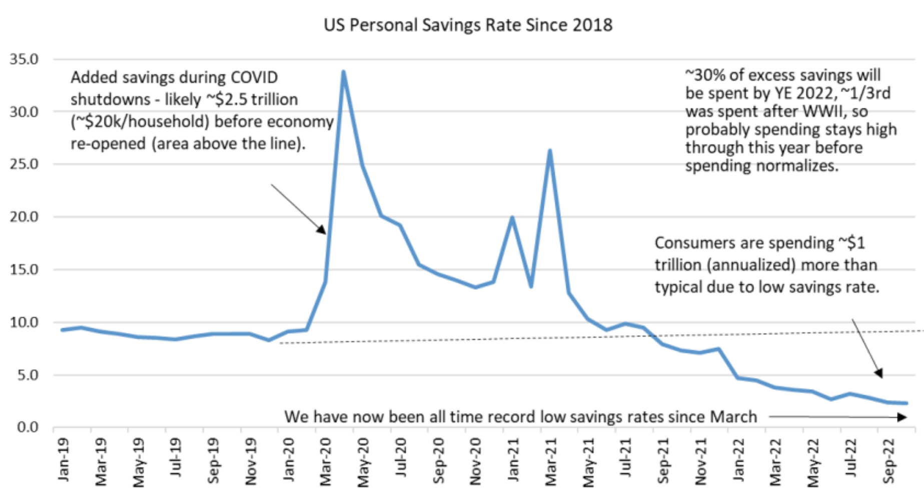
Corporate earnings, consumer savings and the economy

Corporate earnings expectations for 2023 have been falling since peaking in June 2022, but consensus is still projecting earnings growth greater than 2022 (+4 % at the time of writing). We expected earnings to fall further due to the economic slowdown brought on by central bank tightening, but earnings expectations remain robust for 2023. Several factors have played a role in keeping the economy "ticking over." Firstly, the labour market remains very strong with unemployment remaining steady at a very low 3.5%. Although off its peak, US wage inflation has been trending higher. Combined, these factors have kept consumer spending robust.

Consumer savings

As we have mentioned in previous notes, consumer savings exploded higher during the pandemic. Today the savings rate is very low. Consumers are spending down their savings at a fast rate. The economy's ability to stay out of recession will partly be determined by the speed at which consumers work through their savings, or begin to increase their savings rate, which is currently (see figure 3) at unsustainably low levels. Jobs and employment will be a key determinant. The Fed has stated its primary goal is to lower inflation by cooling the jobs market. Fighting against inflation becomes significantly more difficult once wage pressure sets in. Currently, with rates falling and the stock market rallying, the market is anticipating a number of variables will progress in the best possible direction for the economy. Job growth slows, but not too slow. Commodities inflation remains low as China reopens. A short shallow recession and profits are robust enough through all this to support current valuations. This benign outcome in 2023 depends on everything going perfectly in the global central bank's playbook.

FIGURE 3 | A CLOSER LOOK AT SAVINGS RATES DURING THE PANDEMIC: EXCESS SAVINGS IS NOW EXCESS SPENDING



Source: St. Louis Federal Reserve, Raymond James research

*All returns in local currency unless otherwise stated.

- Excess savings was ~$2.5 trillion during the pandemic.
- Excess spending since late 2021 has been ~$600 billion, or consumers have spent about 22-27% of their excess savings.
- At current savings rates of <3% (essentially lowest of all time), consumers are spending ~$1 trillion or ~6% above and beyond what they can maintain.
- **I.E., the level of spending today is unsustainable, even if the economy remains strong.**
- If consumers revert to normal savings rates soon, as Fed rate increases start impacting economy/labor market – demand destruction could be significant (hard landing scenario).

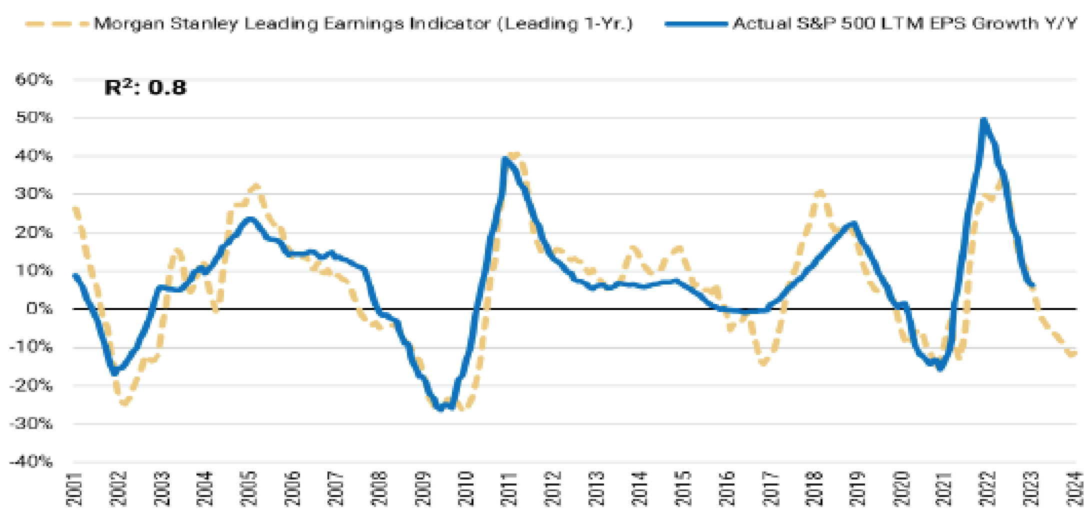
Are we in a "Goldilocks environment"?

The market's recent rally appears to be in the sweet spot of macroeconomic drivers. Inflation is clearly falling fast, and the market is pricing in that the Fed will be done tightening soon. The futures market is pricing in rate cuts in the second half of 2023, and 200bps of cuts by the end of 2024. The Fed has telegraphed that they will keep rates higher for longer to stamp out any risk of inflation returning. In truth, the market is fighting the Fed – pricing in both rate cuts and a benign environment for profits and valuations. This is what we would call a "Goldilocks environment." We don't buy this rosy scenario. In our view, a severe recessionary jolt would be needed for the Fed to reverse its higher-for-longer language and cut rates as fast as the bond futures market is pricing. This would be a second and very damaging reputational U-turn for the Fed within 18 months. If this were to occur, then the market's current expectations for profit growth would be severely diminished, and valuations would quickly reflect the economic reality. History has shown that there is a 6-12 month lag between central bank action and economic activity, so the economy will need time to adjust to the fastest pace of rate increases since the 1980s. Therefore, we think it prudent to be conservative in such an environment and remain focused on quality, value, a generous free cash flow cushion, and exceptionally strong balance sheets when investing. This is not generally a recipe for exceptionally strong returns, but we think, over the long-term, this steady approach will stand the test of time. What is additionally supportive in this uncertain environment is the Fund's 20% position in short-term investment grade bonds. With coupons around 5%, we are getting paid to wait for better opportunities to arise in the equity market.

Recessionary outcomes

The question remains - will the economy slow enough to tame inflation, but not too slow to kill profits? US leading indicator models that predict future outcomes can help illustrate this (see Figure 4). Per Morgan Stanley's analysis, US economic activity is slowing, pointing to recessionary outcomes.

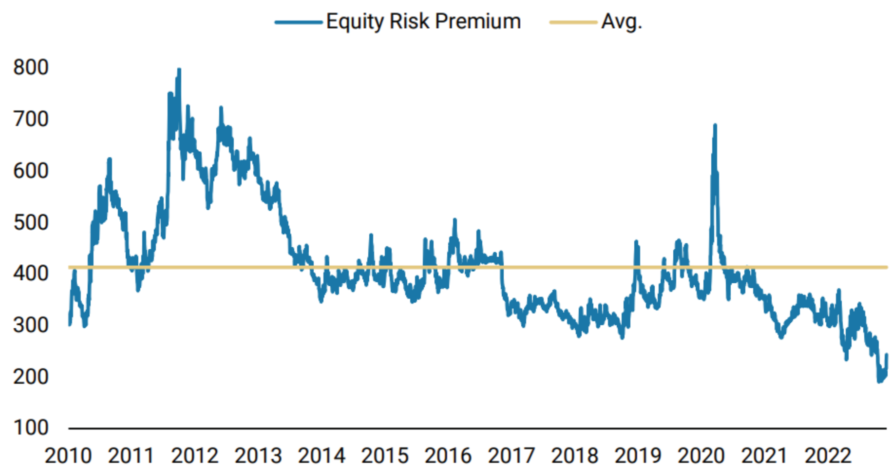
FIGURE 4 | US LEADING EARNINGS INDICATOR



Source: Refinitiv, FactSet, Morgan Stanley Research

On the market valuation front, the current market-implied equity risk premium (ERP) is extremely low (see Figure 5). Indeed, equity risk premia currently seem mispriced as bond yields invert and the economic outlook worsens.

FIGURE 5 | EQUITY RISK PREMIUM IS BELOW POST GLOBAL FINANCIAL CRISIS AVERAGE

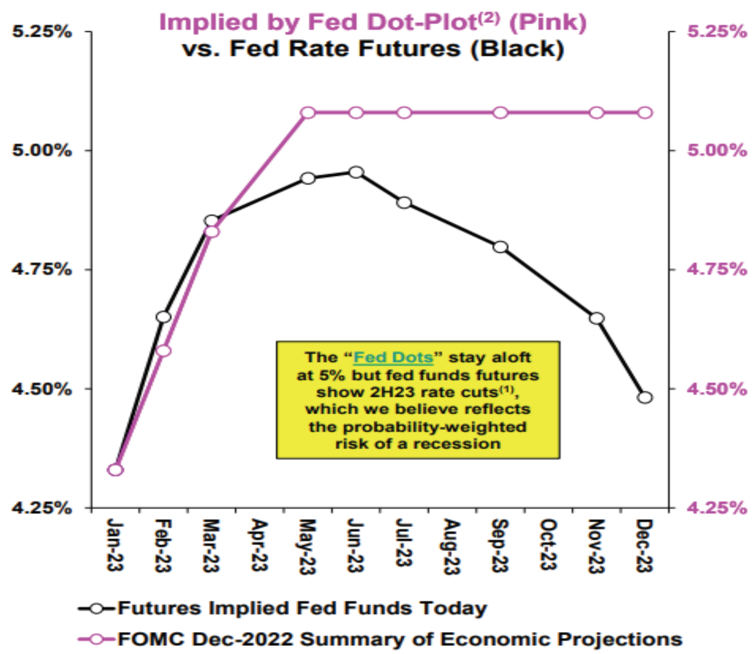


Note: Equity risk premium is calculated as the S&P 500 forward 12M earnings yield minus the nominal 10-Year Treasury.

Source: Bloomberg, Morgan Stanley Research

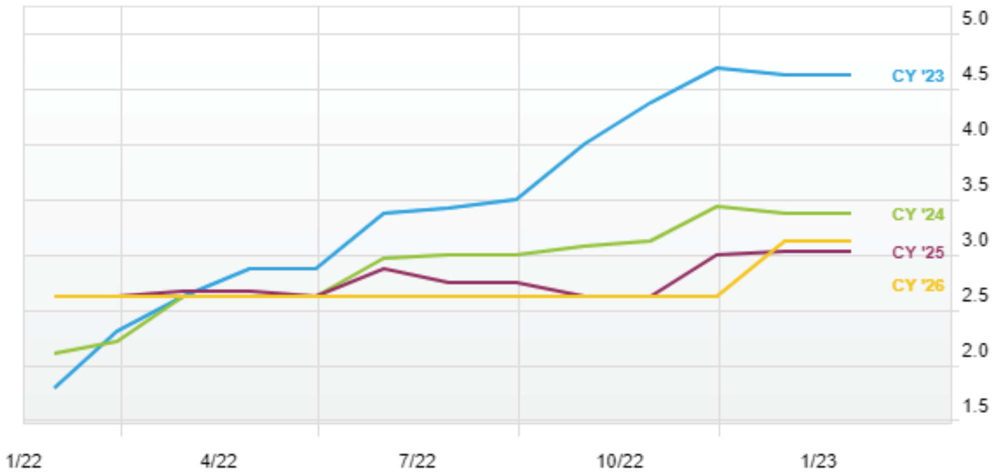
Finally, Stifel strategist Barry Bannister showed where the Fed (in Pink) predicted the Fed Funds Rate would be at their December 2022 meeting and where the market is pricing the Fed to be in the futures market (See Figure 6) . Bannister believes this reflects an increased risk of a recession. From a longer-term perspective, take a look at Figure 7 from research provider FactSet. The 2024 rate drop is most striking.

FIGURE 6 | STIFEL'S RATE EXPECTATIONS



Source: Stifel Research

FIGURE 7 | FACTSET'S MARKET IMPLIED POLICY RATES FOR THE NEXT FOUR YEARS (CALENDAR YEAR TREND)



Source: FactSet

This is quite a stark dichotomy. The market expects that the Fed will cut interest rates starting in Q3 and continuing into Q4 once the Fed's terminal rate peaks below 5% (the highest rate we will reach this cycle). The bond market may very well be correct, and we take this possibility seriously in our own scenario analysis; however, when running this scenario through, it is our assumption that the Fed will only follow the bond market's path if an inflation collapse is brought on by a sizeable slowdown in economic activity. The point we are making here is that the equity market rally from October lows is not well supported by fundamentals. Hence, we remain cautious with a view to adding aggressively when Canadian, US, and global equities provide a more asymmetric risk-reward. This opportunity arises when valuations are solidly supported. Near-term, we are finding good opportunities but remain exceptionally selective as widespread value dispersion is not there. This is when we think the market will bottom.

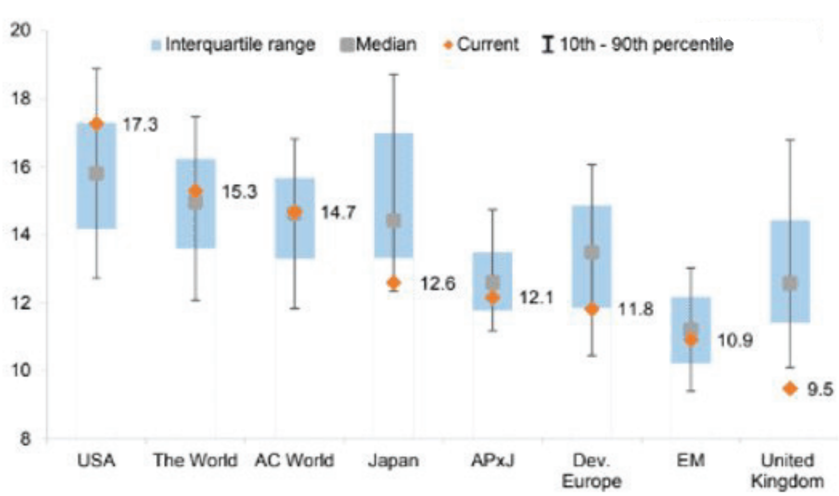
Valuation imbalance

This brings up another theme from earlier reports – US to the rest of the world **valuation differentials**. As highlighted by Goldman Sachs below (see Figure 8), the US market is priced near the top of its long-term PE range. With conditions as they are and described above, this seems excessive.

UK, Japan, and Developed Europe's valuations are either at the low-end of their long-term ranges or well outside and strikingly cheap. We have increased our UK and Europe exposure, particularly over the last few months. We will continue to do so as the continent works through an energy crisis and higher ECB interest rates.

FIGURE 8 | VALUATION RANGES (MSCI REGIONS) OVER A 20-YEAR TIMELINE

12m forward P/E multiple



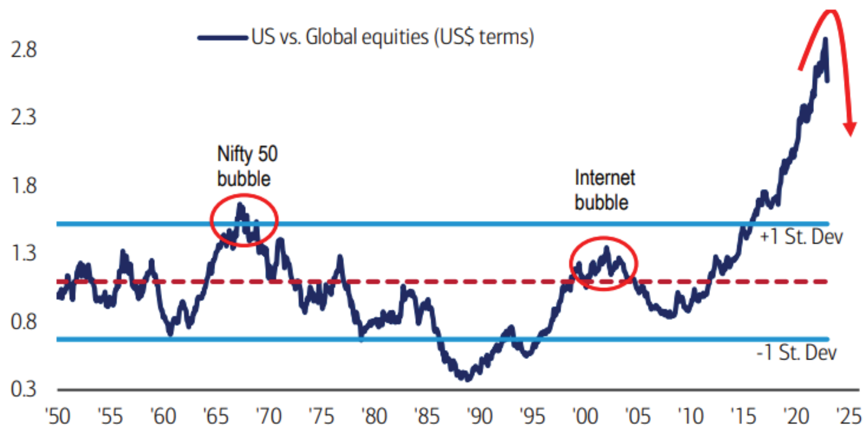
Source: FactSet, Goldman Sachs Global Investment Research

Luckily for Europe, the mildest winter in decades has mitigated the impact of the Russian gas and energy embargo. Germany has managed its storage and new deliveries – something that would have been impossible if the cold weather arrived in earnest as it does most winters. Winter is not over yet, so we will be watching this closely, but the valuation differential is too large to ignore, and we think there are some great long-term opportunities in all three regions. Expect stock-specific notes later this year.

In figure 9, the Bank of America highlights the massive outperformance of the US versus the rest of the world. For a time, this was obviously justified, but today, in a higher rate, inflationary environment, the growth stock universe that dominates US indices will certainly de-rate further. We are not calling for an outright sell-off of US assets. The US economy will continue to produce the best-managed and most innovative companies in the future, but from here, there is enough value and negativity towards non-US companies that in the wake of recent rallies, there are plenty of companies with excellent prospects and compelling valuations.

FIGURE 9 | REST OF WORLD > EQUITIES

US vs. Global equities price relative (US dollar-terms)



Source: BofA Global Investment Strategy, Bloomberg, MSCI USA Index, MSCI Developed Markets excluding USA

Our focus on energy and commodities are ideal examples of opportunities outside the U.S. Furthermore, even a slight improvement in the Chinese economy will have knock-on effects throughout the developing world. Emerging markets are more exposed to needs-versus-wants type companies. We are confident that the best-managed companies with compelling valuations outside of the U.S. will be strong diversifiers for the tighter liquidity conditions we see in the years ahead.

FIGURE 10 | GLOBAL EMERGING MARKETS APPEARS ABNORMALLY CHEAP ON A PRICE TO BOOK RELATIVE TO DEVELOPED MARKETS

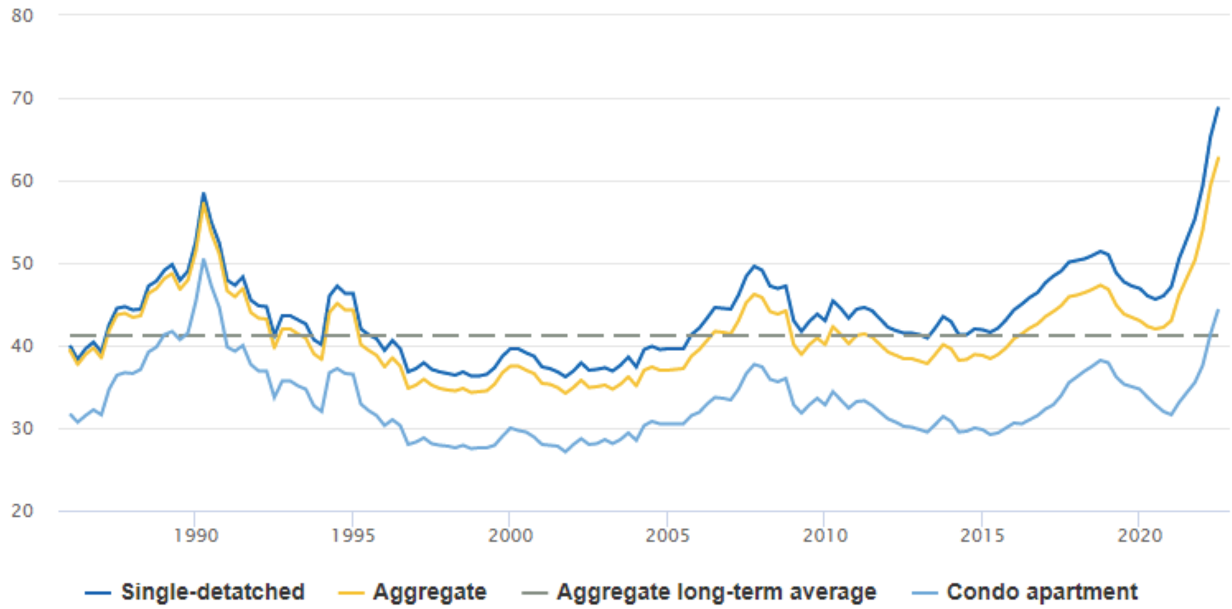
Source: Refinitiv, Credit Suisse research

Interest rates

Turning back to interest rates, it is worth reminding our investors that the process we are currently going through across global markets, in equities, bonds, and currencies, is a process that will **normalize** interest rates, monetary policy, and, if our policy makers are able to, fiscal policy as well. As discussed in previous notes, the extraordinary monetary policies in much of the western world after the global financial crisis lasted far too long, as we stumbled from crisis to crisis. Normalization is both needed and healthy. Those used to zero-cost money or low-cost borrowing will struggle to adjust to the new reality of higher interest rates. Consumer spending and housing will be most affected in Canada. As shown in the chart below (see figure 11), mortgage rates have greatly reduced housing affordability in Canada. How and when this eventually feeds through to consumer spending will likely determine the outcome for markets in 2023. This phenomenon will be repeated across the western world as debt reprices.

FIGURE 11 | RBC HOUSING AFFORDABILITY MEASURES – CANADA

Ownership costs as % of median household income



Source: RBC Economics

At some point, policymakers will likely have to deal with the aftermath of aggressive inflation-fighting tightening. Their actions may well shape the future course of events. Aggressive fiscal policy to ease consumer pain from rate hikes will, of course, be counterproductive on the inflation front. Government spending after the recent binges will not help. However, modern politics has a strong survival gene and a deep recession will no doubt raise the issue of what governments are doing to help. The irony is that part of the problem we are trying to solve in the normalization process was partially caused by prolific government spending.

THEMES AND POSITIONING

The portfolio remains defensively positioned with a focus on high-quality, reasonably valued growth issues, combined in a barbell approach with value cyclicals in the industrial, tech, and commodity sectors. Three themes we are focused on are:

1. **Energy security:** We believe that under-investment in energy infrastructure, capacity, and sourcing of domestic or friend-shoring energy will be a theme for years to come. As the green energy consensus has rolled through the governments of western nations, domestic energy production or secure energy resources have been diminished, post the Russian invasion of Ukraine. The increased cost and, in some cases, the outright banning of new production has left much of the West reliant on external, sometimes unfriendly suppliers. Europe and Germany have been exceptionally fortunate that a mild winter has blighted the worst of the crisis. However, the crisis has not gone away. Long-term energy contracts are getting more and more competitive. Producing, transferring, and shipping liquified natural gas will be a multi-year investment trend. Offshore production of gas reserves will also increase in the years ahead. Improving electrical grids and building out nuclear power will all play a part in next-generation energy infrastructure. We will need it all, and we believe valuations of our energy infrastructure companies remain very compelling.

2. **Healthcare** is also an area we feel confident about the long-term prospects. Demographics, improved efficiencies, better treatments, and eventually more preventative care will all play a part in creating a robust investment environment. In a challenging economic environment, the non-cyclical nature of these companies are supportive. Valuations in Healthcare remain compelling, and, in some cases, are well supported by strong dividends.

3. **Semi-conductors** remain the lifeblood of modern economies. They touch every aspect of our daily life. From the simplest functions to the most sophisticated AI, like energy production, semis have made immense advancements. The remarks below from two of the largest and most sophisticated semiconductor company leaders support our longstanding view that this sector and its best companies will be a focus for decades. Inelegantly, Intel's CEO told the WSJ that oil reserves traditionally shaped a region's geopolitics and macroeconomic environment. Indeed, too many wars have been fought over those reserves. Today, and going forward, the presence and security of semi-production will be immensely important to geopolitics. We agree.

Where the oil reserves are located has defined geopolitics for the last five decades. Where the fabs [Semi-conductor production facilities] are for the next five decades is more important.

– Mr. Patrick Gelsinger, Intel CEO, in an interview with the WSJ

Globalisation is almost dead and free trade is almost dead. A lot of people wish they would come back, but I don't think they will be back.

– Morris Chang, founder of Taiwan Semiconductor Manufacturing Company (TSMC)

PORTFOLIO MANAGEMENT TEAM

SHAWN JAKUPI CFA®, CFP®
Portfolio Manager

Shawn is a Founding Partner of Tall Oak Private Wealth. He holds the title of Portfolio Manager and co-manages the Tall Oak Capital Appreciation Fund. Shawn has the Chartered Financial Analyst (CFA) and Certified Financial Planner (CFP) designations. Shawn has grown a deep knowledge of global financial markets through a commitment to education and has developed a strategic investment mindset over his 20+ years of experience. Both are key to building discretionary portfolios that help clients meet their financial goals.

MEHENDI KAMANI CFP®, CLU, CIM®
Portfolio Manager

Mehendi is a Founding Partner of Tall Oak Private Wealth. He holds the title of Portfolio Manager and is also a Chartered Investment Manager, a Certified Financial Planner, and a Chartered Life Underwriter. He has 25 years of financial services industry background including senior management positions with banks, insurance firms, and mutual fund companies. His diversity of experience has provided him with unique insights into financial planning and wealth management.

BEN LEGGE
Portfolio Manager

Ben joined Tall Oak Private Wealth as a Partner in 2020, holds the title of Portfolio Manager, and co-manages the Tall Oak Capital Appreciation Fund. Ben is driven by a passion for exploration and understanding of global financial markets and has helped clients and institutions pursue their investing goals over the last 27 years. His diverse capabilities span equities, fixed income, hedging strategies, and multi-asset portfolio construction. Throughout his distinguished international career, Ben's held senior-level executive positions at some of the world's largest asset management companies overseeing multi-billion dollar portfolios.

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Our long-term commitment to the semi-conductor sector and our conviction in the companies' long-term prospects will be extremely beneficial to returns over the long term. AI, gaming, next-gen networks, and networking all need better, faster, and cheaper semi-conductors. Our focus is on the highest value-add producers, like TSMC, or mobile-specific companies such as QUALCOMM. Finally, semi-conductor reshoring will offer fantastic opportunities for the top equipment companies. Despite excess inventories, we believe the sector often leads the market out of economic weakness and is a leading indicator for improving economic times ahead. We expect more sector volatility but will add to high-quality names on any near or medium-term price weakness.

To sum up, 2022 was a year for investing that many wish to never see again. The sweeping declines across asset classes was unusual and 2022 stood out among previous decades of returns. 2023 will be better, and opportunities are arising.

There are always inherent risks in investing across global markets and we believe the balance and structure of the portfolio are appropriate for the road ahead. We remain focused on strong risk-adjusted returns with an eye on capital preservation. We thank our investors for their confidence and trust, and we work each and every day with our clients' long-term financial health foremost on our minds.

Sincerely,
Your Tall Oak Private Wealth Team

RAYMOND JAMES® | TALL OAK PRIVATE WEALTH