



# NICOLA WEALTH

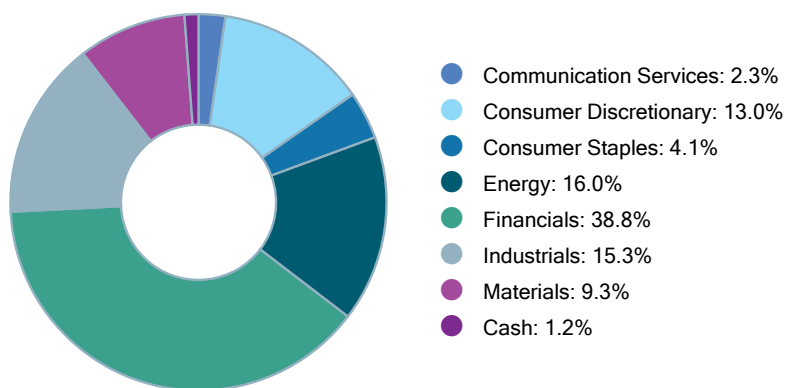
## OBJECTIVE

The Nicola Canadian Equity Income Fund's objective is to provide clients of Nicola Wealth with income and long-term capital growth by investing in a diversified portfolio of Canadian equity securities. This fund considers companies with attractive earnings and dividends as well as improving capital efficiencies. A U.S. dollar series of this fund is also available.

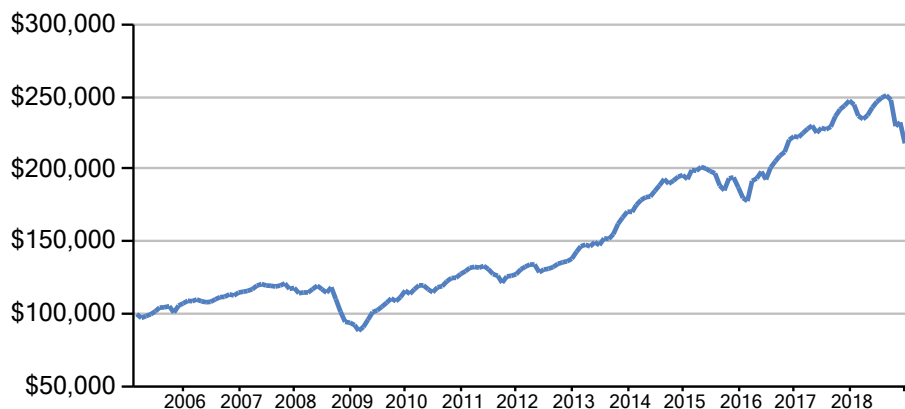
## STRATEGY

The fund holds a diversified portfolio of Canadian equities and options. In addition to owning stocks, the fund utilizes a covered call strategy to reduce volatility and enhance yield. Investment selection is based on a top-down, bottom-up investment process that focuses on stocks that have a compelling combination of quality, valuation and growth.

### Sector Weighting as of December 31, 2018



### \$100,000 Invested Since Inception



### Stated in Canadian dollars

#### Key Statistics

Inception Date	February, 2005
Net Asset Value	\$290.8 million
NAV Per Unit (Class O)	\$6.06
Number of Stocks Owned	40
Trailing 12 Month Distribution	5.8%
% of Equities Partially or Fully Covered	5.4%

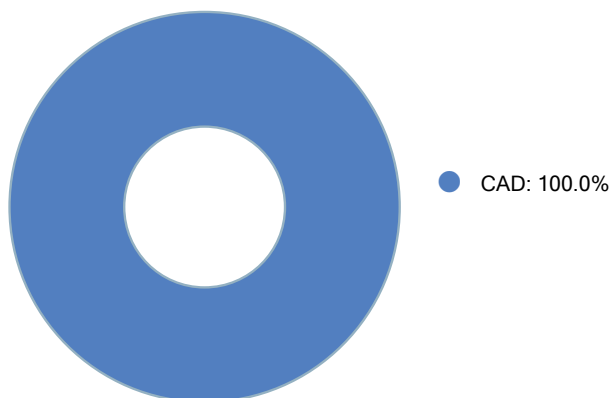
#### Calendar Year Returns

2018	-11.9%
2017	11.1%
2016	18.7%
2015	-4.3%
2014	14.7%

#### Returns for the period ending December 31, 2018

Year-to-Date	-11.9%
1 Year	-11.9%
3 Year	5.1%
5 Year	5.0%
10 Year	8.7%
Since Inception	5.8%

## Currency Exposure

Top Holdings as of December 31, 2018  
(excluding Cash, Money Market & Treasuries)

Toronto-Dominion Bank	7.50%
Royal Bank of Canada	6.84%
Bank of Nova Scotia	4.62%
Enbridge Inc.	4.35%
Sun Life Financial Inc.	4.04%
Canadian Natural Resources	3.69%
Manulife Financial Corporation	3.60%
Canadian Imperial Bank of Commerce	3.34%
Canadian National Railway Company	3.15%
Air Canada	3.11%
Total	44.24%

## Commentary

Despite improving earnings, expanding dividends and attractive valuations, the Canadian stock market finished 2018 unimpressively. Q4 was not pretty with the S&P/TSX Index down -10%. Canada was not alone when it came to market corrections as many major indices were down a similar amount in Q4 as the S&P 500 was down -13.5% and the Nikkei 225 was off -16.9%. Tariffs, flash crashes, peak earnings forecasts, flattening yield curves and midterm elections were a few of the headlines that caused investor jitters. Also add a 30% + crash in the price of WTI Crude Futures in Q4, massive discounts on Western Canadian Select, as well as a softening housing market to Canada's worries. Investor sentiment has been decisively negative on Canadian stocks and volatility has returned.

During turbulent times, it is important to remember that history shows that volatility is the norm and not the exception when it comes to investing in stocks. However, over time, investors are rewarded as stocks tend to earn high returns in the long term. One thing that we remind our clients is that if your investing time horizon is 5-10 years or longer, then you must be prepared to be a continuous purchaser of assets over time in markets such as these. To reiterate a previous point, earnings are growing and Canadian stocks trade at a very steep discount to their U.S. peers. The steep discount in Canadian equities is providing investors with an attractive entry point to add to equities. Similarly, the timing appears good to implement covered-call writing strategies. The increase in volatility can provide a positive impact to our portfolio's covered call option strategy as higher implied volatility translates into higher call option premiums received.

We focus on buying companies that generate strong cash flows. One position that we have been adding to is Enbridge which has an extensive pipeline footprint, gas distribution utilities and renewable power generation exposure. We favour Enbridge because of its' low-risk business profile with limited direct commodity exposure (less than 2%). They have stable cash flows as the vast majority of their cash flows are secured by take-or-pay/cost-of-service exposure. The company recently increased their dividend rate by 10%. We expect significant free cash flow growth driving a similar dividend increase next year to go along with further debt reduction. Currently, the dividend yield is an attractive 6.8% (and growing).

For more information on this fund's monthly performance, click [here](#).

Past performance is not indicative of future results. All investments contain risk and may gain or lose value. The YTD and 1 year return is a historical simple return. The 3, 5, 10 year and since inception returns are annualized compounded total returns. All returns are net of fund-level fees and expenses, including management fees and performance fees (if applicable). Please refer to the disclosure documents for important disclosure information including terms of redemption and limited liquidity. Nicola Wealth is registered as a Portfolio Manager, Exempt Market Dealer and Investment Fund Manager with the required provincial securities' commissions. Please speak with a Nicola Wealth advisor to discuss if this investment is right for you. Effective Jan. 1, 2019, the fund changed its name from the NWM Canadian Equity Income Fund.