



# NICOLA WEALTH

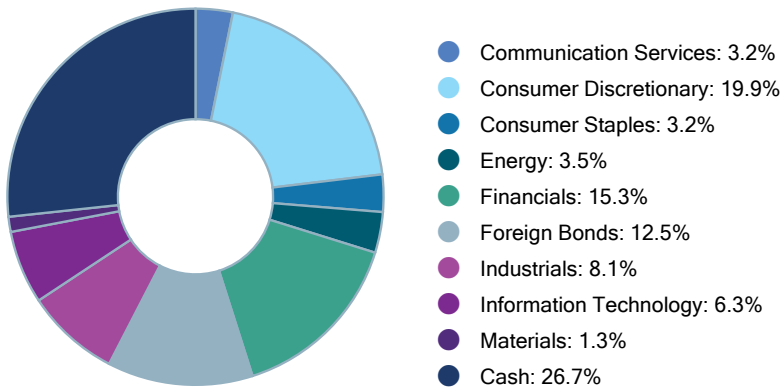
## OBJECTIVE

The Nicola U.S. Tactical High Income Fund's objective is to provide clients of Nicola Wealth with investments in publicly traded securities that generate higher yields and lower volatilities relative to the S&P 500 Index. The reporting currency of this fund is U.S. Dollars; a Canadian Dollar series of this fund is also available.

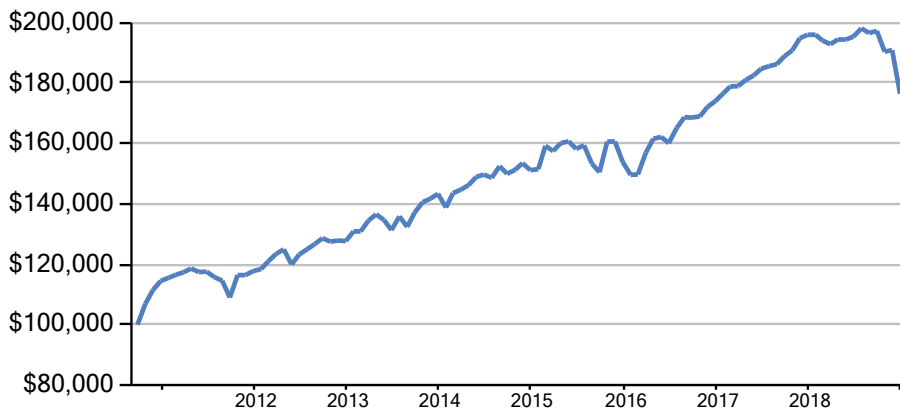
## STRATEGY

The fund will use a combination of put and call option writing as well as long-only equity investments to generate income. Additional income comes from put option collateral which may include cash, corporate and government debt.

Sector Weighting as of December 31, 2018



\$100,000 Invested Since Inception



Stated in US dollars

### Key Statistics

Inception Date	September, 2010
Net Asset Value	\$201.6 Million
NAV Per Unit (Class O)	\$8.32
Number of Stocks Owned	23
Trailing 12 Month Distribution	11.4%
% of Equities Partially or Fully Covered	48.8%
% of Portfolio Made Up of Notional Puts	37.0%
Delta Adjusted Equity Exposure	68.5%

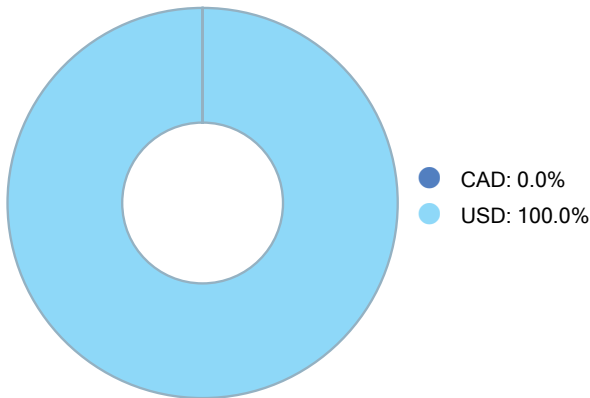
### Calendar Year Returns

2018	-10.0%
2017	12.6%
2016	13.1%
2015	1.8%
2014	5.5%

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

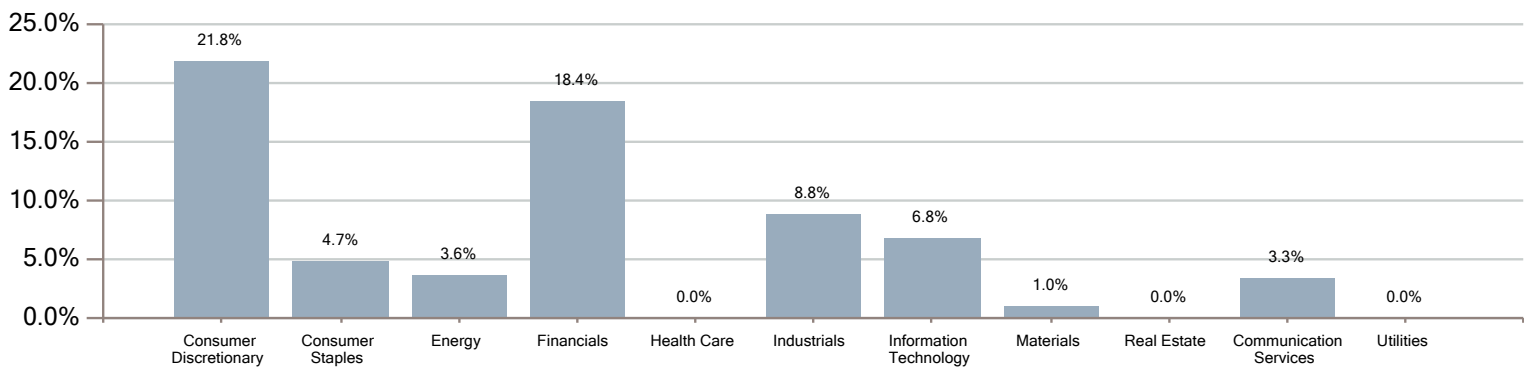
Year-to-Date	-10.0%
1 Year	-10.0%
3 Year	4.7%
5 Year	4.2%
10 Year	N/A
Since Inception	7.1%

## Currency Exposure

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

PIMCO Monthly Income Fund	5.14%
Cheesecake Factory Inc.	4.10%
Franklin Resources Inc.	3.98%
Valero Energy Corporation	3.53%
Citigroup Inc	3.49%
FedEx Corporation	3.44%
Molson Coors Brewing Company	3.34%
L Brands Inc.	3.31%
Texas Instruments Inc.	3.28%
<b>Total</b>	<b>33.61%</b>

## U.S. Tactical High Income Fund (Delta-adjusted Weights)



## Commentary

Investors began scaling back equity exposure as global macro issues remained top of mind with concerns of escalating U.S./China trade tariffs, mid-term elections, slowing Chinese economy, declining oil prices, weakening housing market and the flattening of the yield curve. There were not many places for investors to seek out refuge as 10 out of the 11 S&P 500 sectors declined; even the favoured FAANG stocks couldn't escape the market sell-off with most of them down over 20%. The only sector that was positive during the quarter was the interest rate sensitive Utility sector (+1.4%) as the 10-year U.S. Treasury declined 37bps from 3.06% to 2.69% and investors flocked to safety. The U.S. stock market declined 13.5% in Q4; this is the 3<sup>rd</sup> worst Q4 performance since the 1950s, only 1987 (-23.2%) and 2008 (-22.6%) performed worse. The positive take away from those prior periods (1987 and 2008) was the market rebounded 12.4% and 23.5% respectively in the subsequent four quarters.

In late Q3, we reduced our put option collateral credit exposure as we believed the credit spreads were not enough to compensate for the risks. This tactical move worked in our favor as both investment grade and high yield credit spreads widened significantly during the quarter. We may add more credit exposure in the near future for additional yield pick-up.

Stock market and implied option volatility has increased dramatically in Q4 (S&P 500 1-month implied volatility increased from 8.7 to 22.4—that's over 150% since the beginning of October); this increase in implied volatility provided a positive impact to the portfolio's put and covered call option strategies as higher implied volatility translates into higher call option premiums. The portfolio's equity-equivalent exposure has increased from 34.4% to 68.5% due to a combination of option assignments and additional put-writing. New names added include Home Depot, Waste Management and Costco. 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 US Tactical High Income Fund.