THE HEMISPHERE APPROACH TO WEALTH MANAGEMENT

Q: My financial advisor has talked about different wealth management styles. What is Hemisphere's style and what investment management approach does Hemisphere use?

A: As an independent wealth management firm in Calgary, we consider ourselves to be "Value Investors". There are five broad stages that our financial advisors typically use as part of our investment approach:

- Macro Factor Analysis – We monitor and evaluate various global economic, political and social developments continuously.
- Theme Identification – Given our prevailing macro views, our financial advisors identify investment themes or secular trends impacting national and international financial markets and ascertain how these themes/trends will affect interest rates, economic growth, corporate earnings, currency trends, capital flows, relative yields between asset classes, etc.
- Sector/Industry Considerations – Often the identification of investment themes highlights specific economic sectors or industries that have favourable prospects and those with a more challenging outlook. These conclusions help focus both our equity and fixed income security selection efforts.
- Security Selection – We undertake both a quantitative and qualitative analysis of every company we evaluate.
- Buy/Sell Decision – When estimating intrinsic value, we usually end up with a "range of fair value". This range becomes the basis for both upside and downside price targets related to our buy/sell decision.

Q: How does the security selection process work?

A: In our opinion, analyzing a potential investment is focused on four basic tenets:

- Does the company have a sustainable competitive advantage? - Does it have a competitive moat? Is it an industry leader or a low-cost producer?
- What are the economics of the company's business? - How straightforward and transparent is the business? Is the business sustainable and adaptable?
- What do the company specifics look like? - Is the company financially sound? Does it have a strong balance sheet? How good is management? Is there a good track record of cash flow generation and reinvestment?
- What is the company worth? - What is its intrinsic value on a conservative basis?

Q: How does Hemisphere make a decision to purchase a stock?

A: Hemisphere makes a buy or sell decisions based on the estimated intrinsic value of an investment. The range of fair value becomes the basis for both the upside and downside price targets related to our buy or sell decision. Our financial advisors will invest in a company when we feel it is "undervalued." This means that the company's stock price is less than or at the low end of the range of our fair value. We believe that buying shares of companies below their estimated worth tends to provide a margin of safety and protection during periods of weakness.

Q: What causes a stock to be undervalued?

A: The stock market creates value opportunities for three reasons. Investors have historically overpaid for comfort and certainty. Secondly, investors have historically overpaid for excitement and the latest trends. Finally, investors tend to overreact to major, but unlikely events. This is why investors overreact to news. Investors will often reward a rapidly growing company too richly and punish poorly performing companies too severely.

Q: How do your financial advisors realize value?

A: Value is realized in the capital markets in essentially four ways. The most common is simple "regression to the mean," where everything concerning markets and economics regresses from extremes toward normal levels. The second way is through a corporate takeover, whereby the undervalued company is purchased at a premium by another company. The third way is through corporate restructurings, whereby some type of corporate change occurs that increases shareholder value. Finally, value is occasionally realized through a special dividend that usually involves a large cash or stock dividend.

Q: What drives the sell proposition for a stock?

A: The sell proposition is driven by several considerations. Firstly, "overvalue," where the stock price has exceeded the upside of the fair value range. Secondly, deterioration of the economics of the company. Thirdly, a change in company specifics. Fourthly, a new buying opportunity replaces a less attractive existing holding. Finally, a holding pattern emerges, where no positive developments materialize over the medium-term.

Q: Who makes the investment decisions?

A: Hemisphere’s investment committee is responsible for making investment decisions. The committee includes our portfolio managers and investment associates who work together to evaluate and analyze investment opportunities for our wealth management firm. The committee members collaborate and provide their insights and recommendations to arrive at investment decisions.