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Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to ensure you are well informed. We sift through the noise and only bring you important topics of discussion and planning points useful to you.

We believe Knowledge Pays and we want our knowledge to pay for you.

PENSIONER OR COMMUTER – MAKE THE RIGHT CHOICE FOR YOU AND YOUR RETIREMENT

Canadians leaving a job (retirement, resignation, termination) with a defined-benefit pension plan typically have three options for the funds accumulated in the plan.

- Keep the funds in the pension plan and receive a monthly pension at retirement
- Transfer the current pension value to another defined benefit pension plan, or
- "Commute" the current value of the pension by transferring the funds to a registered account – locked-in retirement account (LIRA) or locked-in retirement savings plan (LRSP) – up to the federally mandated maximum transfer value.

The ideal option for your specific situation depends on numerous factors, including:

- ***The implied rate of return provided by the monthly pension benefit at retirement*, *relative to the current pension value available for transfer or commuting***
  - Calculating the <u>implied rate of return</u> of the monthly pension value relative to the current transferrable pension value and determining if it is fair relative to the certainty of a defined monthly pension benefit and the pension plan's risk profile <u>is by far the most important factor</u> in the decision making process
  - Implied rates of return have declined over time due to falling interest rates, making pension commuting more attractive than before
- ***Your individual risk tolerance***
  - "Locking in" defined monthly pension benefits is akin to a fixed income investment while commuting your pension and investing those funds yourself requires the investor to generate returns above that of fixed income to come out on top, which requires a higher risk tolerance
- ***Numerous pension benefits available and estate planning considerations***
  - Individuals who expect to receive numerous pension benefits may wish to hedge their bets and commute one or more of their smaller pensions rather than strictly receive pension benefits. If monthly pension benefits are in excess of lifestyle needs, commuting may allow you to bequeath more to beneficiaries
- ***Current health status***
  - Those with below average life expectancy may benefit from commuting as you can withdraw more in early retirement if needed and monthly pension benefits are based on <u>average life expectancy</u>. Health benefits may or may not continue in retirement if you remain in the pension plan, which is another consideration.

If you are leaving your job and face the dilemma of what to do with your pension plan, we are happy to assist in calculating the associated rate(s) of return and discussing how each choice would affect you specifically so that you can feel comfortable that your ultimate choice best suits you. ***Always feel free to reach out with major life decisions like these!***

Current Rates & Data

Govt of Canada

90 day	0.13%
1 year	0.24%
2 year	0.41%
5 year	0.82%
10 year	1.20%
30 year	1.76%

U.S. Treasury

90 day	0.05%
1 year	0.06%
2 year	0.19%
5 year	0.79%
10 year	1.32%
30 year	1.91%

Canada Prime Rate

2.45%

U.S. Prime Rate

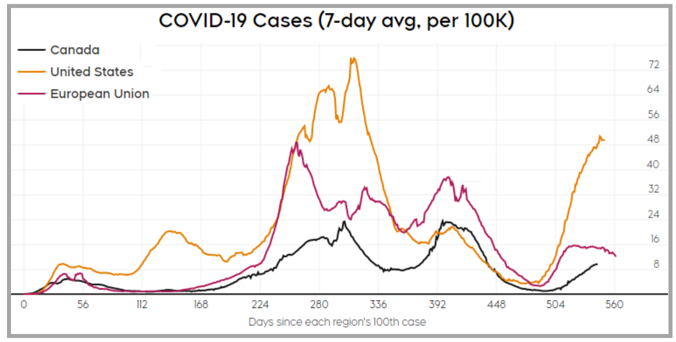
3.25%

Exchange Rates

CAD/USD	0.791
USD/EUR	1.183
JPY/USD	109.9

ECONOMIC TIDBITS DELTA FADING IN THE US, RISING IN CANADA & WILL LABOUR SHORTAGES IMPEDE GROWTH?

• The COVID-19 Delta variant spread rapidly in the US throughout the summer as low vaccination rates and relatively lenient masking rules and social distancing made rapid transmission possible. US economic data in July and August suffered as a result. Delta's spread in Canada is just beginning but higher vaccination rates and stricter rules may keep the wave and economic consequences in check.



• Pervasive labour shortages around the world may impede future economic growth as many businesses may cope by curtailing production or limit operating hours. Typically, labour shortages to this degree only occur late in the economic cycle. Some industries may require some existing businesses to shut their doors in order to free up enough employment to fulfill the remaining businesses' labour needs.

LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

COVID-Induced Surgical Backlog Could Be a Boon for Companies That Manufacture Surgical Goods

- **Intuitive Surgical (ISRG)** and **Smith+Nephew (SNN)** are two ideas related to this theme.
- The COVID-19 pandemic and associated ICU usage reduced the number of surgeries performed since March 2020. As a result, virtually all health systems across the globe have unprecedented surgery backlogs that will take several years and require additional capacity to eliminate. Similar to the considerable rebounds in genetic testing (Illumina – ILMN) and hearing aid sales (Sonova Holding – SONVY), it appears likely that surgery related stocks will benefit from pent-up demand in future.
- **Intuitive Surgical** is a leading manufacturer of robotic surgical equipment, which allows for incisions that are more precise and faster healing times, allowing for faster turnover of surgical patients. Given capacity constraints, greater adoption of ISRG's equipment may be the only way to tackle the surgical backlogs. Intuitive trades at ~55x trailing EV/EBITDA, a premium to its historical valuation of ~40x EV/EBITDA.
- **Smith+Nephew** is a global manufacturer and marketer of wound management, physical therapy and surgical products. While many stocks, including ISRG, have priced in a significant rebound in surgical demand and are trading at significant premiums to historical valuations, SNN trades at ~14x trailing EV/EBITDA and ~12x pre-COVID EV/EBITDA compared to its historical average of ~14x. Since we think that earnings could snap higher than pre-COVID levels, SNN appears attractive.

Key risk points: Both companies are sensitive to health policy and equity market sentiment/direction.

JEANNINE'S TIP O' THE MONTH Be Sure to Keep Your Wills and Powers of Attorney Up-to-Date!

According to a 2018 Angus Reid study, 51% of Canadians do not have a will and 35% have one that is not up-to-date. That means that ***only one in six Canadians have a will that accurately reflects their wishes***. We can only imagine that the number of Canadians without valid powers of attorney is lower. Get these documents in place and keep them up-to-date to make life easier for your executor(s) and ensure you are well taken care of in the case of incapacity!

This newsletter has been brought to you by Steele Wealth Management

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