

THE HARPER CHART: UP AND TO THE RIGHT

Instrument (Inception)*	October 2015 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	1.0%	-2.3%	13.8%
Venator Partners Fund (July 2014)	1.0%	-4.5%	1.9%
Venator Investment Trust (September 2007)	1.0%	-3.3%	10.0%
Venator Income Fund (August 2008)	4.0%	-2.5%	12.9%
Venator Select Fund (September 2013)	10.0%	-8.3%	19.6%
S&P/TSX Total Return (March 2006)	2.0%	-5.2%	4.5%
Russell 2000 (March 2006)	5.6%	-2.5%	6.3%
S&P Toronto Small Cap (March 2006)	4.5%	-10.4%	-0.2%
S&P 500 (March 2006)	8.4%	2.7%	7.4%
Merrill Lynch High Yield Index (August 2008)	2.7%	0.2%	8.8%

We at Venator rarely make any political commentary. And we definitely didn't want to make any comments pre-election. But we don't mind sharing our thoughts post-election, as sometimes this needs to factor into our decision making process. Before we get down to it, we aren't going to talk much for the PR of politics, we care about economics. We want to think of our Prime Minister as the CEO of Canada. Sure there is some PR responsibility in the role of the PM as there is with any CEO (think of Tim Cook under fire for labour conditions in China, or the NYT's recent exposé on Amazon), but at the end of the day it's how the business of the country is run that matters to us most, and how it affects the voters/shareholders in a profit/loss kind of way. In my mind, the Government needs to determine an efficient rate of taxation (and type)/revenue stream that can support the government provided services (expenses), without discouraging people's willingness to earn incremental income or investment, and then needs to try to distribute those tax dollars as efficiently as possible. So when we look back at Stephen Harper's time as Prime Minister, we are looking at his history of dealing with the economy and trade of Canada.

So let's look at the Harper economic record. When Harper came into the office with a minority government he inherited a balanced budget, so that was a good start. This was the feat of the previous Liberal government. So to exit their mandate with a small deficit doesn't seem so impressive without considering what has transpired between 2006 and today. There are two major economic catastrophes Harper had to deal with over his tenure. While he inherited a budget surplus, a strengthening commodity complex and a strengthening currency, all of this fell apart less than two years into his mandate in late 2007 as the Great Recession took hold of the global economy. This sent all the good factors this Country's economy had going for it down the drain; and that's after the strengthening dollar had already contributed to the decline of Ontario's manufacturing sector. By early 2009, the cupboard was pretty bare in terms economic strengths. But Canada did have one thing going for it and that was its structurally strong banking sector; something the Harper government can't take credit for because it predated his mandate, but we must give some credit for not messing with a good thing or handing out excessive bailouts to a sector that looked like it may need help (I am looking at you Manulife).

I don't think it's too much to say that the Canadian economy was the envy of the world coming out of the Great Recession. We were never viewed as being at great risk and we didn't let deficits spiral out of control. It's amazing that we have forgotten this, as that huge positive was never brought up in the recent election. Harper might not have been the architect of these strengths, but he was the steward. That word "change" that comes up in every election as a positive would have been an absolute disaster in the middle of the panic of late 2008.

While the global economy did stabilize taking the dollar and several commodities with it, natural gas, a major contributor to the energy economy was left behind, falling from \$13.00 in 2008 to no higher than \$5.00 even post-recovery. Soon to be followed by oil, gold and copper, Canada's commodity complex, a major component of our economy, started a precipitous fall in 2013, along

with the currency. So economically, it's been a rough ride against the tide for the Conservatives, who got to enjoy all of a year and a half of good times before going into continuous crisis management mode.

After running a two-year surplus of \$24 billion, 2009 saw the first of six deficits totaling \$144.2 billion. The trend here was an admirable \$5.8 billion shortfall in 2008-2009, followed by the substantial \$55.6 billion deficit in 2009-2010 (the result of measures put out in 2009 to help the economy through the recession), which was managed back down to a \$5.2 billion deficit in 2014 before running a small surplus in 2015. I would expect the 2015-2016 period to show a small shortfall due to the oil collapse. While running a combined deficit of over \$100 billion over 10 years isn't the greatest legacy to leave, we have to remember that the world was, in fact, on the brink of collapse. While the deficit did peak in 2009-2010 as should have been expected, the government did an admirable job bringing it back to surplus in 2015 despite anemic growth, a deteriorating commodity complex, and a number of tax breaks for Canadians.

A 2014 report from the Office of the Parliamentary Budget Officer talks about the revenue impact of personal tax cuts from 2005-2013 (http://www.cbo-dpb.gc.ca/web/default/files/files/Fiscal_Impact_and_Incidence_EN.pdf). The largest of these tax impacts was Harper's 2% cut in GST/HST, taking over \$13 billion out of the government's pockets and into people's pockets annually. Other various cuts have led to an estimated additional \$17 billion transfer from government to people over the same period for a total annual tax cut/revenue hit of \$30 billion. Now in absolute dollar terms, tax cuts will nearly always equally or disproportionately benefit the wealthy (changing rates for different tiers other than the top marginal tax rate). For example, with the HST cut, the more you spend, the more you "save"; and wealthy people spend more than the middle class. But in percentage terms the wealthy benefit the least (again in HST terms, those who save money will get less of a percentage benefit from those who spend all of their after income tax income). This was the case for high income earners according to the report, with low-middle income earners experiencing the greatest percentage benefit. For example, again with HST, the wealthiest 4% of Canadians were estimated to get a 0.6% benefit (\$2,000), while the median earner received a 1.2% benefit (\$660), and the 25% percentile group saw a 1.5% benefit (\$405).

In terms of Personal Income Tax Savings, the report showed the biggest benefit (2.0%-2.5% extra in their pocket) being achieved by the \$12,000-\$50,000 in earnings cohort (\$300-\$1000 savings), with the least benefit (0.5%) accruing to the wealthiest 4% (\$1,620). A summary of the tax changes (aggregate annual impact to government revenues), lifted from the report, are shown below:

Major Tax Measures 2005-13: Preferred PBO Estimate of Net Federal Fiscal Impact	
<small>\$ Millions, 2014 tax year</small>	
Age Amount	(950)
Basic Amount	(3,840)
Canada Child Tax Benefit & National Child Benefit Supplement	(1,060)
Child Tax Credit	(1,680)
Dividend Tax Credit - Large Corp.	(320)
Dividend Tax Credit - Small Corp.	520
Employment Tax Credit	(2,110)
Pension Income Credit	(620)
Pension Income Splitting	(1,020)
Personal Income Tax Amounts	(1,790)
Personal Income Tax Rate	(3,040)
Working Income Tax Benefit	(1,320)
Subtotal	(17,230)
Adjustment for PIT interactions	110
PIT Total	(17,120)
GST	(13,270)

Sources: Office of the Parliamentary Budget Officer, PSD/M v. 21, Finance Canada.
Note: Provincial revenue impacts are not included in this table, but are provided for each measure in this report's aggregate findings (p. 7) and analysis of individual measures (pp. 10-42)

The Harper Government also introduced one of the more innovative tax breaks in recent memory in the form of the Tax Free Savings Account (TFSA). This account is, in my opinion, far superior to the current RRSP structure. While the RRSP gives you a tax credit in the year you contribute, it doesn't really help your spending power as that money has to be put in the RRSP account. On top of that, the RRSP has a nasty habit of converting would-be capital gains rates into higher income tax rates on eventual withdrawal which can be punitive unless you invest exclusively in bonds. With the TFSA, you don't get the tax break now (win for the government) and you get to increase your investment tax free (win for the individual). If you invest wisely, this is a major win for both government and individuals relative to the RRSP. Why any successor government would look to contract TFSA investments rather than encouraging a switch from RRSPs to TFSAs doesn't make sense to me.

Finally, household debt may be at record levels, but so are house prices. In fact 70% of Canadian households own a home, firmly encompassing the middle class. Furthermore, those homes have increased in value by approximately 50% over the Conservative tenure. So it's no surprise to see household debt at record levels as people have seen great increases in household values to borrow against. Assuming we don't have a US-style housing price collapse of 25%+, Canadian homeowners will have benefitted tremendously in terms of net worth over the Conservative government's tenure.

The Harper government was pro-lower tax, anti-deficit, and status quo on social services. And that was the most important factor for us in saying he was a good Prime Minister for the time period in which he was in power. I question whether the voting public even noticed or remembered the tax cuts put in place over his tenure. The median income earner in Canada (\$50,000) achieved \$1,600 in annual tax savings in exchange for a balanced budget vs a \$25 billion surplus, and I believe that on Election Day he/she only saw the balanced budget and forgot about the tax cut. I wonder if taxes had not been lowered and Canada was running a \$25 billion+ surplus if the economic track record would have been looked upon more favourably. It's a shame that his strongest quality was forgotten amid all the calls for change from people who had little concrete to offer in the economic realm.

All else being equal, to be leaving a basically breakeven budget after the carnage in the commodity complex combined with personal tax cuts amounting to over \$30 billion per year out of government revenues is impressive. Had tax payments remained unchanged the Conservatives could have been leaving power with a cumulative deficit of under \$50 billion and a \$25 billion budget surplus (note the previous government would have been running \$15 billion+ deficits had these tax cuts been in place under their tenure so to say Harper started with a budget surplus isn't exactly apples-to-apples fair). This after negotiating the Great Recession and the commodity collapse. Again, one wonders if the Conservatives would have been given another mandate had taxes remained in place rather than be reduced (i.e. HST of 15% instead of 13%); would Harper's economic track record have been remembered more favourably under this scenario with a \$25 billion surplus with no change to tax policy? Are taxpayers even aware that their taxes have been reduced? Would it have made a difference to voters?

Even behaviorally, Harper was the most CEO-like of Prime Ministers in my lifetime (I am 42). I actually liked that quality. He and his CFO Jim Flaherty quietly went about running the business of the country behind closed doors for the better part of ten years. Sure he would pop up a couple of times a year on non-economic social/global public relation matters like presenting to the UN, but these instances were few and far between. He did not play the celebrity card, he did not partake in Obama-like almost daily press conferences, he did not spend a disproportionate amount of time on special interest concerns, and he wasn't very "political" in the all-things-to-all-people warm and fuzzies we have come to expect in North American politics. The Harper government seemed first and foremost a government primarily focused on running the business of the country.

During the recent election the popular media painted an unflattering portrait of Stephen Harper the politician while all but ignoring the positive qualities of Stephen Harper CEO of Canada. Was Harper insular and secretive? Maybe. Was he less collaborative with others both within and outside his party than previous Prime Ministers? Possibly. Was he more pro-business than pro-environment than some would have liked? I suppose (but I would question whether any differences with other parties would have made a material difference). Was he unwilling to compromise his less government/less tax beliefs when dealing with some of the Provincial governments? Nope. All of these accusations seem fairly non-specific and subjective with regard to the business of Canada, but we have a non-consensus view of the importance of the economy relative to the other responsibilities that come with the office.

People will own a stock with a CEO they probably wouldn't personally like (based on press reports), having never met the CEO in person. By popular media accounts Jeff Bezos (Amazon), Steve Jobs (Apple) and Bill Gates (Microsoft) were not fun people to work for. They had reputations as people who centralized power and berated employees openly after making them work around the clock, while the CEOs enjoyed the spoils of the labour personally. Yet many people wanted Harper out because they believed,



rightly or wrongly, that he exhibited similar media-touted characteristics to these highly successful CEOs, yet they are happy to own these stocks because they are great companies that made them money. Under the Harper government we lived in a great country that was putting money in our pockets. I firmly believe that Stephen Harper the CEO of Canada would have prevailed in a proxy fight launched by activist challengers, but alas Stephen Harper the politician couldn't defeat the politics of change, which is a more romantic, open-ended and powerful notion to voters. There is no stock chart with which to measure Harper's track record. Which is too bad, because I imagine it would have been "up and to the right".

As always, we reserve the right to change our mind!

A handwritten signature in black ink, appearing to read 'B. Osten'.

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