Lincluden

QUARTERLY INVESTMENT REVIEW

March 31, 2017

Economic Commentary

First Quarter 2017

Can Trump Deliver on Campaign Promises?

During his campaign run, Trump said he would repeal and replace Obamacare, implement significant tax cuts, and allocate close to a trillion dollars to infrastructure spending. These policies would be supportive of economic growth and as a result equity markets rallied and bond yields soared. The question facing investors in 2017 is how much of this news is already factored into current market pricing and would Trump be able to implement all of his proposed changes.

The first major hurdle was passing the health care reform bill which was to replace Obamacare. When it became evident that the Republicans did not have enough votes to pass the bill in the senate, Trump decide to pull the bill. Not being able to pass the health care reform bill dealt a crushing blow to the Trump administration and showed a lack of unity within the Republican party. This defeat casts doubt on the timing of other measures, including tax reform and increased government spending initiatives. Equity markets continue to show upward momentum, albeit at a slower pace, while bond yields have remained in a trading range so far this year. This market reaction could imply a potential fading of the Trump trade that pushed markets higher following his election victory.

Fed On Pace for Three Hikes in 2017

The U.S. Federal Reserve raised interest rates at its meeting in March and maintained its position that two additional rate hikes through the balance of the year would be appropriate. The timing and extent of future rate increases will continue to be data dependent, with employment and inflation the key indicators for the Fed to monitor. The unemployment rate has shown a steady decline over the past five years and now sits at 4.5%, the lowest rate since May 2007. Both headline and core inflation readings are above the Fed's target of 2%, sitting at 2.7% and 2.2%, respectively.

Bank of Canada Still on Hold

The Bank of Canada left its overnight rate unchanged at its first two meetings of the year. The Canadian economy got off to a great start in 2017 with January GDP up 0.6%, with many sectors contributing to the stellar growth. Employment has been strong and headline inflation is now at 2%. Despite the strengthening economy, Bank of Canada Governor Poloz remains very cautious in his outlook and continues to maintain a dovish bias. Interest rate hikes are not expected any time soon in Canada, however, the risk of any rate cuts occurring has diminished greatly with the current state of the economy.

Brexit, Elections Highlight European Political Risk

Britain has begun the process to exit the European Union. Discussions will begin in June of this year, with an end date of March 29, 2019. There are many issues that need to be resolved in the interim, so Brexit will continue to be a source of volatility in the markets over the next two years. The global populist sentiment that is gaining momentum will be tested with two key elections France and Germany. Higher inflation may allow the ECB to begin tapering its bond buying program later this year, however, the unexpected drop in the March inflation number to 1.5% could keep the program intact through 2017.

Key Metrics

Indicator	Value	Chg 1Q	Chg 1Y
S&P/TSX Composite	15,547.75	2.4%	18.6%
S&P 500 (USD)	2,362.72	6.1%	17.2%
MSCI EAFE (USD)	1,792.98	7.4%	12.3%
FTSE TMX Universe Bond Index	1,023.95	1.2%	1.5%
CAD/USD	0.75	0.9%	-2.4%
WTI Crude ($/bl))	$ 50.60	-9.7%	14.1%
GoC 10Y Bond	1.63%	-9.6 bps	39.8 bps
GoC Deposit Rate	0.50%	0	0
Cdn CPI YoY	2.0%	0.5%	0.7%
US 10Y Treasury	2.39%	-5.7 bps	61.8 bps
Fed Funds Rate	1.00%	25 bps	50 bps
USD CPI YoY	2.7%	0.6%	1.8%

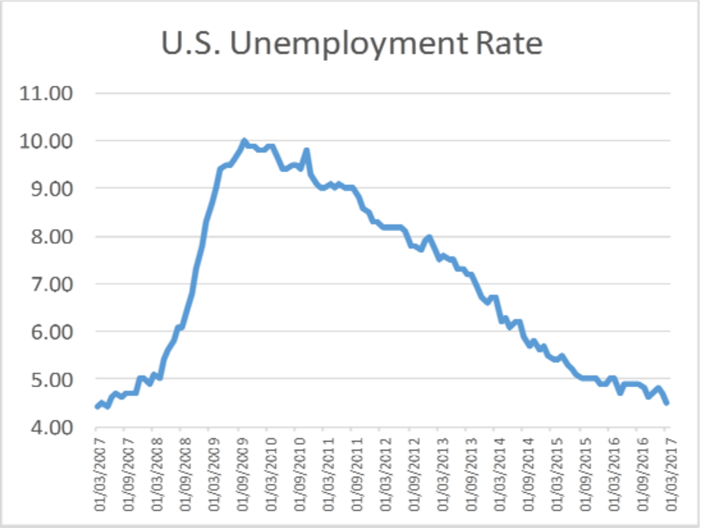
Top Themes

After health care defeat, can Trump deliver on other promises?

U.S. Fed on pace for three hikes in 2017

Brexit, European elections highlight political risk in Europe

Top Chart: U.S. Approaching Full Employment



Source: Bloomberg, Lincluden

Portfolio Highlights Q1 2017

TOTAL EQUITIES

Ticker	Security	Sector	Commentary
CNR	CANADIAN NATIONAL RAILWAY	Industrials	CN Rail announced stronger earnings and a 10% increase in the dividend in the quarter. Also, in related industry news, CP Railway CEO Hunter Harrison’s discussions with competitor CSX put a spotlight on the rail sector, causing new investor interest in the sector which lead to higher share prices.
CVE	CENOVUS ENERGY INC.	Energy	Shares declined on the back of lower oil prices. The company made a transformational acquisition of assets from ConocoPhillips, in the process issuing additional shares to ConocoPhillips and to the public. While the risk profile of the company has increased as a result, we believe that this is a positive long term move, and given the weakness in the share price, believe that Cenovus shares continue to represent good value. The price of oil still remains at attractive levels relative to our view on long term equilibrium prices.
ESI	ENSIGN ENERGY SERVICES INC.	Energy	The stock was down on the back of lower oil prices. Based on our view of higher long term oil prices the stock is attractive.
HCG	HOME CAPITAL GROUP	Financials	The firm removed their CEO after 11 months on the job citing a need to refresh leadership. An interim CEO was appointed as the search for the new CEO is now underway. Home Capital iterated that there would be no change in strategy for the firm. This event caused the stock to sell-off in the quarter.
TECK/B	TECK RESOURCES - CL B	Materials	Following a pullback in the share price last quarter, shares in the stock surged this quarter on higher metallurgical (steelmaking) coal prices, which caused the company to announce results that exceeded earnings estimates and also lead to some analyst upgrades.
AKZA NA	AKZO NOBEL	Materials	The stock had a strong performance on the back of an acquisition proposal from U.S. based PPG Industries. The position was added to early in the quarter as the stock had declined and offered an attractive valuation. This leader in the industrial/commercial paint industry will benefit from the improving global economic environment.
ARYN VX	ARYZTA AG	Consumer Staples	The shares had a material decline on below consensus quarterly results and a lower guidance due to higher than expected costs and softer volumes. The position was increased as the shares have an attractive valuation and provide significant upside to our target price. The company is in the midst of replacing its senior management team and is looking at its JV investment, which may provide a positive catalyst in the near term.
CNA LN	CENTRICA PLC	Utilities	The position was increased as the stock declined on the threat of rising interest rates. The valuation is attractive and its exposure to U.S. oil and gas assets along with a currency devaluation in the British Pound should help its earnings profile.
CVX	CHEVRON CORP	Energy	The stock was down on the back of lower oil prices. The company will benefit from several large projects coming on-stream which will increase the company's cash flows. Based on our view of higher long term oil prices the stock is attractive.

Portfolio Highlights Q1 2017

TOTAL EQUITIES

Ticker	Security	Sector	Commentary
CSCO	CISCO SYSTEMS INC.	Information Technology	Was a strong performer in the quarter. The position was increased early in the period due to its attractive valuation and dividend yield. The company is a leader in its industry and would benefit greatly with any cash repatriation and increased spending on security.
EMR	EMERSON ELECTRIC COMPANY	Industrials	Exited the position due to the price appreciation which drove the shares above our target price with the valuation looking stretched.
GM	GENERAL MOTORS CORP.	Consumer Discretionary	Exited the position as the stock rose about 10% over the previous 3 months. Valuation is still attractive, but we are cognizant with the evolution of the car industry and how autonomous and electric vehicles will impact GM going forward. Also, we are concerned with remarks by president elect Donald Trump on domestic auto production and how that could impact profitability.
TEVA	TEVA PHARMACEUTICAL ADR	Health Care	The stock declined as it was impacted on concerns over U.S. litigation, drug pricing pressures, and its ability to capture synergies from the recent Allergan acquisition. The position was increased as the stock pulled back and offered an attractive valuation. The sentiment on this stock is negative and suggests that all the bad news is priced in. This is the largest generic drug manufacturer in the world.
ULVR LN	UNILEVER PLC	Consumer Staples	The stock had a strong performance in the quarter and rose over 20% on news that it was approached by Kraft Heinz for a merger. The position was trimmed as the shares had risen closer to their target price. Furthermore, we saw many uncertainties on this deal coming to fruition.
WPG	WASHINGTON PRIME GROUP (WP GLIMCHER)	Real Estate	Detracted from the performance this quarter as the stock was down. As a high yielding REIT, it was particularly impacted by rising interest rates. The position was added to on this weakness. This “B” mall REIT in mid-America should benefit from an improving U.S. economy. We believe the 10% plus dividend yield and very attractive valuation provide a compelling risk/reward tradeoff.