



QUARTERLY INVESTMENT REVIEW

June 30, 2016

Oil in recovery but still weak

Second Quarter 2016

Oil Industry on the defensive

Oil prices doubled from their mid-January \$26/b level to about \$50 early in the second quarter. However, the supply/demand balance remained delicate. A Kuwaiti oil worker strike and an attack on Nigerian oil facilities cut production, as did the Fort McMurray fires which shut-in about 30 million barrels (costing Alberta about \$1.5 billion). However, OPEC's attempts to freeze production failed as newly sanction-less Iran returned to the market in force. In the U.S., some shale oil production resumed as prices climbed.

Budgets built on \$80 oil are broken

Prices remain well below budget targets, causing pain for many. Saudi Arabia is planning its first-ever global bond issue to raise up to \$15 billion to cover a budget shortfall. It's also planning to sell a stake in Saudi Aramco, the world's biggest producer with reserves ten times that of Exxon, a company which just lost its S&P Triple-A rating after more than 70 years.

Alberta expects a \$10 billion budget deficit this year. To make matters worse, in June, plans for the Northern Gateway pipeline to the B.C. coast were blocked by a federal court. This follows Washington's rejection of the Keystone pipeline.

Longer term, oil could be stuck in a tight range as global supply remains plentiful and demand growth tepid.

Britain's Brexit Blunder

Britain's surprise referendum decision to exit the European Union knocked \$3 trillion off global stock market values before most markets steadied and recovered. Firms tied to the British economy such

as homebuilders and banks did not fare as well on slower growth expectations post-Brexit. On the positive side, despite Brexit, markets functioned normally despite volatility. For its part, the Bank of England (led by Canada's very own Mark Carney) said it was ready with \$350 billion to support the economy.

Other central banks responded similarly. The U.S. Federal Reserve had already postponed a rate increase in mid-June. After the Brexit result and with more weak job data, the Fed was expected to hold off on an increase for the rest of 2016.

Remember when banks paid you interest?

The Bank of Japan held its benchmark rate at negative 0.1% and said it could reduce it to -0.5% in case of a financial crisis. To be clear, a negative rate means depositors pay interest to the bank.

The European Central Bank raised its monthly bond buying program to \$90 billion from \$66 billion and began including corporate bonds, effectively injecting a lot of money into its economy and pushing interest rates lower. The German government 10 year bond yield fell to negative 0.13% while the U.S. 10 year touched new lows at under 1.5%.

We've brought the horse to water...

The generous pool of central-bank-sponsored liquidity hasn't been enough to spur healthy economic growth. The IMF lowered its global growth estimates. The OECD urged governments to start spending but to no avail. Britain is facing a slowdown and Brazil – the fallen queen of

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Key Metrics

Indicator	Value	Chg 1Q	Chg 1Y
S&P/TSX Composite	14,064.54	4.2%	-3.4%
S&P 500	2,098.86	1.9%	1.7%
DJ Eurostoxx 50	2,864.74	-4.7%	-16.3%
Nikkei 225	15,575.92	-7.1%	-23.0%
MSCI EAFE	1,608.45	-2.6%	-12.7%
WTI Crude (\$/bl)	48.33	16.9%	-22.1%
Copper (\$/lb)	2.20	-0.1%	-17.0%
USD/CAD	1.29	-0.6%	3.4%
USD/EUR	0.90	2.5%	0.3%
USD/GBP	0.75	7.9%	18.0%
USD/JPY	103.20	-8.3%	-15.8%
USD/Ch Yuan	6.64	3.0%	7.0%

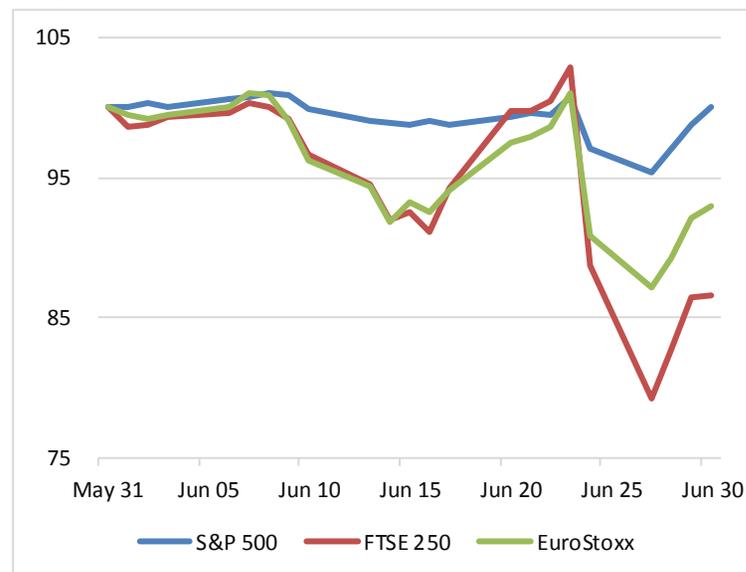
Top Themes

Oil prices recover but supply/demand balance is still delicate

Britain suffers after voting to leave the European Union

Global markets are resilient in face of Brexit vote turmoil

Top Chart: Brexit hit some markets harder than others



Source: Bloomberg, Lincluden

Cash surpluses fuel merger mania

Second Quarter 2016

(Continued from page 1)

emerging markets – is expecting a 4% contraction in growth this year, despite its upcoming (sadly, pollution and Zika-plagued) Olympics. The U.S. economy is growing at an annualized 1.1%, the slowest pace in a year. China's new normal growth rate is under 7%, a long way from the plus-10% rate of its recent past and hardly enough to excite global commodity markets.

The Pound loses a few ounces

The Brexit vote knocked 10% off the British Pound versus the US dollar to its lowest level since Thatcher fought the coal miners back in 1984. The effect on other currencies was muted, though the safe-haven Japanese Yen strengthened against the USD. The Loonie was range-bound near 1.30/USD. The rally in the gold price, that other safe haven, continued. Year-to-date, it's up 27%.

Cash in Hand and Ready to Spend

Flush from years of strong profits, companies are on a mega merger binge. Here's some of activity from the last quarter:

- Brewer Anheuser Busch InBev bought SABMiller for \$108B and await regulator approval
- Microsoft bought LinkedIn – the Facebook for professionals – for \$26.2B. In 2013, Microsoft paid \$9.4B for cellphone maker Nokia and has since written down 90% of the value. Let's hope this deal works out better
- Bayer's \$62B bid to buy agri-firm Monsanto failed but the two are still talking
- Nissan agreed to buy one-third of Mitsubishi Motors for \$2.2B.
- Abbott Laboratories paid \$25B for heart valve maker St. Jude Medical

- Pfizer bid \$160B for Allergan in an effort to move revenue to lower tax havens but then cancelled the plan after U.S. regulators said they would rewrite tax rules
- Oilfield drillers Halliburton and Baker Hughes proposed a \$25B merger but face anti-competition regulations
- Global commodity trader Glencore sold its agri-business to the Canada Pension Plan for \$2.5B

Big Names see profit declines

Valeant shares fell another 30% to C\$26 after it said it may default on some of its \$30 billion debt.

Volkswagen booked \$18.3 billion to pay fines for its emissions-cheating scandal.

Apple saw its first drop in sales for the iPhone, largely on slowing Chinese demand. Revenue fell and net profit was down by 20%.

Big U.S. banks saw profits fall, with Goldman Sachs and Morgan Stanley profits both down over 50% for the quarter. In addition, Goldman was fined \$5.1 billion (that's a year's worth of profit) for duping investors in its mortgage-backed securities.

Tesla launched its \$35,000 Model 3 electric car to overwhelming demand with 276,000 orders in the first two days.

Amazing Achievement and Humbling Fact

NASA's Juno spacecraft travelled 2.8 billion km at speeds as high as 74 km a second before achieving orbit around Jupiter on July 4.

Of all the matter in our solar system, the Sun is 99.85%, Jupiter is 0.07% and everything else, including you, me and Donald Trump, is a rounding error.

Key Metrics

Indicator	Value	Change in Basis Points	
		3 Mths	1 Year
GoC 30Y Bond	1.71	-0.29	-0.59
GoC 10Y Bond	1.06	-0.17	-0.62
GoC 5Y Bond	0.57	-0.10	-0.25
GoC Deposit Rate	0.50	0.00	-0.25
FTSE TMX Uni Bond Idx	1035.11	2.6%	5.2%
GoC Core Inflation	2.10	0.00	-0.20
US 30Y Treasury	2.28	-0.33	-0.84
US 10Y Treasury	1.47	-0.30	-0.88
US 5Y Treasury	1.00	-0.21	-0.65
US 2Y Treasury	0.58	-0.14	-0.06
Fed Funds Rate	0.25	0.00	0.25
German 30Y Bund	0.38	-0.45	-1.19
German 10Y Bund	-0.13	-0.28	-0.89
German 5Y Bund	-0.57	-0.24	-0.64
Japan 10Y Bond	-0.22	-0.19	-0.68
Japan 5Y Bond	-0.31	-0.13	-0.43
Japan 5Y Bond	-0.19	-0.21	-0.32

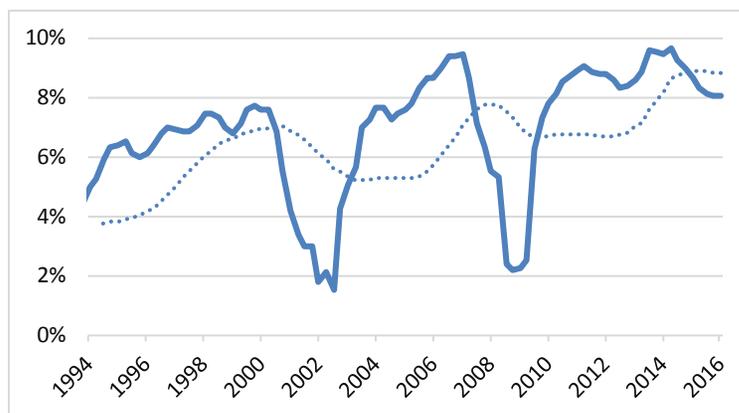
Top Themes

Companies spend big on mergers and acquisitions

OECD urges governments to spend to spur economic growth

Corporate profit levels slip from peak

Top Chart: S&P 500 Profit Margins with 5Y Moving Average



Source: Bloomberg, Lincluden

Portfolio Highlights

Q2 2016

TOTAL EQUITIES

Ticker	Security	Sector	Asset Class	Commentary
ABX	BARRICK GOLD CORP COM	Materials	Canadian Equity	Shares in Barrick rallied with the price of gold. Management continued its turn-around strategy of selling assets to strengthen the balance sheet.
BPY-U	BROOKFIELD PROPERTY PARTNERS	Financials	Canadian Equity	Offering a unique opportunity of strong growth at a discount valuation, we see Brookfield continuing to proactively grow their property business. With roughly 20% exposure to UK office, Brexit is a negative for Brookfield, however we feel that the combination of long-term London leases and dynamic growth in the rest of the mostly US portfolio outweighs the negatives. We are buyers on weakness.
CNQ	CANADIAN NATURAL RESOURCES	Energy	Canadian Equity	Canadian Natural Resources was a strong performer during the quarter on the back of rising oil prices.
GIB/A	CGI GROUP	Information Technology	Canadian Equity	CGI's stock price was negatively affected by the Brexit vote as the company has a meaningful exposure to Europe.
DIR-U	DREAM IND REIT (PREV. DUNDEE)	Financials	Canadian Equity	Shares in Dream Office REIT declined over the quarter as weakness in the Alberta office market is expected to take a toll on the company which has some exposure to this area of the market. The position was reduced in advance of any material deterioration in the stock price.
HCG	HOME CAPITAL GROUP	Financials	Canadian Equity	Home Capital declined on news of their first quarter earnings which were below market expectations. However, a deeper read in to their results was more reassuring as growth in their mortgage business has started to pick up.
MG	MAGNA INT'L INC CL A SVS	Consumer Discretionary	Canadian Equity	Magna, with significant European exposure, was negatively impacted on the back of the outcome of the Brexit vote, which supported the UK leaving the European Union.
SPB	SUPERIOR PLUS CORP.	Utilities	Canadian Equity	Superior Plus fell after it proposed to acquire Canexus but then recovered when US regulators nixed the deal on fears of concentration in the sodium chlorate market.
TCK/B	TECK RESOURCES - CL B	Materials	Canadian Equity	Shares in Teck Resources rallied off the bottom along with many other resource companies in the quarter as the price of the underlying commodities improved.
AIG	AMERICAN INTL GROUP INC COM	Financials	Foreign Equity	Stock price hurt by expectations of lower-for-longer interest rates and Brexit-related economic concerns.
ARYN VX	ARYZTA AG	Consumer Staples	Foreign Equity	Share price fell after Aryzta's revenue fell on renegotiated contracts and currency impacts. Recent large capex has cut into free cash flows. Stock price should recover on renewed longer-term contracts, some cost cutting and lower capex in future.
BAX	BAXTER INTERNATIONAL INC.	Health Care	Foreign Equity	Sold out of Baxter as price reached fair value and with little upside. Price had rallied after company sold Baxalta, its biosciences division.
CNA LN	CENTRICA PLC	Utilities	Foreign Equity	Added opportunistically to Centrica position after the Brexit vote which caused initial panic in the markets. The company has a strong balance sheet, good dividend yield, and attractive valuation. Lower British Pound should help its US-based operations on currency translation.

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Q2 2016

TOTAL EQUITIES

Ticker	Security	Sector	Asset Class	Commentary
DVN	DEVON ENERGY CORP NEW COM	Energy	Foreign Equity	Devon rallied with other oil companies on the back of stronger oil prices.
GSK	GLAXOSMITHKLINE PLC SPONSORED	Health Care	Foreign Equity	Added opportunistically to Glaxo position after the Brexit vote which caused initial panic in the markets. The company has a strong balance sheet, good dividend yield, and attractive valuation. Lower British Pound should help its foreign operations on currency translation.
MET	METLIFE INC COM	Financials	Foreign Equity	The stock was negatively impacted in the quarter with the expectation of a prolonged low interest rate environment due to lower global economic growth.
MSFT	MICROSOFT CORP COM	Information Technology	Foreign Equity	Microsoft fell on below-expectation earnings and a poorly received acquisition of LinkedIn. We remain holders as its cloud services continue to gain traction.
PFE	PFIZER INC COM	Health Care	Foreign Equity	Pfizer rose on strong earnings improved full-year guidance. A post-Brexit flow into defensive stocks also helped.
RDS/A	ROYAL DUTCH SHELL ADR 'A' SHS	Energy	Foreign Equity	Royal Dutch Shell was a strong performer during the quarter on the back of rising oil prices.
SNY	SANOFI	Health Care	Foreign Equity	Added opportunistically to Sanofi position after the Brexit vote which caused initial panic in the markets. The company has a strong balance sheet, good dividend yield, and attractive valuation.
VOD	VODAFONE GROUP PLC ADR-NEW	Telecommunication Services	Foreign Equity	Added opportunistically to Vodafone position after the Brexit vote which caused initial panic in the markets. The company has a strong balance sheet, good dividend yield, and attractive valuation.