



Lincluden

QUARTERLY INVESTMENT REVIEW

June 30, 2017

Economic Commentary

Second Quarter 2017

President Trump

Donald Trump's election victory has created a great deal of economic uncertainty around the world. Allegations that Trump divulged secrets to the Russians as well as interfered with the subsequent FBI investigation have cast doubt on the credibility of his presidency. There have also been delays in Trump's implementation of his campaign promises. He has yet to table a health care reform bill that will receive senate approval and his reform of the tax code keeps getting pushed back, with the possibility that it may not occur until next year. All of these issues create uncertainty in global financial markets.

Fed Continues to Raise Rates

As expected, the U.S. Federal Reserve increased interest rates by 25 b.p. at its meeting in June, the second increase so far in 2017. However, market expectations for the next hike have been pushed out, possibly until early 2018. Lower-than-expected inflation could be the main contributor keeping the Fed on the sidelines through the balance of this year. Core inflation has fallen below 2%, sitting at 1.7% in May. Although job growth has been steady, average wage growth remains subdued, further illustrating the lack of inflationary pressures.

BOC Changes Direction

While the U.S. Federal Reserve was the first major central bank to increase interest rates, we have started to see a shift in policy from other central banks around the world. The accommodative policies that markets have become accustomed to are nearing their end as reflation-

ary forces are beginning to surface. In particular, Canada has seen strong economic growth and employment, leading the Bank of Canada to alter its interest rate outlook. Earlier this year the BOC was still talking about the possibility of cutting rates. However, they have now stated that previous rate cuts have "done their job" and that they "will be assessing whether the entire considerable monetary stimulus presently in place is still required." The market is now expecting the Bank of Canada to hike rates at its meeting in July.

The Canadian dollar has rallied dramatically on this change in sentiment by the Bank of Canada as the market was not contemplating any movement in the bank rate for the balance of the year. The strong performance of the loonie is somewhat surprising given the depressed oil market which dipped below \$43 during the quarter.

Draghi Shifts to Reflationary Tone

The eurozone economy has grown steadily over the past four years while the employment rate continues to decline. After peaking at 12.1% in June 2013, the rate now sits at 9.3%. Draghi stated that the risk of deflation has diminished and that inflationary pressures are beginning to build. The ECB also indicated that interest rates would probably not be cut further and hinted at a possible winding down of the eurozone's quantitative easing program. The euro rose dramatically following these comments and sovereign bond yields moved higher.

Key Metrics

Indicator	Value	Chg Q2	Chg 1Y
S&P/TSX Composite	15,182.19	-1.6%	11.0%
S&P 500 (USD)	2,423.41	3.1%	17.9%
MSCI EAFE (USD)	1,883.19	6.3%	20.9%
FTSE TMX Universe Bond Index	1,035.3	1.1%	0.0%
USD/CAD	\$0.77	2.7%	-0.3%
WTI Crude (\$/bl)	\$46.04	-10.9%	-12.2%
GoC 10Y Bond	1.76%	13.7 bps	70.1 bps
GoC Deposit Rate	0.50%	0	0
Cdn CPI YoY	1.3%	-0.3%	-0.2%
US 10Y Treasury	2.31%	-8.3	83.4
Fed Funds Rate	1.25%	0.25%	0.75%
USD CPI YoY	1.9%	-0.5%	0.9%

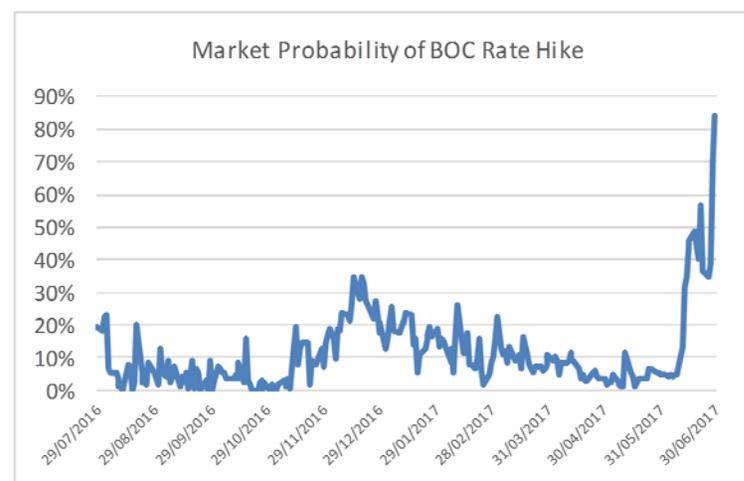
Top Themes

Trump's presidency continue to fuel uncertainty

U.S. Fed stays on course with rate hikes

BOC and ECB starting to sing a more hawkish tune

Top Chart: Possibility of BOC Rate Hikes Surges to the Forefront



Source: Bloomberg, Lincluden

Portfolio Highlights

Q2 2017

TOTAL EQUITIES

Ticker	Security	Sector	Commentary
CNR	CANADIAN NATIONAL RAILWAY	Industrials	The stock had a positive quarter in light of the fact that total traffic hauled by the railway company was up materially. In railways, higher volumes lead to higher margins and greater profits. Also, the firm continues to increase its overall efficiency building on its reputation as the most efficient railway operator in North America.
CVE	CENOVUS ENERGY INC.	Energy	Cenovus saw a significant decline as the market penalized the company for taking on more debt to acquire strategic assets from ConocoPhillips in the ensuing weak oil price environment. While the risk profile of the company has increased, we see a path forward to reducing balance sheet and commodity price risk. Cenovus shares now represent deep value, given the quality of the assets and the significant weakness in the share price relative to its underlying asset value.
HCG	HOME CAPITAL GROUP	Financials	Home Capital announced an OSC investigation in relation to events that occurred in 2014 when some mortgage brokers submitted incorrect information to support mortgage applications with the firm. Short-sellers used this opportunity to short the stock, which caused downward pressure on the share price, and resulted in depositors withdrawing funds. The firm reacted quickly and found other sources of funds, and bolstered the Board with reputable professionals. Warren Buffett's Berkshire Hathaway restored more confidence to the firm by purchasing 20% of the company. Berkshire intends to increase their ownership to almost 40% in coming weeks.
RCI.B	ROGERS COMMUNICATIONS INC CL B	Telecommunication Services	Shares in Rogers Communications performed reasonably well, following good quarterly results.
SJR.B	SHAW COMMUNICATIONS INC CL B	Consumer Discretionary	Shaw Communications posted strong returns as its quarterly results were positive and the company continues to execute on its business plans, winning favour with the investment community.
SPB	SUPERIOR PLUS CORP.	Utilities	Superior Plus was a detractor from portfolio performance despite posting good quarterly results and a favourable outlook. The company awaits approval of its Canwest propane acquisition.
TECK/B	TECK RESOURCES - CL B	Materials	Metallurgical coal price declines lead to the sell-off of shares in Teck Resources. The correlation between the price of coal and the price of Teck shares is very high. With future coal prices expecting to be lower than where they have been in recent quarters, the shares of Teck sold off in sympathy.
T	TELUS CORP COM	Telecommunication Services	Shares in Telus performed reasonably well, following good quarterly results.
BCS	BARCLAYS PLC ADR	Financials	The position was sold on Brexit concerns about the risks to the UK economy and the currency in which Barclays has a material exposure. While the stock remains attractively priced, there are several legal issues facing the company that could have a negative impact on its shares.

Portfolio Highlights

Q2 2017

TOTAL EQUITIES

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CSCO	CISCO SYSTEMS INC.	Information Technology	The stock declined after reporting good results during the quarter. The revenue guidance for the following quarter was below expectations. Also uncertainty in government spending on technology was a factor. The company is seeing good progress in transitioning from hardware sales to its recurring business service model. Its security segment is showing strong growth. Cisco has a strong balance sheet with an attractive dividend yield and a compelling valuation. The position was added to as the sell-off was an overreaction.
DB1 GR	DEUTSCHE BOERSE AG	Financials	The stock appreciated on the back of strong earnings during the period which beat expectations and also as a result of announcing a sizeable share buyback program.
DVN	DEVON ENERGY CORP	Energy	Devon Energy posted a negative performance as the price of oil declined in the period due to concerns over elevated inventories and supplies in the market, as well as the resurgence of the U.S. shale industry, which continues to keep increasing production.
NG/LN	NATIONAL GRID PLC	Utilities	The position was reduced on concerns for the future of increased regulations in the electricity market, including price controls and possibly nationalization. National Grid however generates a substantial portion of its profits from outside the UK.
ORCL	ORACLE CORP COM	Information Technology	The shares increased as the company reported very strong first quarter earnings, dramatically beating expectations and demonstrating strong progress in both its cloud offering and its transition to a subscription model.
TATE LN	TATE & LYLE PLC	Consumer Staples	The stock declined after the company provided weaker guidance for the following quarter despite posting solid results.