



QUARTERLY INVESTMENT REVIEW

September 30, 2016

Economic Commentary

Third Quarter 2016

U.S. close to raising rates

Central banks across the G7 (BOC, FED, UK, Japan, ECB (France, Germany & Italy)) maintained their bias towards extraordinary accommodative policy over the third quarter. While the U.S. is closest to beginning raising interest rates (59% chance of a 25 bps hike in December), it's still safe to say that globally, extraordinarily accommodative monetary policy will remain intact for some time. Bond and equity markets around the world continued to display this view over the third quarter.

Quantitative easing expected to continue in Europe

As of September the ECB has spent €1tn on government bonds in an attempt to revive growth and inflation within the Eurozone. Bond markets have reacted favourable to this with interest rates of many countries within the block trading at negative levels. The current quantitative easing program (QE) is due to end by March 2017. Inflation however has remained well below the ECB's target of just under 2% and is forecast to average just 1.7% this year, thus lending support for the continuation of their QE program. In a sign of the desire for continued accommodation, the head of the ECB, Mario Draghi met with German lawmakers in late September touting the success of the QE program, as well as arguing for

governments to implement complementary fiscal policies to further help the Eurozone economy.

Bank of Canada expects second half bounce

The Bank of Canada (BOC) held rates steady at 0.50% in their September 7th meeting. In their reasoning they cited global growth in the first half of 2016 as being slower than what they had projected only 2 months earlier. They highlighted factors that contributed to the weak second quarter economic performance in Canada as being the Alberta wildfires in May, as well as a drop in exports that was more broad-based than expected. The Bank does however still project a substantial rebound in the second half of this year. Presently though the BOC cites that the risk profile for inflation has "tilted somewhat to the downside", and hence we view this as an adoption of a more dovish stance toward interest rate policy.

Key Metrics

Indicator	Value	Chg 3Q	Chg 1Y
S&P/TSX Composite	14,725.86	5.45%	14.2%
S&P 500 (USD)	2,168.27	3.85%	15.4%
MSCI EAFE (USD)	1,701.69	6.5%	7.1%
FTSE TMX Universe Bond Index	1,047.38	1.2%	6.3%
USD/CAD	1.31	1.6%	-1.4%
WTI Crude (\$/bl)	48.24	-0.2%	7.0%
GoC 10Y Bond	1.00%	-7 bp	-44 bp
GoC Deposit Rate	0.50%	0.0	0.0
Cdn CPI YoY	1.1%	-0.4%	+0.1%
US 10Y Treasury	1.60%	+12 bp	-44 bp
Fed Funds Rate	0.25%	0.0	+25 bp
USD CPI YoY	1.1%	+0.1%	+1.1%

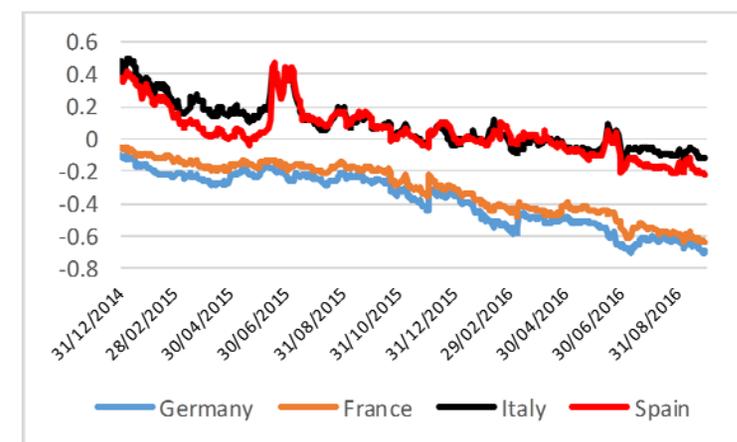
Top Themes

Global central bank biases dominate market sentiment

European Central Bank stands ready to ease monetary policy

Bank of Canada stands pat, but adopts dovish stance

Top Chart: Negative European 2Yr Yields



Portfolio Highlights

Q3 2016

TOTAL EQUITIES

Ticker	Security	Sector	Asset Class	Commentary
BNS	BANK OF NOVA SCOTIA	Financials	Canadian Equity	The shares had a strong performance as the company reported strong earnings, raised its dividend and received upgrades from analysts.
ABX	BARRICK GOLD CORP COM	Materials	Canadian Equity	After a very strong run, the stock gave back some performance as the price of gold declined during the period.
BPY-U	BROOKFIELD PROPERTY PARTNERS	Real Estate	Canadian Equity	Brookfield Property Partners saw volatility as Brexit worries pushed the stock down due to its exposure to the London office market and Canary Wharf. The stock then bounced back as the market discounted these fears. This stock has above average growth opportunities around the world, and trades at a significant discount to the value of its properties. The British exposure is a small part of this exciting story, and while there may be further volatility based on Brexit concerns the investment thesis remains intact.
FTT	FINNING INT'L INC.	Industrials	Canadian Equity	The stock had a strong performance as commodity prices improved. The company sells and rents equipment as well as provides services globally to various industries including mining, construction, petroleum and forestry.
HCG	HOME CAPITAL GROUP	Financials	Canadian Equity	U.S. hedge funds continue to short the stock, making it the most shorted company on the S&P/TSX index. The position was increased given the attractive valuation.
NWC	NORTH WEST CO. INC	Consumer Staples	Canadian Equity	The shares underperformed as the company reported earnings that were below consensus. The position was increased given that the company fundamentals and investment thesis remain intact.
TCK/B	TECK RESOURCES - CL B	Materials	Canadian Equity	Shares in Teck Resources performed well after some analyst upgrades, an improvement in the price of the underlying commodities, and the company reducing their overall debt levels.
DE	DEERE & CO	Industrials	Foreign Equity	The company reported much stronger than expected earnings driven entirely by cost cutting. Revenues continue to be pressured due to excess inventory and soft farmer economics as they struggle with low crop prices. While the company raised guidance, it was solely due to cost cutting measures. The stock jumped 10% on the news release providing an opportunity to exit the position.
DVN	DEVON ENERGY CORP NEW COM	Energy	Foreign Equity	The stock rose significantly on the back of higher oil prices as OPEC held informal talks with its members on reducing the level of output later this year.
HSBA LN	HSBC HOLDINGS	Financials	Foreign Equity	The position was eliminated. Post Brexit, uncertainty has increased across the UK and Europe with central banks ready to provide stimulus as necessary. These scenarios provide a bleak outlook for European financials with rates already low, and in some cases in negative territory. HSBC has performed remarkably well, up over 10% in the last month, while peers are down in the 10-20% range. There is better value in other financial holdings.

Portfolio Highlights

Q3 2016

TOTAL EQUITIES

Ticker	Security	Sector	Asset Class	Commentary
MET	METLIFE INC COM	Financials	Foreign Equity	A weak earnings report drove the stock down 9%. The main weakness was due to non-cash charges stemming from retail annuity products affected by the low interest rate environment. Management announced it will focus on cutting costs by mainly reducing headcount at the company. The expected separation of the retail annuity business from the rest of Metlife is expected to unlock value. The stock is cheap, offers an attractive yield, and should benefit from any interest rate hikes in the U.S.
MSFT	MICROSOFT CORP COM	Information Technology	Foreign Equity	The stock was a top contributor during the period. The company reported earnings which beat forecast, alleviating growing concerns after a miss the previous quarter. The company continues to make good progress in cloud offerings and demonstrates a strong competency in generating cash flow.
MS	MORGAN STANLEY COM NEW	Financials	Foreign Equity	The shares had a strong performance during the quarter, moving up over 20%. The company's earnings were strong across the board and beat expectations. Shares have some support from the company's ongoing share buy back program. The increased probability of a rate hike in the U.S. bodes well for operating earnings.
SNY	SANOFI	Health Care	Foreign Equity	The stock was down during the period on concerns about declines in its Diabetes franchise due to increased competition. Valuation is at the low-end of global pharmaceutical peers and the company maintains an active pipeline of new drugs that may prove to offset the declines in its Diabetes division.
VZ	VERIZON COMMUNICATIONS INC COM	Telecommunication Services	Foreign Equity	The shares were a slight detractor to performance. The company reported mixed results that saw revenues miss expectations while earnings beat slightly. The rising market expectations for a rate hike in the U.S. had negative effects on higher yielding securities such as Verizon.
WBA	WALGREENS BOOTS ALLIANCE	Consumer Staples	Foreign Equity	The position was added to with the stock price having been weak this year. The company has a strong balance sheet, generates solid cash flows, and provides for a growing dividend and share buybacks. The pending acquisition of Rite Aid should provide material synergies and ultimately improved earnings growth. It is trading at a reasonable valuation and nearly a 10% discount to peers.
WPG	WASHINGTON PRIME GROUP (WP GLI	Real Estate	Foreign Equity	A new position in Washington Prime was established. The company owns 'B' Malls and quality grocery store anchored strip centres in the U.S. The stock trades at a deep discount to the value of its properties due to investor concerns regarding trends in the U.S. retail space. The market is being overly critical of the portfolio quality. There is significant upside potential in this stock and it also offers a very attractive yield. The position was added to on price weakness.