q1 report

March 2018

It is quite common for a rotation of market leadership to occur during corrections. When the leaders coming out of a correction are different from the ones going in, Barometer will adapt and change to the new realities of the market.

The value of Barometer's Disciplined Leadership Approach™ is proven over difficult periods with the aim of managing volatility.

As market conditions have changed recently, our strategy has adapted accordingly. In March, our portfolio positioning rotated to reflect changes in leadership and market conditions. At times, we hedged the equity market risk in the portfolio, while select securities were sold when they hit stop-loss levels.

After one of the least volatile stock market runs in recent memory, volatility has increased dramatically since January. The temporary peak in equity markets coincided with corporate announcements regarding the positive impacts of U.S. tax cuts. The possibility of a trade war, slowing economic growth and a flattening yield curve have all factored into the change in market psychology.

We still believe that meaningful tariffs that disrupt the economy are unlikely to happen. However, when the odds of a severely negative outcome increase substantially, it weighs on asset values. The threat of tariffs is likely to be a very public bargaining chip. For the moment, investors contemplating the impact of a trade war are demanding higher returns to accept that risk.

Tax reform and a strong top line drove record earnings and led to earnings revisions throughout January and February. Since then, a deceleration in the projected growth rate resulting from economic fundamentals globally has been another headwind.

Recent data still points to strong growth, but the rate of growth has slowed. The weakening demand has put pressure on commodity prices. Equities in materials and industrials have been among the most affected. Investor sentiment has cooled from the previously hot levels.

The direction of interest rates is the third factor impacting equities. Markets are reflecting concerns that higher rates are a negative for industries that rely on lending, such as residential home builders. Our view is that higher rates are coincident with

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an improving macro backdrop. We have chosen to overweight sectors that benefit from higher rates – especially financials – with the knowledge that it may not be a straight line up for rates or these stocks. We continue to use a modest increase in rates across the curve as the base case.

During February and March, certain cyclical industrials and materials companies ceded market leadership. Several industrials and materials names in the portfolio were de-weighted or sold, while positions in most financials holdings were maintained. Cash was raised and will be deployed once leadership names emerge.

Barometer Tactical Income Pool

While a rising rate environment can be challenging for income investing, Barometer's open mandate and the investment latitude to adjust to varied environments has allowed the firm to find opportunities in dividend-growth equities. Top sectors over the past quarter were financials, technology and industrials, and as volatility increased we raised cash and applied tactical hedges. The most significant sector change was a reduction in materials – one of the sectors most affected by a trade dispute. In addition, some select energy positions were added in the form of a few companies with low cost structures and good production growth. We remain optimistic about economically sensitive sectors as economic fundamentals remain strong in the U.S.

Barometer Equity Pool

The Equity Pool continues to have technology as its largest exposure. However, as we approached the end of the quarter, positions were trimmed when we hit stop-loss levels. Financials and industrials were trimmed as well for similar reasons. In addition, cash was raised as a tactical hedge to mitigate volatility. Finally, as in the other pools, some select energy positions were added.

Barometer Tactical Balanced Pool

The Balanced Pool's top equity sectors continued to be financials, information technology and industrials. The fixed income portion of the pool remained in preferred stocks, convertible bonds and some short duration corporate bonds. Similar to the other strategies, protection was added at the end of the quarter in the form of tactical hedges. Additional cash was not raised: instead the pool remained in its fixed income positions.

> Our iterative risk management process continues to assess market conditions daily and will tactically apply defensive measures (if necessary) without bias.

Barometer Long Short Pool

The Long Short Pool benefited from some of these same themes. Information technology and financials were its largest weights. The pool's performance benefited from its ownership of Canada

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Goose Holdings Inc., whose strong brand and premium positioning is driving strong revenue growth well ahead of expectations. The pool also owns several U.S. regional banks that are highly levered to benefit from improving domestic economic conditions. On the short side, the pool benefited from a select group of social media stocks and cannabis securities – equities that declined throughout the quarter. As we neared the end of the quarter, information technology was reduced, as some positions hit stop-loss levels. Finally, cash was raised and market hedges were put into place.

Barometer Global Macro Pool

Over the course of the first quarter of 2018, the Global Macro Pool's exposure to technology themes (such as semiconductors, cloud computing and social media) made a strong positive contribution to the pool's performance. The pool's exposure to the financials sector also positively contributed to performance, specifically driven by positions in U.S. capital markets and U.S. regional banks. Throughout the first quarter, the Global Macro Pool had short positions in U.S. fixed income. Due to weakness in U.S. fixed income products during the quarter, this short position made a positive contribution. As we entered the final week of March many of these leading sectors were affected by market volatility. The pool is still positioned in cyclical sectors, as we see leadership in these areas being driven by a strong economy. In the short run, volatility will be managed.

Looking Forward

Fundamentally, the backdrop remains positive. Stocks generally have strong earnings growth rates relative to valuations. Secular growth in technology, recovering cyclicals, the continuation of synchronized global expansion and tax reform are all contributing to this fundamental momentum. When indexes bounce off rising moving averages – as they are now – historically the odds are good that we'll see a rally resumption. As of month-end, the portfolio was modestly hedged and also held some cash.

The existing trends remain intact and Barometer has used its unique approach to identify quality companies with strong fundamentals and good price momentum. These are companies that we believe are likely to resume their advances. Our iterative risk management process continues to assess market conditions daily and will tactically apply defensive measures, if necessary, without bias.

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