q4 report

January 2018

"Business confidence is a virtuous cycle: conditions can keep improving for much longer than you think."

Market Highlights

Over the past couple of years and to the benefit of portfolios, we have been allocating clients towards U.S. equities and global macro themes while shifting away from fixed income and fixed income proxies. Over the past year, our returns reflect this tactical shift. To further emphasize this point, Barometer's Tactical Income Mandate has managed to once again post positive returns in a rising interest rate environment (see chart 1) – a testament to a flexible mandate and Barometer's tactical abilities.

2017 saw our investment themes catch the tailwinds of continued economic expansion, anticipated stimulus from U.S. tax reforms and strengthening corporate earnings. Even though the market appeared weak earlier in the year, our breadth models remained constructive, and we remained committed to our leadership positions and exposed to an improving global economy.

However, as we head into 2018, many investors are cautious after a strong year, fearing a market pull back. This investor sentiment was also witnessed after the 2016 "Trump bump," which drove strong returns into the final quarter of that year. If we look back, improvements in economic indicators at the time, such as the PMI (Purchasing Managers' Index), foreshadowed the acceleration in global GDP growth now described by economists as a "global synchronised expansion." This only added momentum to already strong U.S. sectors and broadened out the market beyond technology to include financials, industrials and consumer discretionary driving market returns. We see these trends continuing as we enter the new year.

Greg Guichon, Barometer's CIO, believes "Business confidence is a virtuous cycle: conditions can keep improving for much longer than you think." Barometer

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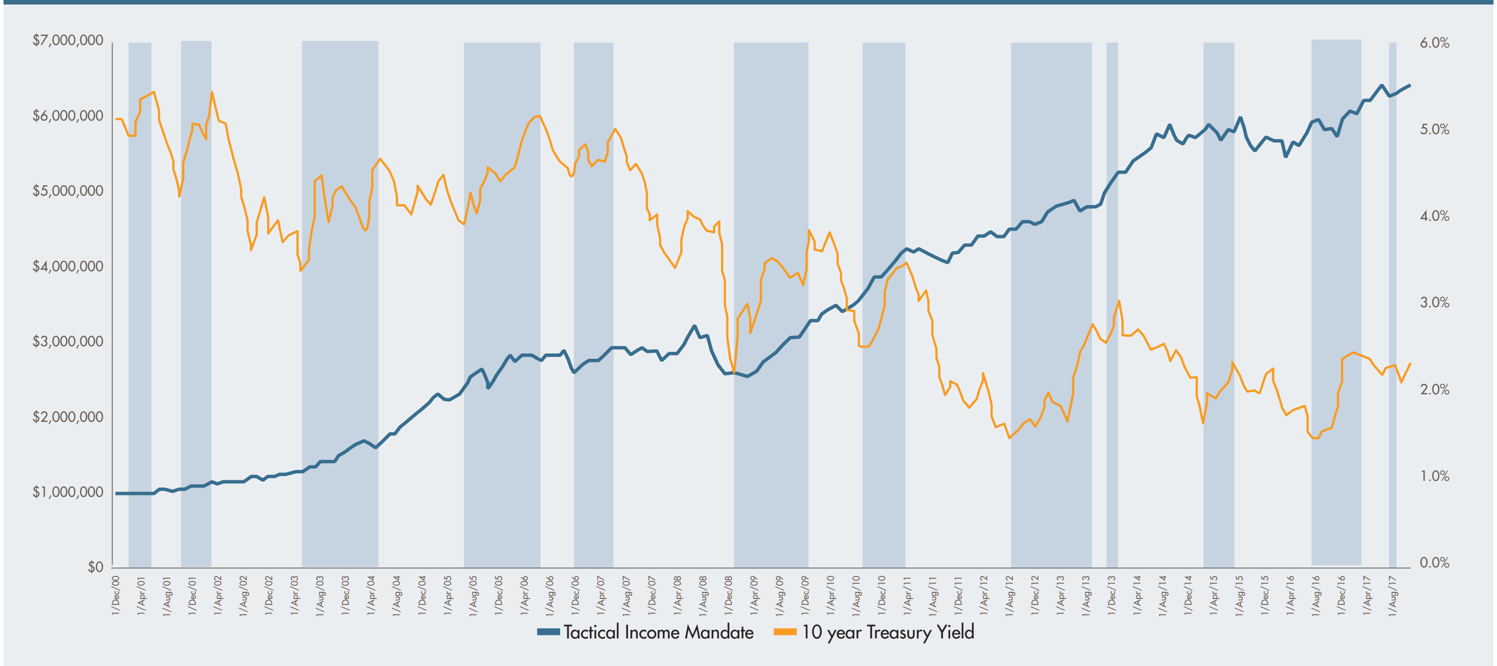
Tactical Income Mandate vs. 10 Year U.S. Treasury Yield



Source: Barometer Capital Management

Chart 1

remains fully invested, with portfolios concentrated in market leaders with structural tailwinds, while remaining vigilant to our risk models.

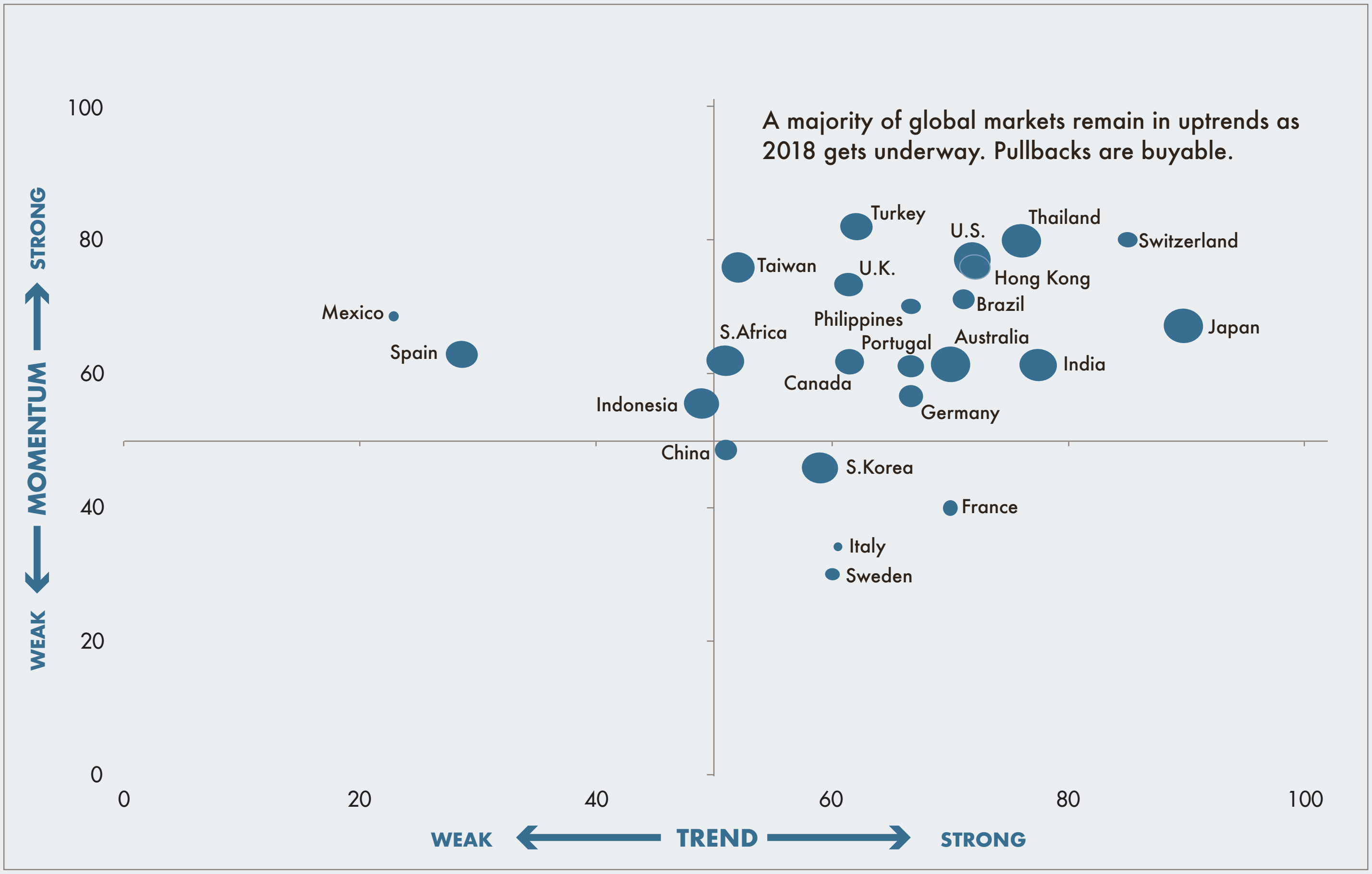
While markets continue to strengthen, corporate share buybacks continue to accelerate. Dividend yields are (on average) low, many of the companies in the portfolio are reducing the share count of their stock consistently and materially each year. For example, Apple Inc. reduced shares outstanding by approximately 3.5% in 2017. This is commonly referred to as the "buyback yield" and most of the companies in Barometer's income and balanced mandates are employing this strategy. Given that repatriation of offshore cash is being forced by U.S. tax reform, the "buyback yield" is likely to rise in 2018.

Canadian markets lagged as energy stocks did not follow the rising price of the commodity, leaving it to financials to keep the Canadian indexes in positive territory. Inflation has remained muted and the upward direction in interest rates appears to be a function of the competing forces of technology-driven deflation and a tightening of excess capacity in the global economy.

Barometer's portfolios remain concentrated in secular growth themes stressing economically sensitive sectors.

With low yields and rising rates, the **Tactical Income Pool** continues to focus on companies with dividend growth and in sectors with secular growth themes. It should be noted the flexibility in this mandate

Strategas Global Equity Matrix — January 4 2018



*The size of each data point is proportional to each sector's relative strength (e.g. the bigger the dot, the more stocks outperforming).

Source: Strategas Research Partners

Chart 2

has once again allowed for positive returns in a rising rate environment. Through the end of the year, the largest sector weighting was industrials. This was represented by transportation, defence and manufacturing companies, such as Rockwell Automation, Boeing and Caterpillar — all of which were companies growing revenue, EPS and dividend growth, while buying back shares. Financials is another strong theme with a large representation in the Income Strategy. Financials also performed well in Q4 2017. A favourable interest rate environment – with added benefits from U.S. tax reforms — has been a strong catalyst for the financial sector. The materials sector has also been a contributor to performance, with base metals beginning to feel the effects of better global growth.

The impact of rising interest rates has also influenced the **Tactical Balanced Pool**. The strategy's bond exposure remains at a minimum allocation and is concentrated in preferred shares with a yield reset feature adjusted as benchmark yields rise. On the equity side, the portfolio is exposed to financials, industrials and information technology and like the Income Strategy, benefits from similar themes.

The Equity Pool has the most latitude to allocate to current secular growth themes. PayPal Holdings Inc. (an ecommerce payments platform company) and the Nvidia Corporation (a semiconductor company) are two examples of this. PayPal benefits from the penetration of digital payments and Nvidia's growth is driven by the adoption of cloud computing and artificial intelligence. The portfolio has also benefitted from exposure to financials and consumer discretionary.

The Global Macro Pool continues to be well positioned to benefit from this synchronized global growth. This was captured with exposure to transportation, aerospace, defence, industrials and construction – all feeling the strength of the global economy.

The Global Macro Pool was also exposed to some themes within materials, such as lithium (battery technology), as new technologies become viable. Like the other strategies, exposure to financials also contributed to results. The Pool has short positions in fixed income and gold, which continue to experience weakness.

The Long Short Pool's largest allocations were in information technology, materials and financials. In addition, the Long Short Strategy also has a concentration in lithium miners. The growth of electric vehicles — like Tesla's Model 3 — will materially increase the demand for lithium and with constraints on new production, the price has been steadily increasing.

Crypto currencies and blockchain technology have caught the imagination of many investors and we have spent a great deal of time analysing the potential impacts on the financial system and how we can prudently invest. While the values of currencies like Bitcoin are difficult to measure and even harder to invest in, we feel that a company like Overstock.com is well positioned to benefit from increased transaction volume in the blockchain ecosystem. While blockchain and crypto currencies are very topical, companies with exposure to these currently account for only a small allocation in our portfolios.

Another current theme (not yet core to the portfolios) has been the legalization of Marijuana in Canada and select U.S. states. This has provided select opportunities, most specifically, in the long short portfolio.

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Looking Forward

As we look forward into 2018, economic fundamentals in the U.S. continue to strengthen and global growth is accelerating. If we look at an economic checklist that includes credit spreads, market breadth, PMI's labour market and market trends, the balance of evidence is positive and points to a continued constructive environment.

If we look at the U.S. homebuilding industry as another indicator, the positive growth there is also driving loan growth in financials, organic growth for industrials and consumer discretionary. The normal outcome in an environment like this is a rise in inflation and interest rates and Barometer continues to be cautious on bonds and bond proxy sectors, such as consumer staples. Secular trends like cloud computing, the Internet of things and internet advertising look set to continue. The portfolios continue to be concentrated in quality companies that capitalize on these trends with the overlay of our iterative, daily risk management process designed to protect your capital from loss.

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