

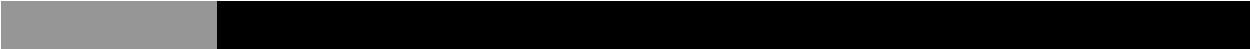
Commentary for the Third Quarter of 2017

Global equity markets appreciated 1.08% in Canadian dollar terms in the third quarter. In local currency terms, the MSCI World Index advanced by 4.06%, reflecting the continuing positive, but slow environment for global growth, not too hot, but not too cool. Macroeconomic indicators in key markets were generally positive, while geopolitical uncertainty remained elevated. The quarter was not without some surprises as the Bank of Canada raised interest rates by 25 bps, surprising financial markets. Emerging markets once again outpaced developed markets, with a gain of 7.72% in local currency terms. Oil ended the quarter 10.90% higher as Crude prices continued to gain support from confidence in the demand outlook amid expectations of firmer global growth conditions. Canadian equities lagged global equities, in local currency terms this quarter, returning 3.68%. International investors have largely stayed away from Canada as economic growth has been tepid and inflated real estate markets have been a cause for concern. Firmer energy prices and continued global growth may change that view, attracting investors to the more cyclical parts of the Canadian market. The Canadian dollar strength was negative for globally diversified investors, a falling Canadian dollar boosts their investment returns while a rising Canadian dollar reduces it. We saw the risk of a rising Canadian dollar at the beginning of the second quarter, and implemented a 50% hedge across portfolios with exposure to the U.S. dollar, allowing us to protect the portfolios from currency losses. On September 27, based on recent interest rate increases and the expectation that the Canadian dollar will continue to strengthen into 2018, we increased the currency hedge to 65% to mitigate the potential risk that negative investor sentiment on the U.S. dollar would continue, causing the Canadian dollar to rise.

Continued shift away from North America

We continue to view non-North American markets, especially emerging markets, as offering better risk-adjusted opportunities. Growth in emerging markets is stabilizing faster than developed markets while inflation is falling. Over the last few years we have increased weightings in global equities and bonds, and reduced exposure to Canadian fixed income, Canadian equities, and global real estate. This shift has protected our portfolios from the negative returns experienced in Canadian markets and global real estate, while providing the benefit of higher returns in international and emerging markets.

Counsel Fixed Income continues to be positioned for a low inflation, low growth environment as it is structured to include a core Canadian fixed income mandate along with high yield and global fixed income components. Once again, we saw a strong contribution from Franklin Templeton Investment Corp., our global fixed income investment specialist, as the market has caught up to the team's views on interest rates and currency. Over the quarter, high-yield bonds outperformed investment grade on a total return basis. This quarter we reduced our exposure to high yield fixed income securities by one third in favour of the core bond component. Our view is that high yield valuations have peaked, and as such we decided to realize profits and take risk off the table. We are prepared to reduce our exposure further should conditions warrant.



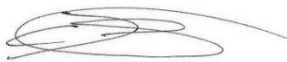
Investors should not fear increasing interest rates as they signal improving economic activity. Counsel Fixed Income is positioned to mitigate the effects of rising rates and benefit from improving corporate fundamentals. The mandate's short duration and focus on credit as well as flexible fixed income strategies should allow us to navigate and capitalize on volatility in this asset class going forward. Our view is that central banks like the Bank of Canada, are normalizing interest rates and removing the excess stimulus that was injected into the economic system. Inflation remains very low and is likely to remain low for years to come as developed economies work through the impact of the Great Financial Crisis of 2007–2008. As a result, near-term rising rates will work through investors' fixed income portfolios, resulting in higher rates in the long-term. Coupled with low inflation, this is likely to result in better overall returns.

Outlook

As we have noted in previous commentaries, despite heightened optimism, we are mindful of fixed income and equity valuations, especially for U.S. equities. Equity valuations are elevated but not extreme, and are being driven by low interest rates and bond yields. The same can be said of fixed income valuations, which have been artificially compressed by central banks to stimulate the economy. We believe that since the low in March 2009, investors have enjoyed above average returns and, as such, we believe future returns will be relatively muted. We do not predict a downturn, as markets can continue to march along at elevated valuations for extended periods. However, we believe investors should reframe their return expectations with this in mind.

Together with our investment specialists, we continue to manage the risks relative to the expected returns for each of our portfolios. We expect to keep pace in up markets, however our primary focus is to mitigate the impact of market downturns.

As always, we encourage you to follow a sound financial plan, and to speak with your Advisor to ensure you are on track to meeting your investment objectives.



Corrado Tiralongo,
Chief Investment Officer



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