March 31, 2018

# SEAMARK POOLED BALANCED FUND

## Our Philosophy and Strategy

The SEAMARK Balanced Fund investment philosophy embodies several defining tenets:

- The firm employs an equity bias, recognizing that ownership offers the greatest investment reward.
- Bonds, typically offer lower investment potential than equities. In that bonds represent 'safe money', they form a foundation for balanced portfolios and must be both secure and liquid.
- In balanced mandates, the asset mix is varied 'from the bottom up' within predetermined parameters, driven incrementally by the relative valuation of individual securities, one investment at a time.
- Companies selected for investment are made from our Total Equity platform, allowing for the construction of integrated, efficient equity portfolios.
- Careful attention is paid to valuation, attempting always to 'buy well'.
- Once invested in a company, SEAMARK exercises patience on behalf of its clients, with tax efficient low turnover rates, allowing the management of the underlying company to compound high returns on behalf of its shareholders.

The specific objective of the Pooled Balanced fund is to preserve capital and minimize market value fluctuations while generating superior long-term returns through capital gains augmented by current income. The Fund's performance is benchmarked against a blend of 5% DEX 91-Day T-Bills, 40% DEX Universe Bond Index, 30% S&P/ TSX Composite Total Return Index, and 25% MSCI World (ex-Canada) Index. Return in excess of this benchmark is an objective only and is not guaranteed by any party.

The fund seeks to achieve its objective within asset mix constraints set forth below:

| Asset Class | Min. | Max. |
|---|---|---|
| Cash & Short term Assets | 0% | 25% |
| Fixed Income Assets | 20% | 70% |
| Equity Assets | 30% | 70% |

## Portfolio Managers' Commentary

2018 started with a continuation of 2017 trends. However, in February world equity markets were gripped by a long-awaited correction in share prices. From peak to trough, every major stock market gave up about 11% of its value in a matter of weeks. Much of the blame was put on rising interest rates, although valuations had become stretched after a strong 2017. Notwithstanding a 25-basis point increase in overnight rates by the Bank of Canada and by the Federal Reserve, bond prices held up reasonably well during the quarter. The FTSE TMX Universe Bond Index eked out a return of 0.1%. Share prices managed to stabilize somewhat by quarter-end. Before the effects of currency, the S&P 500 Index (CAD$) recorded a decline of 1.2% for the quarter, MSCI EAFE Index (CAD$) a decline of 2.2% and the S&P/TSX Composite Index a drop of 5.2%. Against this background, the Fund registered a return of -2.2%.

Solid growth throughout the world has seen central banks take a new view toward interest rates. Many are now in the process of having interest rates normalize from their depressed levels of the last ten years. Normalization should not be compared to tightening cycles of the past, when central banks were using interest rates as a tool to stall the economy. Nonetheless we are maintaining a low weight to fixed income securities in the Fund and are featuring many floating rate issues as defensive holdings.

Canadian equities underperformed other major world markets in Q1, even though the country's robust growth in 2017 has moved the economy to near full employment. Investors are watching cautiously as much of the country digests a significant increase in the minimum wage. NAFTA negotiations are ongoing, but the outcome remains uncertain. Much of Canada's oil production is effectively locked in due to pipeline delays or cancellations. Spreads between the price of Canadian oil and its West Texas counterpart have widened, causing some Canadian producers to stockpile oil until that gap closes.

The outlook for U.S. corporate earnings remains very strong. The U.S. economy is benefitting from tax cuts for individuals. Corporate coffers will be helped by a reduction in the corporate tax rate, which will further buoy earnings for most American companies. Companies will begin a repatriation of capital from their foreign subsidiaries, which will also serve to stoke the U.S. economy.

International stocks were not immune from correction in the first quarter. Rising interest rates around the world have been an important confirmation that the worlds' economies are on an apparent growth track. Easy money has also played a role in reducing price earnings multiples of companies in every market.

Barring a deterioration of trade negotiations that may slip into a trade war, we expect the world economy to continue to exhibit decent growth in 2018. A normal correction in share prices around the world has trimmed price earnings ratios that had been on the rich side after a run-up in share prices in 2017. Further, the market has been bifurcated between the performance of growth companies and companies that fall into the value camp, with growth outperforming value in 2017. That was a stark reversal of the experience of 2016, when value outperformed growth. Alas, it is a market of stocks, and with that realization, we were able to establish many new company holdings for the Fund during the recent period of market weakness.


## INVESTMENT TEAM

**Bob McKim**, CFA
CEO & Chief Investment Officer

**Don Wishart**, CFA
President

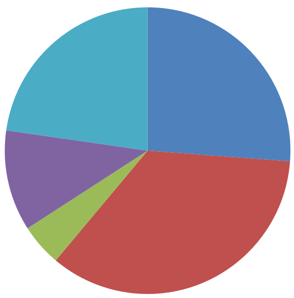
**George Loughery**, CFA
Chief Portfolio Manager

**Beste Alpargun**, CFA
VP Fixed Income, Portfolio Manager

## Portfolio Activity

Much of the Fund's 10% cash position that had accumulated in 2017 was deployed to purchase new holdings in leading companies such as Anheuser Busch, Walmart, SNC-Lavalin, and Alimentation Couch-Tard. Starter positions were established in shares of Alphabet (Google), and Albamarle, a leader in the supply of lithium used in batteries. Among sales, the remainder of the position in Canadian Western Bank was eliminated on price strength. Shares of GE were sold early in the year at higher prices, following the company's announced cut in its dividend rate.

### Asset Mix

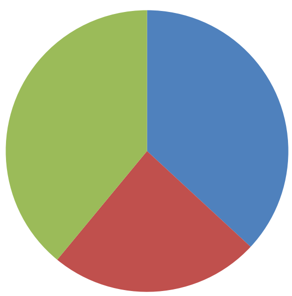


- Bonds & Debentures 26.2%
- Canadian Equity 34.9%
- Cash & Equivalents 4.8%
- International Equity 11.4%
- U.S. Equity 22.7%

### Top Ten Equity Holdings (% of Portfolio)

| | |
|---|---|
| Bank of Nova Scotia | 2.2 |
| Toronto Dominion Bank | 2.2 |
| Royal Bank | 2.1 |
| Cisco Systems Inc. | 1.9 |
| Franco Nevada | 1.9 |
| Bank of America | 1.7 |
| JPMorgan Chase & Co. | 1.6 |
| SNC-Lavalin Group | 1.6 |
| Cenovus Energy | 1.6 |
| Bristol Myers Squibb | 1.5 |

### Fixed Income



- Corporate 36.9%
- Federal 24.1%
- Provincial 39.0%

### Fixed Income Duration

| | |
|---|---|
| Duration | 5.2 |
| Term | 6.7 |
| Yield | 2.3 |

## Calendar Year Performance (%)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PORTFOLIO (CAD$) | 0.0 | -12.1 | 15.5 | 6.5 | -1.3 | 11.1 | 16.6 | 13.4 | 5.3 | 8.3 | 4.3 |
| BENCHMARK* (CAD$) | 2.6 | -14.7 | 14.9 | 10.1 | 0.6 | 7.2 | 11.8 | 10.7 | 3.9 | 7.8 | 7.4 |

*5% FTSE TMX 91-Day T-Bill Index, 40% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, and 25% MSCI World (ex-Canada) Index

## Performance Information (%)

March 31, 2018

| | QTD | YTD | 1 Yr | 2 Yrs | 3 Yrs | 4 Yrs | 5 Yrs | 6 Yrs | 7 Yrs | 8 Yrs | 9 Yrs | 10 Yrs | Since Inception |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PORTFOLIO (CAD$) | -2.2 | -2.2 | -0.7 | 5.7 | 3.2 | 5.9 | 7.8 | 8.5 | 7.5 | 7.5 | 8.7 | 6.3 | 7.2 |
| BENCHMARK* (CAD$) | -0.7 | -0.7 | 3.8 | 7.2 | 4.2 | 6.1 | 7.3 | 7.3 | 6.5 | 7.1 | 8.4 | 5.7 | 6.1 |

*Effective 01 Jan 2018 the benchmark has been changed to: 5% FTSE TMX 91-Day T-Bill Index, 40% FTSE TMX Canada Universe Bond Index, 27% S&P/TSX Composite Index, 20% S&P 500 Index, and 8% MSCI EAFE Index; benchmark from inception to 31 Dec 2017 is: 5% FTSE TMX 91-Day T-Bill Index, 40% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, and 25% MSCI World (ex-Canada) Index.

Fund Inception date: June 30, 1997

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