SEAMARK

THE LATEST

INSIDE

CIO Commentary

Has Momentum Investing Finished Its Run?

SEAMARK Out and About

Pooled Fund Tax-Deferrals

Performance Update

Q1 2018 Pooled Fund Profiles

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39 Years in Industry

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CIO Commentary / Q1 2018

After an extended stock market rally throughout all of 2017, share prices finally took a breather in the first quarter of 2018. Share prices in the U.S. had recorded 15 straight months of increases before hitting the skids in February. Even for the quarter, the extent of the correction was somewhat masked by a robust showing of markets in the month of January. But share prices did correct from their January peak, generally by as much as 11%, all throughout the world. The Canadian equity market did not enjoy the same 2017 lift in share prices as its U.S. counterpart which was driven principally by shares of technology companies. Nonetheless, Canada’s equity market declined in concert with other world bourses in Q1.

The principal cause for the long-awaited market correction was the realization that interest rates are truly on the rise, in the U.S. and across the globe. That was confirmed in the minds of investors when U.S. 10-year Treasury yields broke above 2.60% and began their march to as high as 2.95% during the quarter. Canadian 10-year rates also jumped, from 2.07% at year end, to as high as 2.40%, before settling back to 2.11% at quarter-end. SEAMARK bond portfolios have been conservatively positioned ahead of the increase in rates. A lower average term to maturity and the use of floating rate securities have been integral to our portfolio positioning.

A rise in interest rates from what has been abnormally low levels, should be viewed as good news, a confirmation that the economy is truly on a firm footing. That said, as interest rates approach the 3% level, fixed income securities may, for the first time in years, offer some alternative to dividend yields, which have been the income vehicle of choice for investors during the last 10 years. In the short term, it is not surprising that share prices have reacted negatively to an increase in interest rates.

Another note of concern to equity investors came to the fore at the end of March. President Trump’s position on trade is worrisome as he postures for better trade practices with China and even with NAFTA partners.

That said, the prospects for earnings growth look very good for the balance of 2018 and 2019. In the U.S., the cake is practically baked, given the tax reform package that will see corporate tax rates decline significantly this year. At the same time, the recent correction in share prices has helped to rebalance price earnings ratios that had risen above our comfort level.

All told, the correction in prices that has occurred in February and March has allowed us to redeploy cash that had been building in portfolios. We have been active buyers of strong companies at attractive prices, confident in the earnings outlook for companies that comprise SEAMARK portfolios.

Sincerely,

Robert G. McKim, CFA | Chief Investment Officer

Has Momentum Investing Finished Its Run?

Welcome to the 10th anniversary of the Great Financial Crisis. By all measures, most equities have staged a dramatic recovery from the lows reached in the great recession, thanks in large part to an extended period of monetary accommodation by the central banking authorities.

Investor confidence has recovered too, particularly evidenced in the U.S. where stocks marched higher for 15 consecutive months before beginning a correction in February. During periods of such positive momentum, prudent approaches to building wealth are often disregarded. Investors throw caution to the wind to chase the apparent easy returns in asset classes that just keep going up, regardless of valuation. Because stock market indices are usually weighted by the market capitalization of the companies included in the index being emulated, passive (index) investing results in more and more dollars being committed to the largest capitalization companies. This arithmetic can create a top-heavy phenomenon that the non-discerning buyer may not be fully aware of. Indeed, last year, the U.S. market was predominantly driven higher by a narrow group of technology companies and therefore the passive investor's portfolio held more in these names.

So far, the proliferation of index-replicating Exchange Traded Funds (ETFs) has accentuated the run-up in valuations for the companies included in these indices. The purchase of the type of ETF described can be motivated by a momentum driven decision. As long as everyone is of the same mind, the only direction is up. But the image of lemmings following each other over the cliff comes to mind.

Contrast this approach with traditional active money management practiced by SEAMARK. We are bottom-up thinkers; that is, we look at the underlying or intrinsic valuation of the specific company before investing and then we try to buy well. The top-down participant thinks of it as a stock market; the bottom-up practitioner sees it as a market of stocks.

Over time, the bottom-up thinker can exploit the ETF phenomenon. In a period when stocks are being liquidated, the ETF must sell all stocks proportionally, the good and the bad, the expensive and the inexpensive. The forced selling that is induced by the top-down investor that suddenly wants out, creates attractive opportunities to buy great companies at the right price for the bottom-up investor.

After their strong run-up in price in 2017, we have begun to see a decline in some of the prices of leading technology firms, including Facebook, Apple, and Alphabet (i.e. Google). Meanwhile, Amazon and Netflix have continued their ascent. Notwithstanding the varied results, the market psychology appears to be gradually switching to a traditional SEAMARK environment, wherein individual stock selection can lead to strong performance. Further, the risk-management undertaken by SEAMARK in the construction of portfolios should once again be in vogue. With the U.S. Federal Reserve committed to increasing interest rates, perhaps we can say that, after ten years, things are "normalizing" again.

Don Wishart, CPA, CMA, CFA | President

SEAMARK Out and About – The G in ESG

SEAMARK's President, Don Wishart, was a panelist at CUPE BC's Pension Forum in Vancouver this past April. The group of three panelists each touched on a component of ESG – Environmental, Social, and Governance. Jennifer Coulson of British Columbia Investment Management Corporation (BCI) dove into the E – environmental issues, Shannon Rohan of Shareholder Associate for Research and Education (SHARE) focused on the S – social issues, while Don wrapped up the discussion with the G – governance. For more information on the panel discussion or to read CUPE BC's press release, click here or visit https://www.cupe.bc.ca/cupe_bc_pension_forum_explains_esgs?platform=hootsuite.

THE LATEST

2017 Pooled Fund Capital Gains Tax Deferrals

	Tax Loss Carry Forwards*
SEAMARK Pooled U.S. Equity Fund	$ 21,834,243
SEAMARK Pooled Total Equity Fund	$ 17,788,240
SEAMARK Pooled Low Volatility Equity Fund	$ 4,946,610
SEAMARK Pooled Canadian Equity Fund	$ 4,962,722

*Audited Financial Statements, as at December 31, 2017

Some of these tax loss deferrals are significant compared to the assets in the respective Pools.

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Composite Performance Update[1]

As at March 31, 2018

	One Quarter	Six Months	Nine Months	One Year	Two Years	Five Years	Since Inception	Inception Date
SEAMARK Balanced Composite (%)	**-2.10**	**0.80**	**0.88**	**-0.09**	**6.05**	**8.05**	**7.60**	12/31/2009
Balanced Benchmark* (%)	-0.66	2.91	3.32	3.86	7.18	7.31	7.05	
SEAMARK Low Volatility Equity Composite (%)	**-3.84**	**-0.90**	**-1.12**	**-0.67**	**5.21**	**9.78**	**10.16**	12/31/2010
S&P/TSX Composite Index (%)	-4.52	-0.27	3.40	1.71	9.85	6.93	4.89	
SEAMARK Canadian Equity Composite (%)	**-6.26**	**-2.98**	**-1.21**	**-2.88**	**5.50**	**7.14**	**6.71**	01/31/2011
S&P/TSX Composite Index (%)	-4.52	-0.27	3.40	1.71	9.85	6.93	4.81	
SEAMARK Total Equity Composite (%)	**-3.06**	**0.44**	**1.16**	**-0.62**	**7.81**	**10.71**	**12.36**	09/30/2011
Total Equity Benchmark** (%)	-1.37	4.04	6.35	6.23	12.39	11.94	12.86	
SEAMARK Fixed Income Composite (%)	**0.30**	**2.02**	**0.80**	**1.41**	**1.63**	**2.85**	**3.04**	04/30/2012
FTSE TMX Canada Universe Bond Index (%)	0.10	2.12	0.25	1.36	1.43	2.89	3.18	
SEAMARK U.S. Equity Composite (%)	**-6.26**	**-2.98**	**-1.21**	**-2.88**	**5.5**	**7.14**	**6.71**	04/30/2012
S&P 500 Index (CAD) (%)	-4.52	-0.27	3.4	1.71	9.85	6.93	4.81	

*Effective 01 Jan 2018, the SEAMARK Balanced Composite Benchmark is 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, 8% MSCI EAFE Index; from inception to 31 Dec 2017 the benchmark is 5% FTSE TMX 91 Day T-Bill Index, 40% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, 25% MSCI World (ex-Canada) Index.
**50% S&P/TSX Composite Index, 35% S&P 500 Index, 15% MSCI EAFE Index

Links to Q1 2018 Pooled Fund Profiles

Balanced Canadian Equity Low Volatility Equity Canadian Bond U.S. Equity Total Equity

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[1]Performance data is calculated on an actual basis for periods of less than one year, and on an annualized basis for periods of one or more years. Performance data assumes the reinvestment of all distributions and does not take into account management fees or income taxed (except for withholding tax, if any, on foreign income) payable by any unitholder that would have reduced returns. Past performance is not necessarily indicative of future returns. For GIPS® presentation please email information@seamark.ca