SEAMARK

THE LATEST

INSIDE

INVESTMENT TEAM

Robert McKim
CFA
CEO & Chief Investment Officer
25 Years with SEAMARK
37 Years in Industry

Donald Wishart
CPA, CMA, CFA
President
11 Years with SEAMARK
20 Years in Industry

George Loughery
CPA, CGA, CFA
Chief Portfolio Manager
15 Years with SEAMARK
24 Years in Industry

Beste Alpargun
MBA, CFA
VP Fixed Income & Portfolio Manager
7 Years with SEAMARK
26 Years in Industry

Tyrone Saunders
CFA
Portfolio Manager
9 Years with SEAMARK
9 Years in Industry

Megan Murphy
MBA, CFA
Investment Analyst
3 Years with SEAMARK
5 Years in Industry

CIO Commentary / Q2 2017

We have reached the half way point in 2017, but little has unfolded as investors might have predicted just six months ago.

Here at home, the Canadian economy registered positive surprises early and continued to impress right through the first half. So much so, that the Bank of Canada is now telegraphing that it may be ready to relax its accommodative monetary stance of recent years. Prior to this watershed announcement, the expected timeframe for the Bank of Canada's first hike had been for the first half of 2018. An interest rate increase by the BOC would be the first since 2010.

Against the positive Canadian economic backdrop, the S&P/TSX Composite Index has disappointed investors by registering a small decline (-0.7) for the six-month period. On a total return basis, the S&P/TSX eked out return of 0.7%. The Canadian dollar responded favourably to Bank of Canada commentary, rising to 77.02 cents at June 30, from a level of 74.48 at year-end.

Languishing prices for crude oil was the primary drag on Canadian equity prices in the first half. Oil has been plumbing the low end of a $45 to $55 range. Commodities in general have underperformed, leading investors to question the durability of the world economic recovery. Similarly, the Citigroup Economic Surprise Index has started to show a markedly negative trend for the U.S. in recent months, although this indicator could turn around quite quickly.

U.S. equities have nonetheless performed well in the first half, with the S&P 500 Index rising by 8.2% and registering a total return of 9.3%. The increase in the Loonie's value trimmed U.S. dollar denominated returns by 3.4% for a Canadian investor.

Bond yields have also taken an interesting path this year. Although the U.S. Federal Reserve has seen fit to raise rates in two 25 basis point increments, market rates, as measured by U.S. 10 Year Treasuries declined from a high this year of 2.62% to as low as 2.14% in June. Then in the last week, positive economic comments from Europe drove their rates higher, dragging U.S. rates higher, to close the quarter at 2.31%. Canadian Ten-Year rates closed the quarter at 1.75%.

Stock index returns are often driven by the biggest capitalization weights in each index. After a strong year for value names in the U.S. in 2016, returns in the first half of 2017 were once again driven by technology heavyweights. The outperformance by the largest companies has raised some concerns that the indexes are getting top heavy and could correct along with just a few of the biggest technology names. Meanwhile, the outlook for the earnings of value companies is looking more attractive relative to growth companies for the next few quarters. The combination of stronger earnings growth and more attractive valuations could result in value names leading the market for the remainder of the year.

In the event of any market correction, we stand ready to utilize cash reserves that have accumulated in accounts due to trims or sales of security positions in recent months.

Sincerely,

Robert G. McKim, CFA | Chief Investment Officer

Time Flies When You're Having Fun!

Don Wishart, George Loughery and I returned to SEAMARK in March of 2012. We had each left independently; Don in 2009 and George in 2006, a year after my departure in 2005. The offer to come back to manage SEAMARK, the "Mothership" if you will, was flattering, enticing, very challenging, and fortunately, not too daunting.

We had started LeeSide Capital Management along the way, so we were already back in the business of managing money. We formed LeeSide, and came back to SEAMARK, with three main ambitions: (1) *Deliver for clients*. We are driven to do good work, and it is rewarding to be accountable when doing well for clients; (2) *Contribute to this business*. We have something to offer: a successful career suggests that we have something of value to contribute to clients, employees and community; and (3) *Give back*. We shared a great sense of wanting to give back, having done well by SEAMARK and its clients in years past. Mentorship for aspiring portfolio managers was part of this desire.

With the end of 2017's first quarter, we now have five years of being back at the "Mothership". What has this journey been like? Well, it has been a challenge at every level. Not an impossible challenge, but one worthy of our attention and hard work. I often speak to the internals versus the externals when asked "How are things at SEAMARK?". I make this distinction because the internals are mostly within our control. The externals are outside of our purview and we have less ability to impact the outcomes.

I am happy to report, first and foremost, that *we are delivering for SEAMARK clients*. The best measure of that success may be the record of SEAMARK's Balanced Pooled Fund, which has achieved five individual years of returns above the median manager in the eVestment Survey[1]. That run included gaining recognition as one of the top three managers in the country in 2014[2]. The record culminates with a top decile ranking for the five-year period of 10.7% annualized (as at March 31, 2017). We are delighted with our placing. Not only because of rank, but because we were determined to redeploy the same investment philosophy, style and process that had allowed SEAMARK to deliver an outstanding ranking during the first 20 years that I spent at the company. In that period, we had achieved 16 of 20 annual returns that ranked above the median. When we staple the two records, we can boast 21 of 25 individual years above the median manager. I suggest today that a new prospect can hire SEAMARK with great confidence, knowing now that it is more about investment process, which is focused on the 'how', without worrying about the 'who'. Even in our prior success, we would often hear the skeptic remark "It's all the founder Peter Marshall". To the extent that the compensation practices and investment process had changed at the firm after Peter and I had departed, since returning to the firm in 2012 I can point to the positive impact of our team culture, proper incentives and our repeatable investment process. The success of the current team speaks to process, not to Peter Marshall or Bob McKim. I believe we have put that one to rest.

Next, *we still have something to contribute to this business*. We do take great satisfaction from having the roles as mentors to our team, but we have also been thinking about new, evolving investment strategies for investors. The best example of innovation at SEAMARK is the introduction of our Low Volatility Equity mandate. We originally conceived of the idea during our time at LeeSide, launching our version of Low Vol on January 1, 2011. It is an approach based on the fundamental analysis of a company, not a quantitative view of a company's stock. We set goal-based objectives, rather than index benchmarks, as a measure of success. We strive to get the job done for investors and we define that as delivering a combination of attractive yield, consistent growth in income and low downside capture. The five-year annualized record of SEAMARK's Low Vol Equity Composite is 13.2% (March 31, 2017). If SEAMARK, as many clients have claimed, is 'safe money', then Low Vol is SEAMARK's poster-child.

Finally, *giving back* completes the circle. SEAMARK and its employees should be proud of the many contributions they make to the business and educational communities. The company's flagship engagement is with UNB, where Don Wishart serves as Executive in Residence for the University's renowned Student Investment Fund (SIF). Our contributions do not end there. Our team members embrace leadership roles with professional associations, teaching assignments with local universities, mentoring of finance students that undertake an annual international research challenge, board appointments and committee memberships. Overall, we're working hard to make a difference.

There are so many other important internals that should not be overlooked. In 2012, SEAMARK helped rebrand Marquest's American Dividend Growth Fund – Every Holding Pays a Dividend. A Trust version of the fund was launched in 2015. In 2013, SEAMARK became wholly owned by its investment professionals, the first time the company has been completely under management ownership. In 2013, Peter Mastorakos of Ekaton Wealth Management came to Halifax to perform due diligence, before including SEAMARK as one of Ekaton's preferred providers. That same year, SEAMARK launched a collaboration with SHARE, a Canadian leader in responsible investment services, research and education. The SHARE relationship paves the way for Union monies and Religious funds to select SEAMARK management with a Social Responsible Investing (SRI) 'engagement wrapper'. In 2014, SEAMARK was selected by Credential Securities as an institutional manager for its CAP Program (Credential Affiliates Program). On January 1, 2015, Lysander Funds collaborated to launch two co-sponsored mutual funds: the Lysander-SEAMARK Balanced Fund and the Lysander-SEAMARK Total Equity Fund. In 2015, every SEAMARK employee invested their retirement savings alongside clients in the SEAMARK family of Pooled Funds. Also in 2015, SEAMARK claimed compliance with the CFA Institute's Global Industry Performance Standards (GIPS®) and was independently verified for the first time in its history. It speaks volumes that SEAMARK continues to pass the due diligence scrutiny of so many national interests.

We're doing very well on the internals!

As for the externals, in the pension arena, progress has been slower. Pension fund sponsors have largely changed their thinking since we first came into the business. Pension funds used to be seen as an asset that could be well-managed to the benefit of the organization. Today, pension fund sponsors are faced with profound challenges in maintaining structures which have a pension "promise". Risk sharing has risen to prominence. Addressing these problems has caused government corporations to enter our addressable market by assuming the pension obligations and investment assets of some universities and municipalities. Nevertheless, we remain undaunted by this evolution. Instead, we continue to demonstrate the "goodness of fit" for our Low Volatility Equity product in helping to solve their issues. Now that we have reached the five-year mark (again), we are hopeful of an examination and a positive review by both private and public pension fund sponsors in the Maritimes. SEAMARK has worked successfully in the past for many regionally based pension fund sponsors, exceeding investment benchmarks in the process. We look forward to re-establishing productive working relationships with the private and public sectors.

And what else for the future? A recent trip to Toronto may provide clues. In several meetings, the SEAMARK story was very well received. In some cases, there will be opportunities to re-establish formal relationships with previous supporters of our Halifax-based firm. When looked at through the prism of a Toronto based practitioner, to be "away from the madding crowd" is seen to be an advantage, part of our company's DNA, part of its charm.

As entrepreneurs who today own SEAMARK in its entirety, we are in a strong position to embrace new thinking and new opportunities to grow the firm. We have instituted a referral program for private individuals that introduce SEAMARK to accredited investors in the high-net-worth market. The next logical development would be to hire a sales professional, dedicated to business development. Our free thinking in the institutional space could, for instance, take the form of a public/private venture with pension agencies seeking to explore the benefits of a money management joint venture. Beyond the institutional space, we now have a blueprint, whereby retail portfolio managers could join the SEAMARK fold in a unique arrangement that would be a win/win, for advisors and their clients. And for those investment advisors interested in transitioning their book as they approach retirement, SEAMARK could be the perfect partner.

Five years on… SEAMARK is performing… and is open for business!

Robert G McKim CFA
CEO / CIO SEAMARK Asset Management

[1] as measured by eVestment, the largest database of investment manager investment performance
[2] from the API Asset Performance Inc. Investment Consulting & Research Money Manager Awards

What is the SEAMARK team up to?

In the Community

Our very own Beste Alpargun, MBA, CFA (VP of Fixed Income and Portfolio Manager) was appointed to the Board of Directors of Halifax Partnership. Representing the Community at Large, Beste is pleased to join the diverse team and looks forward to offering her advice and expertise to the group. Visit the Halifax Partnership for more details at:
http://www.halifaxpartnership.com/en/home/default.aspx

Across the Country

As evidenced by the interest of SEAMARK's Stewardship Fund, featured in last quarter's publication, momentum for SEAMARK and our offerings is building, especially in British Columbia. In August, SEAMARK President, Don Wishart, CPA, CFA, will be travelling to the West Coast to spend a week in Vancouver conducting business. Interested in meeting with him and learning more about us? Email him directly at: dwishart@seamark.ca

2016 Pooled Fund Capital Gains Tax Deferrals

	Tax Loss Carry Forwards*
SEAMARK Pooled U.S. Equity Fund	$ 22,058,047
SEAMARK Pooled Total Equity Fund	$ 17,700,378
SEAMARK Pooled Low Volatility Equity Fund	$ 4,933,560
SEAMARK Pooled Canadian Equity Fund	$ 4,999,362
SEAMARK Pooled Balanced Fund	$ 375,665

*Audited Financial Statements, as at December 31, 2016

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

Please contact Tyrone Saunders for more information.
902-423-6954 tsaunders@seamark.ca

Composite Performance Update[1]

	One Quarter	Six Months	Nine Months	One Year	Two Years	Five Years	Inception Returns	Inception Date
SEAMARK Balanced Composite	**-0.96**	**1.78**	**4.71**	**8.11**	**6.30**	**10.20**	**8.26**	**12/31/2009**
Balanced Benchmark*	0.33	3.05	4.00	7.78	5.24	8.42	7.29	
SEAMARK Canadian Equity Composite	**-1.69**	**-0.18**	**4.99**	**9.55**	**6.81**	**10.03**	**7.72**	**01/31/2011**
S&P/TSX Composite Index	-1.64	0.74	5.30	11.05	5.27	8.74	4.83	
SEAMARK Low Volatility Equity Composite	**0.46**	**3.74**	**4.65**	**6.53**	**10.11**	**13.11**	**11.57**	**12/31/2010**
S&P/TSX Composite Index	-1.64	0.74	5.30	11.05	5.27	8.74	4.93	
SEAMARK Fixed Income Composite	**0.61**	**2.03**	**-1.13**	**0.04**	**2.56**	**3.00**	**3.34**	**04/30/2012**
FTSE TMX Canada Universe Bond Index	1.11	2.36	-1.15	0.02	2.58	3.29	3.60	
SEAMARK U.S. Equity Composite	**-3.07**	**-0.35**	**9.38**	**12.80**	**9.70**	**16.79**	**16.61**	**04/30/2012**
S&P 500 Index (CAD)	0.41	5.68	12.32	17.61	12.93	20.31	19.80	
SEAMARK Total Equity Composite	**-1.76**	**1.48**	**6.30**	**10.69**	**8.03**	**13.81**	**13.84**	**09/30/2011**
Total Equity Benchmark**	-0.11	3.93	8.84	14.81	8.28	13.73	13.44	

*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 Q2 2017 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