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 / Q1 2017

The early part of the new year saw the continuation of market trends that had prevailed since the U.S. election. Stocks rallied, and bond yields rose on investor optimism. By March, some of the bloom had come off the rose, with a reversal of those trends. As at quarter end, stocks had retained some meaningful gains, and, notwithstanding a 25-basis point hike in the Federal Funds Rate, market driven interest rates reversed course to fall slightly, allowing bonds to rally modestly. Over the quarter, ten-year Government of Canada bond yields fell from 1.93% to 1.64%, and U.S. ten-year Treasury yields from 2.80% to 2.40%. This translated into returns for the FTSE/TMX Canada Bond Universe Index of 1.24%, and 1.21% for the Bloomberg Barclays U.S. Government/Credit Index. As for equities, the S&P 500 Index rose by 5.5% while the S&P/TSX Composite Index, more influenced by a declining energy component, eked out a gain of 1.7%. Despite a softer energy market, the Canadian dollar managed to rally slightly during the quarter, rising to 75.07 from a level of 74.48 at year-end. The modest rise in Canadian currency had the effect of trimming U.S. returns for a Canadian investor by just 0.8%.

What lies ahead for the balance of the year is more of a mystery than usual. Stock prices have been rallying, in part due to better worldwide economic conditions, and in part due to President Trump's pro-business administration south of the border. Those factors have certainly set a positive backdrop for investors. That said, stocks have rallied in advance of any legislative wins by the Trump administration. Health care, tax reform and infrastructure are all monumental undertakings in today's partisan political environment. Time will tell if the political grind wears on investors' enthusiasm for change. What has been a political tailwind for investors up until now, might well turn into a headwind.

Regardless, we see a dichotomy in the views of U.S. and Canadian monetary authorities. The Federal Reserve has boosted interest rates by 25 basis points already this year, and most analysts think another two hikes of similar magnitude may be in the cards for the balance of the year. Canadian monetary authorities are much less interested in working interest rates to higher levels. The market doesn't expect any change in the Bank of Canada rate until sometime in 2018. What can account for such different prospects for two countries so closely connected by billions of dollars of trade every day?

The U.S. economy is broader and deeper than that of Canada. Our own is still dominated by the riches of natural resources. The oil market has not yet recovered to a level that provides any significant boost to Canada's economy. And with important technological advances in the shale oil industry in recent years, the U.S. doesn't have to buy as much energy from Canada. Against this background, many foreign energy companies have been shedding their investment in Canada's oil sands. With our oil patch still in disarray, it is hard to see any appetite to raise interest rates in Canada. Some even believe that there is a tacit interest by the Canadian Government to allow the loonie to wallow at low levels. If the U.S. were to invoke a border import tax, the loonie would obviously suffer. We expect a trading range of 70 to 76 cents for the Canadian dollar over the next 12 months, with risk to the downside if the U.S. should levy a border import tax.

On top of domestic issues north and south of the border, we are observing a new administration facing world-wide geopolitical issues. As the U.S. attempts to reset its place in traditional trouble spots around the world, risks abound.

Against this uncertain backdrop, we are maintaining high quality bond holdings, with a conservative duration. We continue to favour high quality companies throughout the world that trade at reasonable valuations. For diversification and safety, a small exposure to leading gold companies is appropriate. Cash should be seen as defensive, and to facilitate taking advantage of attractive opportunities if prices of intriguing companies retreat to our buy levels.

Sincerely,

Robert G. McKim, CFA | Chief Investment Officer

The Benefits of a Balanced Fund

If you last long enough in a profession you may actually experience "what goes around comes around". A recent encounter with this phenomenon is the introduction of a product called Multi-Asset Class, whereby one fund includes several asset classes. Sound familiar? Probably. You and I would call it a balanced fund. Balanced funds are back in style, just masked by a naming convention.

Although product design is a key element in this renaissance, another is the need to return to valuation as the key to investment performance. For several years, asset liability studies, rooted in statistical mathematics, attempted to manage future risk by looking at what happened in the past. Valuation of available market securities is not necessarily fundamental to this exercise. This is tantamount to driving a car by constantly looking in the rear-view mirror; crashes are likely.

In fact, the biggest factors which drive Economics and Finance are single events which cannot be predicted, or perhaps even described, in mathematical terms. This is the thesis of *The Black Swan*, a book by Nasim Nicholas Taleb. If this is true, and we believe it is, then the only way in which one can judge where to invest for future returns is to perform a valuation on the individual securities which may generate those returns.

SEAMARK has always approached investment management from the bottom-up. This micro view of investing is a valuation-centric approach in making investment decisions. Over the years, we have honed this investment process to help us always 'buy well'. Valuation is paramount in our decision making. It is a dynamic, timely, efficient approach to security selection and portfolio construction, with every decision driven by the pure objective of making an absolute return for investors. It is repeatable and, within client tolerances, it impacts asset mix only in small, low risk increments, one security at a time. *Execution risks are low.*

We call our approach Asset Mix from the Bottom-Up. Has it been productive? For 20 years, when Peter Marshall and Bob McKim ran the firm, SEAMARK achieved a record whereby in 16 of 20 annual periods the SEAMARK Balanced Pension Composite achieved above median returns. Since the return of McKim, Loughery and Wishart to SEAMARK, the firm has produced five more consecutive years of balanced fund returns ranking above the median manager. Combining those records, produces above median returns in 21 of 25 annual periods. That is a compelling proof statement…that SEAMARK returns have bettered at least half of the peer group, 84% of the time. Based on such a record, you can think of SEAMARK as a *Balanced Fund Specialist*!

Our balanced fund story doesn't end with returns. We are risk managers, a role that we fully embrace. Every step of the SEAMARK investment process inherently squeezes out risk. We are extremely quality conscious in every security selection. We construct integrated portfolios that hit the sweet spot of diversification: diversified enough to yield results with a lower standard deviation, but focused enough to be productive. Our integrated portfolios stand in stark contrast to balanced portfolios constructed from a sum of the parts exercise, where sleeves are combined to make the final product. Instead, our integrated management views securities across geographies and allows us to buy the best values, regardless of domicile, within client constraints.

Here is a real-time comparison of integrated versus sum of the parts portfolio construction. Nowhere in the world is the operating environment more favourable for banks, than in Canada. U.S. banks are also very attractive, having gone through the tedious business of repairing their capital ratios since the implosion of 2008/09. Interest rates in the U.S. are starting to work higher, which will boost net interest margins for U.S. banks. By comparison, European-centric banks have not yet taken the medicine to repair their capital ratios. That will be a long process. Europe also has to navigate BREXIT, sure to greatly impact the financial sector. Our integrated portfolios favour Canadian and U.S. banks and severely underweight non-North American banks. By contrast, a sum of the parts approach will have a heavy dose of European banks, despite their less attractive prospects. Multiply that kind of thinking across eleven industry subgroups and imagine the productivity that can be gained from an integrated approach to building balanced portfolios.

The history of investment management has been fraught with periods of group think, subsequent overvaluation and painful unwinds. Where might the group-think risks lie today? What might valuation tell us about today's risks?

The biggest trend of recent years has been the extension of the specialist/sleeve movement to include alternative investments. Generally, these are identified as hedge funds, real estate, and infrastructure investments. Hedge funds as a group have been disavowed by many large funds, based on underperformance, outrageous fees and concentrated portfolio bets. The other alternatives have major valuation risks --- risks that come from too much money chasing too few investments, plus the imminent risk of a rise in interest rates. The vast majority of alternative investments are priced off an interest discount rate. Is it a coincidence that alternative investments are proliferating just when interest rates are at a 35-year low? Or at a time when asset mix studies generally don't go back far enough to capture asset performance during rising interest rates? Add to it the illiquidity risk inherent in these alternative investments…let the buyer beware!

What are our takeaways? Valuation matters. Risk management matters. Performance matters.

Integrated, balanced fund management from the bottom up is the most efficient and productive approach to consistently deliver strong risk-adjusted returns.

Balanced is not dead!

Donald Wishart, CPA, CMA, CFA | President

What's new at SEAMARK?

Danielle MacLeod, MBA – Investment Associate

Danielle joined SEAMARK in February 2017 as an Investment Associate. In her current role, she is focused on sales and marketing for the organization, while providing support to the client services, investments and compliance teams. Prior to joining SEAMARK, Danielle worked in New Brunswick with organizations including NBIMC (now Vestcor Investment Management Corp) and Ocean Capital Investments. Danielle earned a Bachelor of Commerce Degree (Finance) from Saint Mary's University and an MBA from the University of New Brunswick, with a concentration in entrepreneurship and was a member of the Student Investment Fund.

Introducing SEAMARK's newest product: THE STEWARDSHIP FUND

We are pleased to introduce The STEWARDSHIP FUND, a Canadian Equity pooled fund managed by SEAMARK for which SHARE delivers shareholder engagement and proxy voting services, while Credential Securities Inc. provides custodial services. The Fund combines the services of three vendors, each of which has strong ties to the labour movement.

The Shareholder Association for Research and Education (SHARE) advises Canadian institutional investors on how to integrate environmental, social and corporate governance considerations into their investment management strategies. Since its creation in 2000, SHARE has delivered leading proxy voting and shareholder engagement services, as well as education, policy advocacy and practical research on responsible investment and capital market issues. Founded by trade union organizations, SHARE also hosts the Secretariat for the Global Unions Committee on Workers Capital.

With over 20 years in the Canadian financial services industry, and roots in the credit union movement, Vancouver based Credential is a national firm providing custody, income collection and trading services to portfolio managers, as well as a wide range of other investment services to over 225 organizations. It has over $30 billion in assets under administration.

The STEWARDSHIP FUND is an investment product designed to protect capital while investing in securities that reflect social responsibility and trade union values. Canadian Equity mandates fit at the core of portfolios which have Canadian dollar denominated liabilities. Well-designed portfolios can best be created by focusing on the selection of quality names rather than on using the traditional S&P TSX Index as a starting point. The index is heavily weighted in a narrow group of sectors as well as being dominated by a small group of large capitalization companies.

SEAMARK emphasizes owning leading companies for the longer term that offer the compelling combination of safety, growth and an attractive valuation. Preference will be shown for those companies that have a durable footprint and have exhibited competitive validation outside of Canada. Annual portfolio turnover is expected to be in the range of 15 to 20%. This provides an opportunity for SHARE to plan constructive engagements with key companies. The result is a responsible and diversified portfolio which allows trustees to sleep at night.

Each year, SHARE will engage with companies in the STEWARDSHIP FUND, seeking improved policies and practices in areas such as climate change, occupational health and safety, labour standards in supply chains and board diversity. In addition, SHARE will evaluate management and shareholder proposals that appear on the proxy ballots of companies in the STEWARDSHIP FUND based on extensive proxy voting guidelines addressing ESG standards and make voting decisions in the best long-term interests of our clients.

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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 Month	One Quarter	Six Months	Nine Months	One Year	Two Years	Five Years	Inception Returns	Inception Date
SEAMARK Balanced Composite	**1.00**	**2.77**	**5.72**	**9.16**	**12.50**	**5.83**	**10.08**	**8.70**	**12/31/2009**
Balanced Benchmark*	1.01	2.71	3.66	7.43	10.60	4.38	8.02	7.50	
SEAMARK Canadian Equity Composite	**1.42**	**1.54**	**6.80**	**11.44**	**14.59**	**6.17**	**9.25**	**8.35**	**01/31/2011**
S&P/TSX Composite Index	1.34	2.41	7.06	12.90	18.62	5.27	7.84	5.32	
SEAMARK Low Volatility Equity Composite	**1.05**	**3.27**	**4.18**	**6.04**	**11.32**	**8.43**	**13.23**	**11.97**	**12/31/2010**
S&P/TSX Composite Index	1.34	2.41	7.06	12.90	18.62	5.27	7.84	5.41	
SEAMARK Fixed Income Composite	**0.44**	**1.41**	**-1.73**	**-0.56**	**1.83**	**1.35**	**-**	**3.38**	**04/30/2012**
FTSE TMX Canada Universe Bond Index	0.41	1.24	-2.24	-1.08	1.51	1.14	-	3.56	
SEAMARK U.S. Equity Composite	**0.17**	**2.80**	**12.84**	**16.37**	**23.94**	**10.33**	**-**	**18.27**	**04/30/2012**
S&P 500 Index (CAD)	0.68	5.25	11.85	17.12	20.36	11.92	-	20.80	
SEAMARK Total Equity Composite	**1.31**	**3.29**	**8.20**	**12.67**	**16.87**	**7.96**	**13.57**	**14.88**	**09/30/2011**
Total Equity Benchmark**	1.42	4.05	8.97	14.94	18.89	7.60	12.86	14.11	

*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
**50% S&P/TSX Composite Index, 35% S&P 500 Index, and 15% MSCI EAFE Index

Links to Q1 2017 Pooled Fund Profiles

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

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SEAMARK ASSET MANAGEMENT LTD.

[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.