

## Market Commentary

As the second quarter begins, we are seeing better than expected US Payroll numbers, improving US Manufacturing data, dovish comments from the US Federal Reserve and supportive moves from the ECB. Although the US economy seems relatively healthy, global economic growth is tentative. The consensus is that rates will stay lower for longer. The MSCI World Index returned -6.3% and the Merrill Lynch High Yield Index returned -3.2% in C\$ for the quarter. The surprising strength of the CAD, which rose 6.7% over the quarter to about US\$0.77, accounted for the relative weakness in both indices.

## Portfolio Commentary

In the quarter, Utilities (+2.1%) and Telecom Services (+0.5%) were the strongest performing sectors in the MSCI World Index. Healthcare (-12.4%) and Financials (-11.9%) were the weakest sectors, in which the Fund was underweight. The Fund's only equity holding in Utilities was the position we initiated with Hydro One (+11.3%) on the IPO. In the Telecom Services sector, our holdings in both BCE (+11.7%) and Telefonica Brasil (+6.2%) performed well over the first quarter.

Crescent Point Energy, Bank of Nova Scotia, Whirlpool and Arc Resources were significant positive contributors to performance. Only Whirlpool is not Canadian, reflecting our shift back to Canadian equities in the quarter. After last year's dismal performance for Canadian stocks and the CAD, we identified a number of Canadian stocks, as well as the CAD, as being undervalued. As a result, we increased our portfolio weighting to our home country and increased the USD hedge to protect our returns on the Fund's USD holdings. We currently have approximately one-half of our USD exposure hedged.

## Feature Holding - Bank of Nova Scotia

Bank of Nova Scotia (BNS-T) is Canada's third largest bank and is considered the most international bank of Canada's big five due to acquisitions in Latin America, the Caribbean and India. Its share price was down 10.8% in 2015. In January of this year it traded at its lowest relative multiple in a decade, trading at 10.4x 2017 forecasted earnings and 1.2x book value. Sentiment was depressed. Sell side analysts wrote that even if energy was flat, there could be additional downside for BNS. See opportunity based on the company's value, we added to our BNS position. Bank of Nova Scotia returned 14.8% in the first quarter.

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