

# Steadyhand

## Q2 2016

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“Investors hate uncertainty, but they despise surprise. And the ability to withstand the shock of surprise is what separates great investors from everyone else.”

- The Wall Street Journal, June 24<sup>th</sup>



## Bradley's Brief



My wife Lori and I spent the Canada Day weekend at our family cottages in the Whiteshell Provincial Park. Nephews and water sports occupied most of my attention, but Manitoba's unusual summer kept bringing me back to the capital markets.

Lori's family was evacuated twice from their cottage at West Hawk Lake – the first was because a forest fire was threatening and the second because the road was flooding. Yes, they went from fire to flood in a matter of weeks.

Many investors feel like they've been living the West Hawk experience. One month Mr. Market is worried about Greece, then it's a slowdown in Asia and now it's Brexit. He seems to be more perverse and unpredictable than ever.

It seems like I'm commenting on a market event almost every quarter, although as regular readers know, I mostly say the same things (see page 17).

- Our managers assess the impact of the event and adjust their long-term estimates, either a little or not at all.
- They then lean heavily on their valuation work, which allows them to use market volatility to buy securities that have been hit hard and are cheap (in their opinion) and sell ones that have held up well and become relatively expensive.
- In the Founders Fund, Salman and I feed off what the managers are doing, as well as doing our own work on valuation and investor sentiment (the gloomier, the better). If the market moves are significant enough, we adjust the fund's asset mix.
- Start again at step one.

I'm not embarrassed to sound like a broken record. Investing is all about repetition and consistency. A defined investment philosophy and process isn't worth much if we change it all the time. And indeed, it will

have a negative impact on long-term returns if we make changes at market extremes when emotions are high and the quality of information is low.

It's too early to do a post-mortem on Brexit because we're still feeling the effects. While stock prices are bouncing around, the most meaningful impact so far has been on currencies (British pound down, Japanese yen up) and interest rates (even lower than they were before the vote). These moves may also prove to be transitory, but what appears certain is that Europe's turn to drive world economic growth has been further delayed.

Brexit undoubtedly has changed the outlook for some of the companies we own, but the general investing environment remains the same. Our managers, who have done a small amount of buying so far, are still expecting low interest rates, slow and uneven profit growth, higher energy prices, unrelenting technological disruption and more market events ('Trump?').

Because of the hyper stimulation provided by near-zero interest rates, cheap assets are hard to find. We continue to believe, however, that stocks will provide the best return over the next five years (5-7%), with secure assets like GICs and bonds earning much less.

Suffice to say, Neil and I designed our firm to deal with fires and floods, although we don't try to predict them. Rather, we keep focused on determining what our companies will be worth over the long term. If Mr. Market gives us a chance once in a while to buy these companies at reduced prices, we'll take it. Conversely, we'll gladly sell if other investors are urgently trying to get in.

## Key Takeaways

### Stocks

- Stocks had a positive quarter on balance, although price movements were pronounced, particularly in June after the U.K. voted to leave the European Union.
- The Canadian market (S&P/TSX Composite Index) gained 5.1%, driven by a rebound in commodity prices. Gold stocks in particular benefited from growing political and economic uncertainty.
- Foreign stocks saw mixed results. The American market (S&P 500 Index) rose 2.5% (in U.S. dollars) and emerging markets posted small gains. Many European markets, on the other hand, posted modest losses. Japan was a laggard, but its currency was particularly strong (which helped offset losses for Canadian investors).
- The loonie had a strong quarter against the British Pound (+7%) and Euro (+2%), but depreciated against the Yen (-9%) and was unchanged against the U.S. dollar.

### Market Returns

	3M	1Y
Canada	5.1%	-0.2%
World	1.5%	2.0%

### Bonds

- The Canadian bond market (FTSE TMX Canada Universe Bond Index) provided a total return (interest and capital appreciation) of 2.6% in the quarter.
- Overall bond yields declined, with the 10-year Government of Canada yield ending the quarter at 1.1% (down from 1.2% at the end of March). Investors benefited from this decline, as bond prices rise when yields fall.
- High yield bonds had a strong quarter, as investors remain hungry for yield.

	3M	1Y
Bonds	2.6%	5.2%

### Our Funds

- Our funds had a mixed quarter: the Small-Cap and Income Funds provided strong returns but the Global Fund continued to lag. Balanced clients experienced returns in the neighbourhood of 2%. Over our history (9 years), the range is 5-6% per year.
- We reduced the weighting of stocks in the Founders Fund, as prices rebounded from their February lows and stock values are once again in-line with long-term averages.
- Our foreign stock exposure has a tilt towards Asia and Europe, rather than the U.S.
- In the context of our balanced portfolios, key transactions in the quarter included the purchase of SANOFI (France) and TESCO (U.K.), and the sale of KDDI (Japan).

### Fund Returns

	3M	1Y
Savings	0.2%	0.7%
Income	3.0%	5.0%
Founders	1.7%	0.7%
Equity	1.5%	3.8%
Global	-0.4%	-9.2%
Small-Cap	5.9%	-5.2%

## Our Advice to Clients

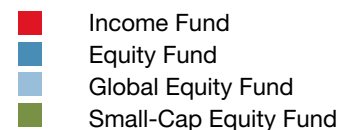
We recommend that your equity weighting be close to your long-term target. In the Founders Fund, we took advantage of rising stock prices to reduce our equity exposure closer to its target (60%). Our outlook for the bond market is subdued as current yields are unattractive and interest rates are near historic lows. We continue to recommend a below-average position in bonds. As an alternative, we recommend a healthy cash holding. In the Founders Fund, for example, 16% of the portfolio is currently held in cash.

For our thoughts on asset mix and the advice we're giving clients, visit the [Current Outlook](#) page on our website, or give us a call at 1.888.888.3147.

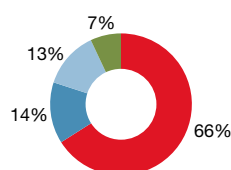


## Steadyhand Portfolios (Hypothetical)\*

### Compound Annualized Returns (as of June 30, 2016)



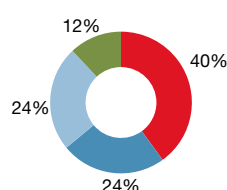
#### Balanced Income Portfolio (50/50)



**Long-term asset mix:**  
Fixed Income – 50%  
Cdn Equities – 30%  
U.S. Equities – 10%  
Overseas Equities – 10%

3M	YTD	1Y	2Y	3Y	5Y	9Y
2.6%	3.5%	2.3%	3.5%	7.7%	7.4%	5.9%

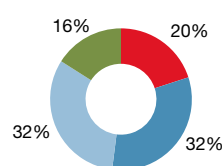
#### Balanced Equity Portfolio (70/30)



**Long-term asset mix:**  
Fixed Income – 30%  
Cdn Equities – 34%  
U.S. Equities – 18%  
Overseas Equities – 18%

3M	YTD	1Y	2Y	3Y	5Y	9Y
2.2%	1.5%	0.2%	2.5%	8.3%	8.2%	5.2%

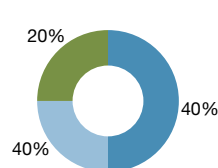
#### Growth Portfolio (85/15)



**Long-term asset mix:**  
Fixed Income – 15%  
Cdn Equities – 37%  
U.S. Equities – 24%  
Overseas Equities – 24%

3M	YTD	1Y	2Y	3Y	5Y	9Y
1.9%	0.1%	-1.4%	1.8%	8.8%	8.8%	4.7%

#### Aggressive Growth Portfolio (100/0)



**Long-term asset mix:**  
Fixed Income – 0%  
Cdn Equities – 40%  
U.S. Equities – 30%  
Overseas Equities – 30%

3M	YTD	1Y	2Y	3Y	5Y	9Y
1.6%	-1.3%	-3.0%	1.0%	9.2%	9.3%	4.1%

### Capital Market Performance (as of June 30, 2016)

	3M	YTD	1Y	2Y	3Y	5Y	9Y
Cash (FTSE TMX Canada 91 Day T-Bill Index)	0.1%	0.3%	0.5%	0.7%	0.8%	0.9%	1.3%
Cdn Bonds (FTSE TMX Canada Universe Bond Index)	2.6%	4.0%	5.2%	5.7%	5.6%	5.2%	5.7%
Cdn Stocks (S&P/TSX Composite Index)	5.1%	9.8%	-0.2%	-0.7%	8.3%	4.2%	3.1%
Cdn Small Cap Stocks (BMO Small Cap Index)	14.7%	23.5%	5.5%	-5.1%	7.0%	1.0%	1.9%
U.S. Stocks (S&P 500 Index \$Cdn)	2.8%	-2.4%	8.5%	16.7%	19.9%	19.0%	8.5%
Global Stocks (MSCI World Index \$Cdn)	1.5%	-5.1%	2.0%	10.2%	15.5%	13.8%	5.4%

\*The referenced portfolios are hypothetical portfolios comprised of Steadyhand funds. Each portfolio assumes that it is rebalanced on a quarterly basis to the target fund allocation. The indicated rates of return are the historical compound annualized returns (unaudited). See the back page of this report for performance disclaimers. For further details on the portfolios, visit [steadyhand.com](http://steadyhand.com).

# Founders Fund

## Fund Overview

- The Founders Fund is a balanced mix of our fixed income and equity funds.
- It has a long-term asset mix target of 60% equities and 40% fixed income, although there’s considerable scope to adjust these weightings.
- Tom Bradley manages the fund, and as such, it reflects his views on valuations, corporate fundamentals and asset mix.

## Portfolio Specifics

- The fund’s preference for foreign stocks (33%) was a headwind. Global markets were troubled by negative interest rates (in Europe and Japan), slower economic growth, and the move by British voters to leave the European Union.
- Our Global Equity Fund, which makes up 23% of the portfolio, was a detractor to performance in the quarter (the fund was down 0.4%). That said, we still feel foreign stocks are more attractive from a valuation perspective.
- At home, Canadian stocks rose on the back of higher prices for energy and precious metals. The fund has only limited exposure to mining-related companies given their inherent volatility, however it benefited from its energy-related holdings.
- The fund’s Canadian equity exposure (27%) includes a mix of income-oriented securities (Income Fund), high-quality companies with growing dividends (Equity Fund), and smaller companies with higher growth profiles (Small-Cap Fund).
- As equity markets fell through the first six weeks of 2016, we took the opportunity to increase our exposure to stocks. However, prices rebounded just as dramatically and by May, stock values were once again in-line with long-term averages. We took this opportunity to bring back our equity exposure closer to its long-term target (60%).
- The fund’s cash level increased over the quarter, and remains higher than normal. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 16% of total assets. Cash and short-term securities offer little in the way of yield, but provide protection against rising interest rates and are a ready source of liquidity in volatile markets.
- We have long been of the view that near-zero interest rates are unsustainable. As a result, the fund’s bond allocation (24%) continues to be well below the long-term target of 35%. Fixed income investments are focused in corporate and provincial government securities.

## Positioning

- Refer to pages 7-15 for details on the underlying funds.

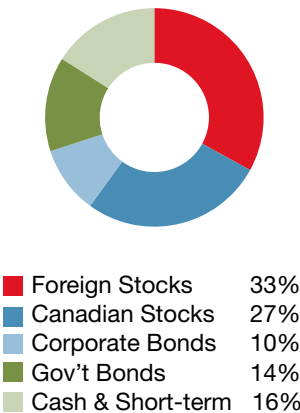
The fund was up 1.7% in the quarter. Since inception (Feb 2012), it has a cumulative return of 39%, which equates to an annualized return of 7.8%.

### Fund Mix

Income	32%
Equity	25%
Global	23%
Savings	12%
Small-Cap	7%



### Asset Mix



Fund size     \$272,672,749



## Founders Fund

### Attributes

#### Top Stock Holdings (% of Fund)

Novartis	1.8%
Suncor Energy	1.7%
TD Bank	1.6%
Loblaw Companies	1.4%
CVS Health	1.4%
Visa	1.3%
CN Rail	1.2%
CCL Industries	1.2%
PrairieSky Royalty	1.1%
Novozymes	1.1%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	21.1%
Financial Services	19.6%
Oil & Gas	11.9%
Healthcare	8.9%
Retailing	7.8%
Consumer Cyclical	7.4%
Technology	5.9%
Basic Materials	4.4%
Consumer Products	4.0%
Comm. & Media	3.7%
Real Estate	3.0%
Utilities & Pipelines	2.3%

#### Asset Mix

Long-term		Current
12.5%	Overseas Stocks	22%
12.5%	U.S. Stocks	11%
35%	Canadian Stocks	27%
35%	Bonds	24%
5%	Cash	16%

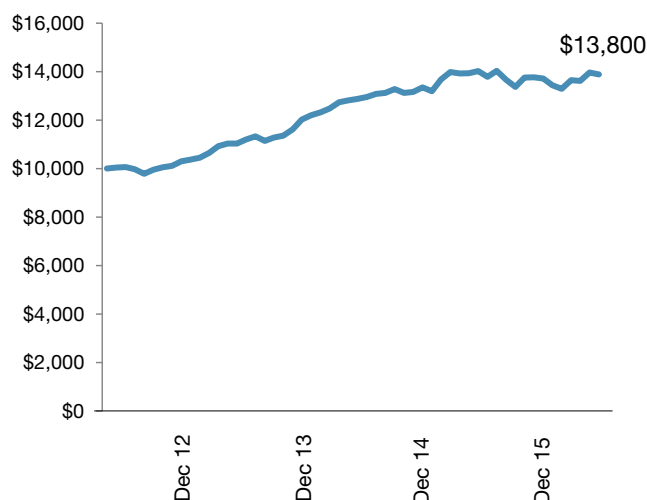
### Performance

#### Compound Annualized Returns (as of June 30, 2016)

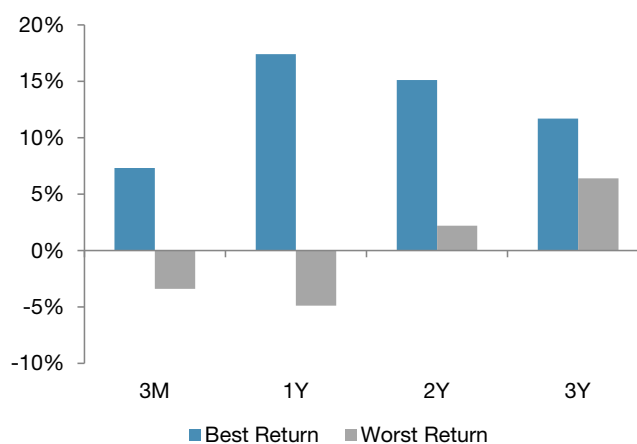
	3M	YTD	1Y	2Y	3Y	5Y	9Y	Incep*
<b>Founders Fund (after-fee)</b>	<b>1.7%</b>	<b>1.2%</b>	<b>0.7%</b>	<b>3.0%</b>	<b>7.6%</b>	<b>N/A</b>	<b>N/A</b>	<b>7.8%</b>
FTSE TMX Canada Universe Bond Index	2.6%	4.0%	5.2%	5.7%	5.6%	N/A	N/A	4.3%
S&P/TSX Composite Index	5.1%	9.8%	-0.2%	-0.7%	8.3%	N/A	N/A	6.0%
MSCI World Index (\$Cdn)	1.5%	-5.1%	2.0%	10.2%	15.5%	N/A	N/A	15.6%

\*Feb 17, 2012

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Income Fund

### Market Context

- The Canadian bond market rose 2.6% in the quarter (interest and capital appreciation).
- Bond yields declined, with the 10-year Government of Canada yield falling from 1.2% to 1.1%. This was a positive for investors, as bond prices rise when yields fall.
- The Canadian stock market gained 5.1%. Resource stocks were a key area of strength, although utilities and telecom stocks also performed well.

The fund was up 3.0% in the quarter. Since inception (Feb 2007), it has a cumulative return of 79%, which equates to an annualized return of 6.4%.

### Portfolio Specifics

- The fund benefited in the quarter and year-to-date from both falling bond yields and rising Canadian stock prices. The manager, Connor, Clark & Lunn (CC&L), favours bonds with 7-10 year maturities ('mid-term' bonds). These bonds rose in value in the quarter, but not to the same extent as longer-term bonds, where yields fell even further.
- CC&L's outlook has become increasingly cautious. Reflective of this, they reduced the fund's corporate and high yield bond holdings and increased its weighting in Government of Canada bonds. Despite their lower yields, federal bonds are a valued source of safety for investors and are highly liquid (easy to sell). These securities comprise 19% of the fund, while provincial bonds make up 26% and corporate bonds 29% (of which 5% are high yield bonds).
- Along with trimming the fund's overall exposure to high yield bonds, the manager has taken further defensive steps by placing a greater emphasis on higher-rated bonds in the high yield sector (examples include CONSTELLATION BRANDS and VIDEOTRON).
- The fund's equity holdings (26% of the portfolio) were up 5% in the quarter. Key areas of investment include banks, insurers, real estate investment trusts (REITs) and consumer stocks. A major theme in the fund's equity strategy continues to be exposure to high-quality companies with growing dividends. Gold and mining stocks are thus avoided - this held back performance in the quarter but has provided solid, less volatile returns over time.
- The fund paid a distribution of \$0.045/unit at the end of June. The amount was reduced, from \$0.07/unit, as a reflection of how bond yields have continued to fall. With interest rates as low as they are, investors should expect a more modest stream of income from bonds.

### Stock Transactions

#### Buy

ARC Resources\*  
Suncor Energy\*  
Algonquin Power & Utilities

#### Sell

Cardinal Energy  
Cogeco Communications  
Tricon Capital Group

\*New Holding

### Positioning

- The manager expects interest rates to remain low and favours bonds with mid-term maturities. Emphasis remains on corporate and provincial bonds, and the manager has taken defensive steps of late by increasing exposure to high-quality securities.
- Stocks make up one-quarter of the portfolio and high yield bonds comprise 5%. Both asset classes provide diversification and an additional source of yield.

Fund size	\$94,974,868
Pre-fee Yield	2.5%
Avg Term to Maturity	9.5 yrs
Duration	7.2 yrs



## Income Fund

### Attributes

#### Top Holdings (% of Fund)

CC&L High Yield Bond Fd	5.0%
CHT 2.00% (12/15/19)	4.8%
Canada 3.50% (12/01/45)	4.7%
Ontario 2.40% (06/02/26)	4.1%
Ontario 3.50% (06/02/24)	3.4%
Quebec 2.75% (09/01/25)	2.9%
Ontario 3.15% (06/02/22)	2.7%
Canada 5.00% (06/01/37)	2.1%
Canada 1.75% (09/01/19)	2.0%
TD Bank	1.9%

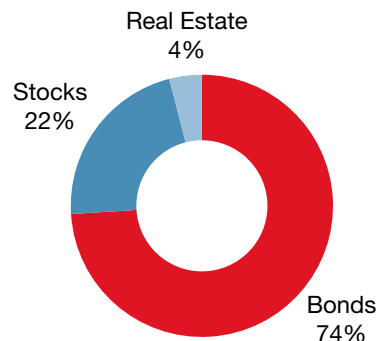
#### Issuer Allocation (Bonds)

Federal Government	25.5%
Provincial Government	35.3%
Corporate	39.2%

#### Rating Summary (Bonds)

AAA	29.9%
AA	30.2%
A	23.5%
BBB	11.8%
BB (or lower)	4.6%

#### Asset Mix



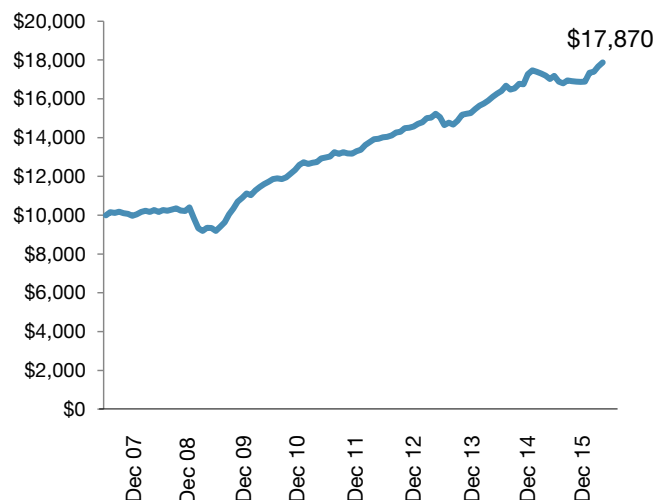
### Performance

#### Compound Annualized Returns (as of June 30, 2016)

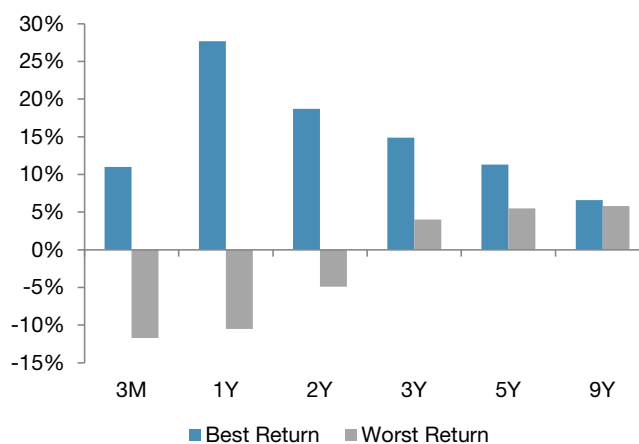
	3M	YTD	1Y	2Y	3Y	5Y	9Y	Incep*
<b>Income Fund (after-fee)</b>	<b>3.0%</b>	<b>5.8%</b>	<b>5.0%</b>	<b>4.8%</b>	<b>6.8%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.4%</b>
FTSE TMX Canada Universe Bond Index	2.6%	4.0%	5.2%	5.7%	5.6%	5.2%	5.7%	5.4%
S&P/TSX Composite Index	5.1%	9.8%	-0.2%	-0.7%	8.3%	4.2%	3.1%	3.8%

\*Feb 13, 2007

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns





# Equity Fund

## Market Context

- The Canadian stock market (S&P/TSX Composite Index) gained 5.1% in the quarter. Mining and oil & gas stocks were the standouts, while industrial and bank stocks saw modest gains. The healthcare sector was the main laggard.
- Global stocks, as measured by the MSCI World Index, gained 1.5% in Canadian dollar terms. Volatility was more pronounced than the gain suggests, however, stemming in part from the U.K.'s decision to leave the European Union.

The fund gained 1.5% in the quarter. Since inception (Feb 2007), it has a cumulative return of 73%, which equates to an annualized return of 6.0%.

## Portfolio Specifics

- The fund holds 25 stocks, of which 14 are headquartered in Canada, 6 in the U.S., 4 overseas and 1 in Mexico.
- The fund's Canadian investments drove performance in the quarter. Specifically, RITCHIE BROTHERS AUCTIONEERS and FRANCO-NEVADA were strong performers. RITCHIE BROS. is an auctioneer of heavy machinery. It benefited from rising resource prices, which increased the expected demand for its services. The overall rise in commodity prices also spurred FRANCO-NEVADA, a gold-focused royalty company.
- Another key contributor was NOVARTIS. After declining at the start of the year, the stock rebounded strongly in the second quarter. While issues with its eye care division (Alcon) persist, the company's other units are producing strong results.
- The prospect of slow economic growth and uncertainty in Europe led investors to question the prospects for auto sales. This hurt MAGNA INTERNATIONAL's share price, a leading auto parts manufacturer. While the manager, CGOV Asset Management, acknowledges these issues may limit growth in the near term, its long-term outlook for MAGNA allows it to see past these concerns. CGOV added to the stock in the quarter. CN RAIL and CCL INDUSTRIES also detracted from performance in the quarter.
- Overall, CGOV sees limited opportunities in the market. Companies with sustainable competitive advantages and low levels of debt remain expensive, even with the recent turmoil in the market caused by the Brexit vote. The manager's focus is on maintaining a portfolio of high-quality names. As well, stocks such as CBOE HOLDINGS (the creator of the VIX Volatility Index) and FRANCO-NEVADA (gold) provide the portfolio with some protection from uncertainty.
- The fund currently has a cash position of 2%.

### Transactions

#### Buy

Magna International  
CBOE Holdings  
Starbucks

#### Sell

Ritchie Bros. Auctioneers  
Franco-Nevada  
TD Bank

## Positioning

- Focus remains on best-in-class companies with leading market positions across a broad range of industries.
- Foreign stocks remain a key part of the fund, providing exposure to multinational companies not available in Canada in the healthcare, retailing and consumer sectors.

Fund size	\$76,343,401
No. of stocks	25



## Equity Fund

### Attributes

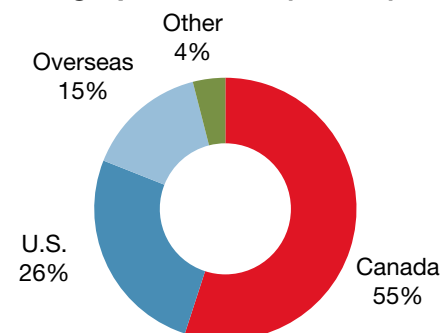
#### Top Stock Holdings

Suncor Energy	6.1%
CVS Health	5.2%
Visa	5.2%
CCL Industries	4.7%
PrairieSky Royalty	4.3%
Novozymes	4.3%
Ecolab	4.2%
Novartis	4.2%
Franco-Nevada	4.2%
TD Bank	3.9%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	31.4%
Financial Services	18.8%
Oil & Gas	13.4%
Retailing	12.9%
Basic Materials	8.2%
Consumer Products	7.1%
Healthcare	4.3%
Consumer Cyclical	3.9%

#### Geographic Profile (Stocks)



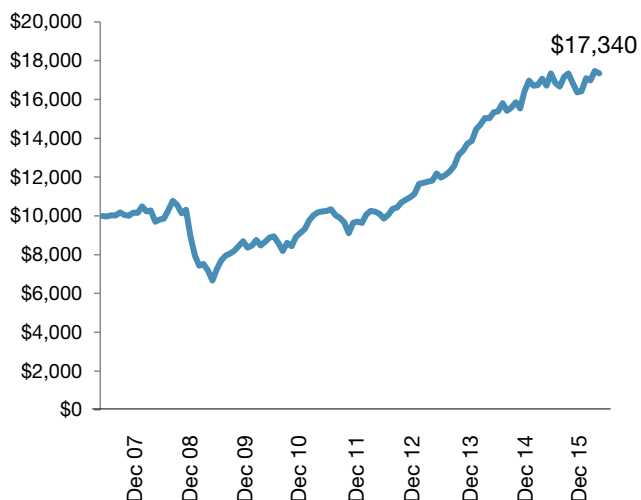
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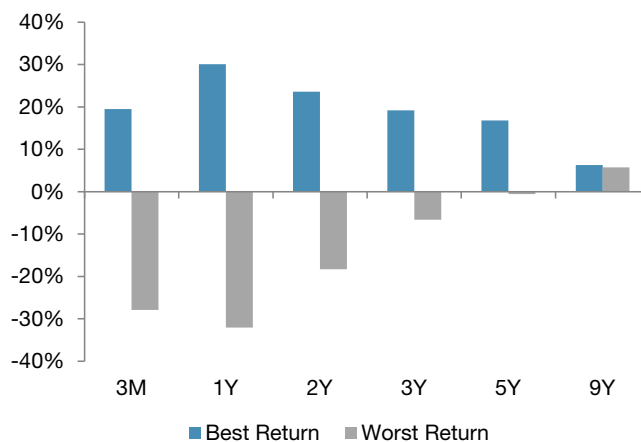
	3M	YTD	1Y	2Y	3Y	5Y	9Y	Incep*
<b>Equity Fund (after-fee)</b>	<b>1.5%</b>	<b>3.1%</b>	<b>3.8%</b>	<b>6.3%</b>	<b>13.1%</b>	<b>11.6%</b>	<b>6.3%</b>	<b>6.0%</b>
S&P/TSX Composite Index	5.1%	9.8%	-0.2%	-0.7%	8.3%	4.2%	3.1%	3.8%
MSCI World Index (\$Cdn)	1.5%	-5.1%	2.0%	10.2%	15.5%	13.8%	5.4%	4.9%

\*Feb 13, 2007

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Global Equity Fund

### Market Context

- The U.K.'s decision in late June to leave the European Union initially jolted markets around the globe, but many stocks bounced back in the days following. Losses have thus far been concentrated in the banking sector.
- The MSCI World Index was up 1.5% in Canadian dollar terms in the quarter.
- Currencies were highly volatile in the days following 'Brexit'. The Canadian dollar had a strong quarter against the British Pound (+7%) and Euro (+2%), but depreciated against the Yen (-9%) and was unchanged against the U.S. dollar.

The fund was down 0.4% in the quarter. Since inception (Feb 2007), it has a cumulative return of 10%, which equates to an annualized return of 1.0%.

### Portfolio Specifics

- The fund holds 40 stocks across 13 countries. European stocks (including the U.K.) make up 42% of the fund, while Asia accounts for 39% and the U.S. 19%.
- The portfolio was showing good signs of recovery in May but felt the impact of the Brexit decision in late June. Notably, British and European banks sold off sharply, with several stocks sliding 25% or more. Financial services companies represent the largest exposure in the portfolio by industry (21% of the fund), and their share price declines had the greatest impact on performance in the quarter.
- While European banks are out-of-favour, they are among the cheapest stocks in the fund - many trade at half their book value. Their declines have been hard to stomach, but the manager, Edinburgh Partners (EPL), believes the sell-off is overdone and sees compelling upside potential in several stocks.
- EPL has been increasing the fund's investments in healthcare companies in recent months (SANOFI and CELGENE are new additions this year) and stocks in the sector now make up nearly 20% of the portfolio. The positioning isn't so much for defensive reasons (healthcare stocks are often favoured in uncertain times because their products and services are essential), but rather because EPL feels the drug pipelines, valuations and earnings potential of many companies are under appreciated.
- Japanese stocks have had a tough year. In particular, the strong Yen is hurting export companies. Yet, EPL has confidence in the longer-term prospects of the fund's holdings in Japan, which remains the portfolio's largest single area of investment.
- A bright spot of late has been energy stocks. SHELL and BP have regained some lost ground as the price of oil has rebounded 30% this year. As well, APACHE, purchased last summer, is proving to be a timely addition to the portfolio.
- The fund currently has a cash position of 6%.

### Transactions

#### Buy

Sanofi\*  
Tesco\*  
Takashimaya\*  
Novartis

#### Sell

KDDI  
PerkinElmer  
Japan Tobacco

\*New Holding

### Positioning

- Investments are focused in large-cap value stocks in Europe and Asia. These stocks have been out-of-favour for quite some time. As such, they have more upside potential than their U.S. counterparts, which look increasingly expensive.

Fund size	\$57,046,735
No. of stocks	40



## Global Equity Fund

### Attributes

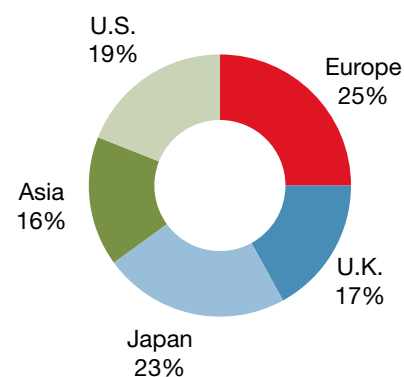
#### Top Stock Holdings

Shell	3.8%
Novartis	3.2%
BP	3.1%
AstraZeneca	3.0%
Roche	3.0%
Apache	2.8%
Swire Pacific	2.7%
NTT	2.7%
Panasonic	2.6%
Nokia	2.5%

#### Sector Allocation (Stocks)

Financial Services	21.3%
Healthcare	19.4%
Consumer Cyclical	16.8%
Technology	11.5%
Oil & Gas	10.4%
Comm. & Media	7.1%
Industrial Goods & Svc	6.8%
Retailing	4.2%
Consumer Products	2.5%

#### Geographic Profile (Stocks)



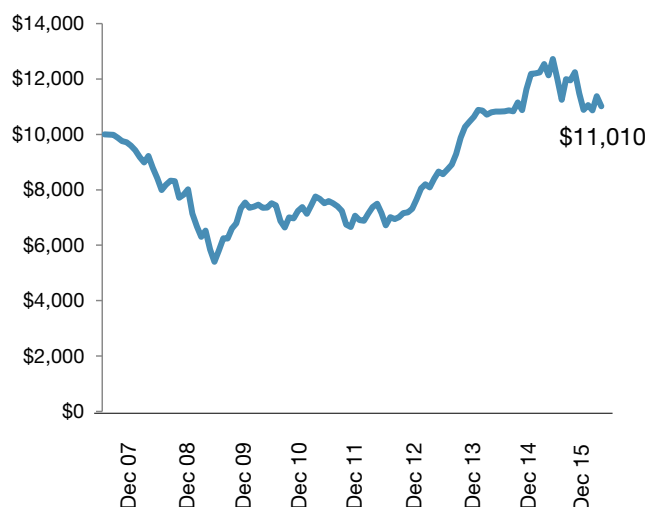
### Performance

#### Compound Annualized Returns (as of June 30, 2016)

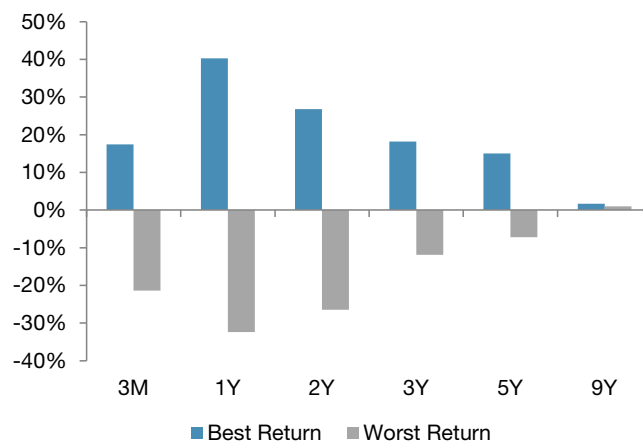
	3M	YTD	1Y	2Y	3Y	5Y	9Y	Incep*
<b>Global Equity Fund (after-fee)</b>	<b>-0.4%</b>	<b>-10.0%</b>	<b>-9.2%</b>	<b>0.9%</b>	<b>8.8%</b>	<b>8.3%</b>	<b>1.4%</b>	<b>1.0%</b>
MSCI World Index (\$Cdn)	1.5%	-5.1%	2.0%	10.2%	15.5%	13.8%	5.4%	4.9%

\*Feb 13, 2007

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



# Small-Cap Equity Fund

## Market Context

- The Canadian small-cap market (BMO Small Cap Index) rose 14.7% in the quarter.
- Resource stocks fueled the index’s rise. Gold stocks in particular had a strong quarter, with the sector gaining 45%. Energy stocks also turned in impressive gains.

## Portfolio Specifics

- The fund holds 16 stocks, with market capitalizations ranging from \$230 million (DIRECTCASH PAYMENTS) to \$3 billion (MACDONALD DETTWILER). Ten of the 16 holdings are under \$1 billion. Fourteen are Canadian and two are American.
- Mining companies across Canada had a strong showing in the quarter. The fund benefited from the rise in precious metals prices through its holdings in NEW GOLD and PRIMERO MINING, though not to the same extent as the broader small-cap market which is heavily concentrated in this sector. The manager, Wil Wutherich, invests in companies that can consistently grow their revenues and have good balance sheets. His analysis shows that most mining companies don’t meet these criteria.
- The price of oil gained 25% and the fund’s energy holdings got a boost as a result. Companies directly involved in drilling and servicing activities gained ground (GRAN TIERRA ENERGY, TOTAL ENERGY SERVICES), as did businesses that derive revenues from the sector (PURE TECHNOLOGIES).
- ENSIGN ENERGY SERVICES was added to the portfolio. ENSIGN is one of the largest oil drillers in Canada and has operations across the globe. Wutherich knows the firm’s management well and believes the company is a survivor and will come out of this energy cycle in a good position to succeed. A 6% dividend yield helps too.
- Outside the resource sector, most of the fund’s investments have been reporting solid operating results. A few positions were increased, including MACDONALD DETTWILER and AVIGILON. The latter stock had a weak quarter, marking a good buying opportunity in the manager’s view.
- TRANSGLOBE ENERGY was sold. A lack of stability in Egypt – where its activities are focused – led to the decision to exit the stock. Much of the position in MEDICAL FACILITIES was also sold, as the stock has had a good run and now looks expensive.
- The fund currently has a cash position of 12%.

## Positioning

- The manager is finding the best value in industrial, resource and technology companies, which is where the majority of the fund’s assets are invested.
- Focus is on businesses that have demonstrated an ability to consistently generate profits and are in strong financial shape. Where debt has become a concern, stocks have been removed from the portfolio.

The fund was up 5.9% in the quarter. Since inception (Feb 2007), it has a cumulative return of 75%, which equates to an annualized return of 6.2%.

### Transactions

- Buy
- Avigilon
  - MacDonald Dettwiler
  - Primero Mining
- Sell
- TransGlobe Energy
  - Medical Facilities

Fund size	\$44,550,002
No. of stocks	16



## Small-Cap Equity Fund

### Attributes

#### Top Stock Holdings\*

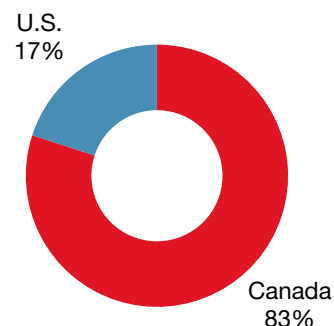
CBIZ	8.8%
ZCL Composites	7.2%
Stantec	7.1%
Medical Facilities	7.0%
DirectCash Payments	6.7%
Avigilon	6.6%
MacDonald Dettwiler	6.4%
Pure Technologies	6.4%
Hibbett Sports	5.7%
Total Energy Services	5.2%

\*As of April 30

#### Sector Allocation (Stocks)

Industrial Goods & Svc	38.3%
Oil & Gas	18.1%
Technology	16.8%
Basic Materials	10.1%
Financial Services	7.8%
Retailing	6.5%
Healthcare	2.4%

#### Geographic Profile (Stocks)



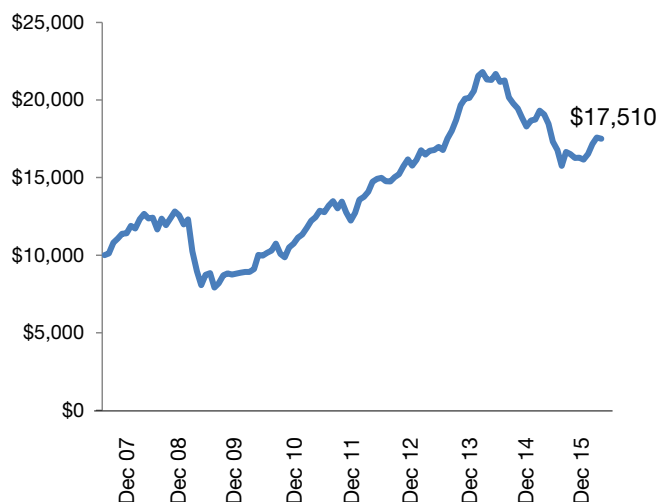
### Performance

#### Compound Annualized Returns (as of June 30, 2016)

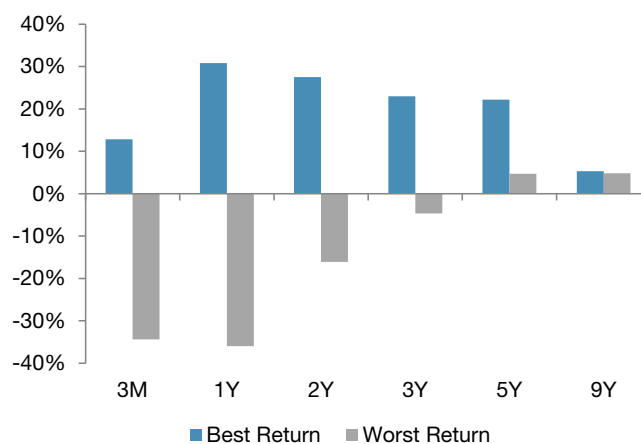
	3M	YTD	1Y	2Y	3Y	5Y	9Y	Incep*
<b>Small-Cap Equity Fund (after-fee)</b>	<b>5.9%</b>	<b>7.6%</b>	<b>-5.2%</b>	<b>-10.1%</b>	<b>1.4%</b>	<b>6.1%</b>	<b>4.9%</b>	<b>6.2%</b>
BMO Small Cap Index	14.7%	23.5%	5.5%	-5.1%	7.0%	1.0%	1.9%	2.8%

\*Feb 13, 2007

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Savings Fund

### Market Context

- The Bank of Canada left its key lending rate unchanged in the quarter, at 0.5%.
- Global economic growth has been soft. In Canada, business investment remains disappointing and growth has been impacted by the Alberta wildfires. The economy is expected to rebound later in the year, however, as oil production resumes and reconstruction efforts take shape.

### Positioning

- The weighting in corporate paper was reduced, while investments in bank paper were increased. The move was undertaken to ensure the fund has ample liquidity. Government securities continue to be focused in provincial rather than federal T-Bills.
- The manager, Connor, Clark & Lunn, expects the Bank of Canada to remain vigilant in maintaining its low interest rate policy, and the portfolio will remain positioned to take advantage of potential further monetary easing.
- The pre-fee yield of the fund at the end of June was 0.8%.

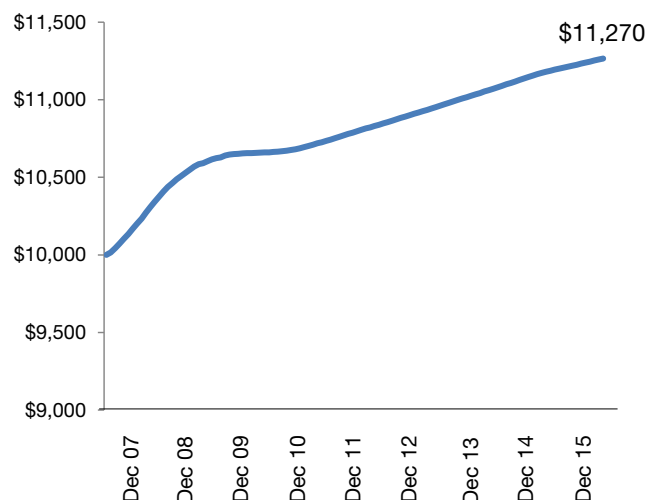
## Performance

### Compound Annualized Returns (as of June 30, 2016)

	3M	YTD	1Y	2Y	3Y	5Y	9Y	Incep*
<b>Savings Fund (after-fee)</b>	<b>0.2%</b>	<b>0.4%</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.2%</b>	<b>1.3%</b>
FTSE TMX Canada 91 Day T-Bill Index	0.1%	0.3%	0.5%	0.7%	0.8%	0.9%	1.3%	1.4%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception



### Best and Worst Annualized Returns



## Stock Snapshot



### Overview

Many people encounter CCL Industries every day without ever knowing it. That candy bar you're going to pretend you didn't eat – CCL may have created the label for it. The aerosol container holding the shaving cream you used earlier – it may have made that too.

CCL Industries is one of the largest specialty label and packaging companies in the world. Its clients include Procter & Gamble, Unilever, Colgate, Heineken, Novartis and Tim Hortons. The company is broken up into three divisions: (1) the Label division represents two-thirds of the company's sales and makes decorative and functional labels; (2) the Avery division offers software for small businesses to make and print their own labels, and represents 25% of sales; and (3) the Container division makes aerosol containers and bottles and produces 8% of sales.

Though headquartered in Toronto, this is truly a global organization. 96% of CCL's revenues come from outside our borders. It employs more than 13,000 people in 119 facilities across North America, Latin America, Europe, Australia, Asia and the Middle East.

The stock is held in our Equity Fund (4.7% position size).

### Investment Case

The packaging industry is comprised of some large players like CCL and many smaller players. Smaller packagers are likely to face hurdles from increasingly strict client requirements. With its strong balance sheet, abundant cash flows, and global presence, CCL has the ability to buy smaller players around the globe.

The company also continues to broaden its product shelf. For example, its Container division is the smallest

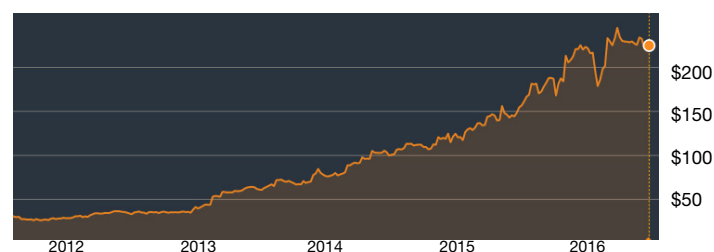
part of its business, but continues to gain market share. Not only have the revenues grown, but so have margins. The company's management deserves credit for this. It has exhibited an ability to grow cash flow through acquisitions, expanding production facilities, and when needed, tightening the belt.

### Risks to Outlook

In a consolidating industry, there is the risk that a company pays too much for an acquisition or buys something that doesn't pan out according to plan. Though CCL's management has so far been disciplined, increased competition for acquisitions can create extra pressure on management to make a poor decision.

*An interesting fact:* Stuart Lang, who previously led the Label division, and continues to sit on the board of directors, had a successful career in the CFL with the Edmonton Eskimos. He helped the team to five Grey Cups.

CCL Industries: Price History



Source: Bloomberg



## Brexit: What it means and what we're doing

Wow! For a vote that was expected to be close, the result of the U.K.'s Brexit referendum has been a jolt to the capital markets. Stock markets are down everywhere, currencies are volatile and headlines are frantic.

Obviously, we're on high alert. As things develop in the days and weeks to come, we'll provide further updates, but we can say a few things at this point.

### Stating the obvious

It's complicated. Indeed, it's always complicated, but all the economic and market dynamics are amped up at times like this. And there are many pieces to the puzzle - currencies, stock prices, bond yields, credit spreads, liquidity and central bank actions. As a result, we have to keep in mind that the quality of information is very low. We shouldn't read too much into any one pronouncement or price move.

Also, it's worth pointing out that some of the stock market declines at this point simply represent a retracement of last week's gains, when Mr. Market clearly thought the 'Stay' side was going to win.

### Short-term impact

It's too early to assess what the short-term impact will be on our clients' portfolios. They will be down today with the stock markets, but there are some buffers built in - i.e. holdings in cash and bonds, and exposure to stronger currencies such as the Yen and U.S. dollar. As I noted above, it's hard to predict all the interactions.

### Medium-term impact

The biggest impact Brexit will have comes from the uncertainty it creates. A few years from now, the U.K. and Europe will have adapted to their new relationship, as will the rest of the world. But in the meantime, nobody knows how the next two years are going to play out, or who the key players will be.

### Long-term impact

Brexit only modestly impacts the long-term value of the companies we own. Some will be negatively affected for sure (the U.K. and European banks come to mind), but some will be able to take advantage of the dislocation. And we can't forget, there are many other factors driving asset

prices, including the U.S. and Chinese economies, energy prices, demographics and technology adoption.

### Unfortunate timing

Nonetheless, the timing of this political change is unfortunate. The U.K. economy is still fragile and many of the European countries are just starting to grow again. Prior to the vote, it was my view that Europe would be a big part of the world's economic growth going forward - i.e. the second largest economy in the world starting to grow.

### Our managers have been through this before

At Steadyhand, our managers will do most of the navigating through this. At this point, we have no indications of what changes they might make, and we'll mostly stay out of their way until things settle down a little. All other things being equal (which they're not ... it's complicated ...), however, we will likely be a buyer in the coming days. Our managers have been through this before and know that when everything is down, their set of opportunities expands tremendously.

### The Founders Fund

In the Founders Fund, we reduced the equity weighting over the last couple of weeks. At the beginning of the day, stocks accounted for 61% of total assets, while the cash reserve was up to 15%. Needless to say, we have some ammunition with which to pursue opportunities as our managers identify them.

Our advice to clients today is similar to what's served them well over the past nine years: stick to your strategic asset mix (SAM) and if you're going to do anything in response to Brexit, rebalance back to your SAM. This is the time when you need to lean on your plan the most.

# Steadyhand



## Webinar: Mid-year review

We're hosting a webinar on **Thursday, July 14**, at 1:00pm EST, where we'll review the first half of 2016 and the key events that have driven markets. We'll also provide an update on the positioning of the Founders Fund and our advice to clients. Visit our website to register.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The performance data provided for the Steadyhand Savings Fund assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The indicated rates of return for the funds other than the Savings Fund are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the funds will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the funds will be returned to you. Past performance may not be repeated.

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