Quarterly Report

Steadyhand
10 YEARS

Q3
2017

"When there's nothing clever to do, it's a mistake to try to be clever."

- Howard Marks, Oaktree Capital Management

Bradley's Brief

As I said in my Jerry Lee Lewis blog, there's been a whole lotta shakin' goin' on in the news and markets. I'm referring to rising interest rates, strong economic growth, NAFTA negotiations, tax reform, weather-related disasters, North Korea, Brexit, the loonie, and, of course, Trump tweets.

In the scheme of what we're trying to do for you, however, most of the shakin' is just background noise (sorry Jerry Lee). Indeed, as the quote on the cover is meant to indicate, there's very little new at Steadyhand this quarter.

I'm well aware that our inaction makes it hard for Scott, Salman and I to write this report, but if the facts haven't changed, and our managers' views haven't changed, we don't see why the strategy should change. As you'll see in the following pages, we're patiently letting things play out and it's been working.

But before you think I'm being dismissive of the news, I want to address the issues that we're focusing on.

Interest rates – Short and long-term rates have gone up, and as a result, bond prices have come down. This means that bonds' attractiveness relative to stocks and cash has improved, especially as stocks have continued to rise. This is a positive change, but not yet enough to make us shift our asset allocation. Yields are still unappetizing. We prefer to have a minimum weighting in bonds.

Canadian dollar – Our dollar has been strong compared to the greenback for two reasons. First, our interest rates have increased more than U.S. rates. They're still lower, but the spread has narrowed significantly. And second, Canada's economic numbers have been good. Now, a stronger dollar has all kinds of implications, but one of the most direct is that it makes foreign investments more affordable. You'll notice in the following pages that most of the companies purchased in the third quarter were from outside Canada.

While Trump, North Korea and Brexit are worrying all of us, it's a less newsworthy factor that's most influencing our strategy – valuation (or what I refer to as 'starting point' in our feature article on page 17). Our biggest problem right now is that we're not being compensated appropriately for taking risk. Risk is our life blood. It's what we manage for you. But today bond yields are skinny and we're paying a high price for a share of the profits when we buy a stock.

Current valuations point to more modest returns in the medium term (3-5 years). Therefore, we're maintaining a cautious stance towards the kinds of companies we own (higher quality) and the level of risky assets we hold in your portfolio (i.e. less high yield bonds and stocks). To be clear, scary news and high valuations don't mean stock markets can't go up over the next year or two. It may take time for rates and stock valuations to normalize, or maybe, just maybe, our managers, Salman and I are wrong in our assessment of return and risk.

To finish, I want you to know that not all of us are sitting around doing nothing. While we've been quiet on the investment side, the rest of the Steadyhand team has been super busy. The usual summer slowdown never came. Calls. Portfolio reviews. New clients. As David likes to say, "we've been providing gobs and gobs of advice". Advice that may not be particularly clever, but is steady, long term and definitely has the volume turned down.

Key Takeaways

Stocks

- Stocks had a positive quarter. Generally speaking, energy, technology and financial stocks performed well, while consumer staples stocks lagged.
- The Canadian market (S&P/TSX Composite Index) rose 3.7%. The energy sector was the best-performing sector as oil prices recovered to the $50/barrel level.
- Foreign stocks climbed higher for the most part, with emerging markets turning in the strongest gains. The MSCI World Index gained 0.9% in Canadian dollar terms. A stronger Canadian dollar detracted from the returns of U.S. and Japanese stocks in particular.

Market Returns

	3M	1Y
Canada	3.7%	9.2%
World	0.9%	13.1%

Bonds

- The Canadian bond market (FTSE TMX Canada Universe Bond Index) provided a total return (interest and capital appreciation) of -1.8% in the quarter.
- The bond market declined as both short and longer-term yields rose (when yields rise, prices typically fall). The Bank of Canada increased its key short-term lending rate twice in the quarter, by 0.25% each time.
- The 10-year Government of Canada bond yield rose by nearly 0.4% to finish the quarter at 2.1%, its highest level in three years.

	3M	1Y
Bonds	-1.8%	-3.0%

Our Funds

- Our equity funds all had a positive quarter, with the Small-Cap Fund leading the way, while the Income Fund declined. Balanced clients experienced returns in the range of 0% to 1%. Over the past 10 years, the range is 5% to 6% per year.
- The stock weighting in the Founders Fund remained below normal, at the 56% to 57% level, as we feel valuations remain expensive. The fund continues to hold a lower weighting in bonds and more cash than normal.
- Our foreign stock exposure has a tilt towards Europe and Asia, rather than the U.S.
- In the context of our balanced portfolios, key transactions in the quarter included the purchase of KEYENCE (Japan), SHANGHAI FOSUN PHARMACEUTICAL GROUP (China) and FLUOR CORPORATION (U.S.), and the sale of MARTINREA INTERNATIONAL (Canada).

Fund Returns

	3M	1Y
Savings	0.2%	0.7%
Income	-1.1%	-1.0%
Founders	0.9%	6.7%
Equity	2.8%	10.8%
Global	2.0%	17.8%
Small-Cap	3.6%	11.6%

Our Advice to Clients

We recommend that your equity weighting be no higher than your long-term target. In the Founders Fund, our equity exposure is modestly below its goal of 60%. Our outlook for bonds remains subdued as current yields are unattractive. As a result, we continue to recommend a below-average position in bonds. As an alternative, we suggest a healthy cash holding. In the Founders Fund, for example, 19% of the portfolio is currently held in cash.

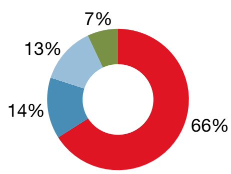
For our thoughts on asset mix and the advice we're giving clients, visit the Current Outlook page on our website, or give us a call at 1.888.888.3147.

Steadyhand Portfolios (Hypothetical)*

Compound Annualized Returns (as of September 30, 2017)

Income Fund
Equity Fund
Global Equity Fund
Small-Cap Equity Fund

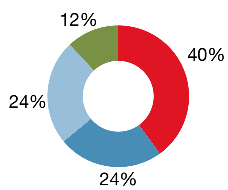
Balanced Income Portfolio (50/50)



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

3M	YTD	1Y	2Y	3Y	5Y	10Y
0.2%	3.3%	3.8%	6.0%	4.4%	7.0%	5.9%

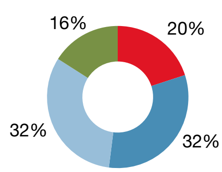
Balanced Equity Portfolio (70/30)



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

3M	YTD	1Y	2Y	3Y	5Y	10Y
1.2%	5.3%	7.7%	7.9%	5.5%	9.0%	5.8%

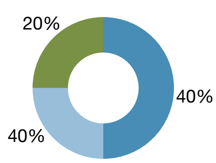
Growth Portfolio (85/15)



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

3M	YTD	1Y	2Y	3Y	5Y	10Y
1.9%	6.9%	10.7%	9.4%	6.3%	10.5%	5.7%

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	10Y
2.7%	8.5%	13.7%	10.8%	7.0%	12.1%	5.5%

Capital Market Performance (as of September 30, 2017)

	3M	YTD	1Y	2Y	3Y	5Y	10Y
Cash (FTSE TMX Canada 91 Day T-Bill Index)	0.1%	0.3%	0.5%	0.5%	0.6%	0.7%	1.1%
Cdn Bonds (FTSE TMX Canada Universe Bond Index)	-1.8%	0.5%	-3.0%	1.6%	2.8%	2.7%	4.7%
Cdn Stocks (S&P/TSX Composite Index)	3.7%	4.4%	9.2%	11.7%	4.5%	8.1%	4.1%
Cdn Small Cap Stocks (S&P/TSX SmallCap Index)	2.4%	-1.9%	1.2%	17.2%	2.5%	3.9%	1.4%
U.S. Stocks (S&P 500 Index $Cdn)	0.5%	6.2%	12.9%	12.9%	14.9%	19.8%	9.9%
Global Stocks (MSCI World Index $Cdn)	0.9%	8.3%	13.1%	11.4%	12.3%	17.1%	7.2%

*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.

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 foreign stocks (29% of the portfolio) have driven performance so far in 2017. Our Global Equity Fund, which makes up 21% of the portfolio, has been the biggest contributor (the fund is up 11.1% year-to-date). The foreign holdings in the Equity Fund and Small-Cap Fund have also performed well.
- In light of the rise in prices, stocks are fully valued again. We gradually reduced the equity weighting over the course of the year from its long-term target of 60% to 57%, and will continue to reduce it further if stocks trend higher.
- The equity holdings are evenly split between foreign and Canadian – a contrast to much of the last five years, when we preferred foreign holdings. The increase in Canadian holdings can be attributed to a greater allocation to the Small-Cap Fund. The fund invests in smaller Canadian companies, many of which haven't kept pace with other markets over the last three years. As a result, it is one of the few areas where there are compelling pockets of opportunity.
- 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 high-quality corporate and provincial government securities.
- A low bond weighting and a reduction in the fund's stocks has led to an increased cash level. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 19% of total assets. On one hand, holding cash instead of stocks has been a negative as stock prices have continued to rise. On the other hand, it has been a positive relative to bonds as bond prices have fallen recently. Further, although cash offers little in the way of yield, it provides protection against rising interest rates and is ready source of liquidity in volatile markets.

Positioning

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

The fund was up 0.9% in the quarter. Since inception (Feb 2012), it has a cumulative return of 53%, which equates to an annualized return of 7.9%.

Fund Mix

Income	34%
Global	21%
Equity	20%
Savings	16%
Small-Cap	9%

Asset Mix

Foreign Stocks	29%
Canadian Stocks	28%
Gov't Bonds	15%
Corporate Bonds	9%
Cash & Short-term	19%

Fund size	$369,732,829

Founders Fund

Attributes

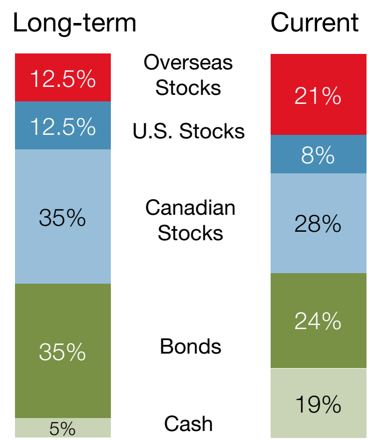
Top Stock Holdings (% of Fund)

TD Bank	1.9%
Novartis	1.5%
Suncor Energy	1.3%
Visa	1.2%
CN Rail	1.1%
CBOE Holdings	1.0%
Loblaw Companies	1.0%
Franco-Nevada	1.0%
Novozymes	0.9%
PrairieSky Royalty	0.9%

Sector Allocation (Stocks)

Financial Services	22.7%
Industrial Goods & Svc	20.8%
Oil & Gas	11.1%
Healthcare	8.7%
Consumer Cyclical	7.6%
Retailing	6.7%
Technology	5.9%
Real Estate	4.0%
Consumer Products	3.7%
Utilities & Pipelines	3.6%
Basic Materials	3.1%
Comm. & Media	2.1%

Asset Mix



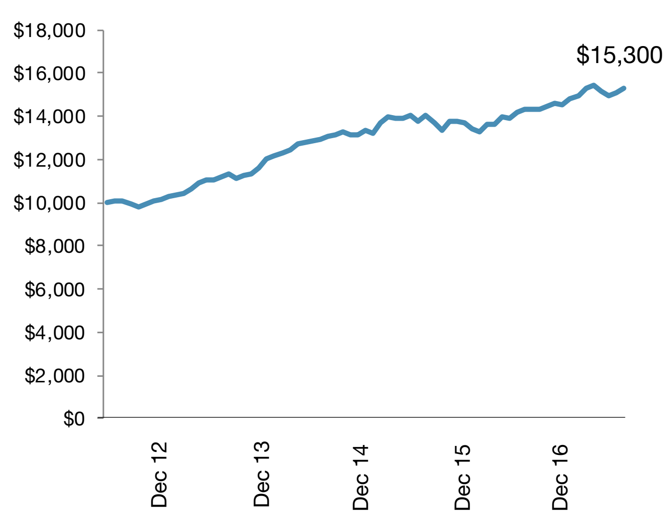
Performance

Compound Annualized Returns (as of September 30, 2017)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Founders Fund (after-fee)	**0.9%**	**4.5%**	**6.7%**	**7.0%**	**5.2%**	**8.2%**	**N/A**	**7.9%**
FTSE TMX Canada Universe Bond Index	-1.8%	0.5%	-3.0%	1.6%	2.8%	2.7%	N/A	3.0%
S&P/TSX Composite Index	3.7%	4.4%	9.2%	11.7%	4.5%	8.1%	N/A	7.3%
MSCI World Index ($Cdn)	0.9%	8.3%	13.1%	11.4%	12.3%	17.1%	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 declined 1.8% in the quarter (interest and capital appreciation).
- Bond yields rose, with the 10-year Government of Canada yield rising from 1.75% to 2.1%. This was a negative for investors, as bond prices fall when yields rise.
- The Canadian stock market gained 3.7% with the three largest sectors – energy, materials, and financials – all posting positive returns.

The fund was down 1.1% in the quarter. Since inception (Feb 2007), it has a cumulative return of 80%, which equates to an annualized return of 5.7%.

Portfolio Specifics

- Canadian bond yields have been rising since May, resulting in a headwind for income funds (when bond yields rise, bond prices fall). Our fund has not been an exception. This is consistent with our message to investors: we expect bond returns over the next few years to be modest given today's extremely low rates.
- Corporate bonds make up 27% of the fund, while provincials comprise 26%. This preference for "credit", or non-federal government bonds, remains an important theme in the portfolio.
- The manager, Connor, Clark & Lunn (CC&L), is concerned that while economic growth in Canada has been strong over the past year, it is likely to moderate. As well, with the central bank raising interest rates and household debt at alarming levels, we are now in a risker environment. As such, investments are increasingly focused in higher quality bonds.
- Stocks make up 27% of the portfolio. Sectors of focus include financial services, pipelines and industrial goods. The key themes in this component of the portfolio are: (1) a focus on stocks that have shown they can consistently grow their dividend (rather than just stable dividend payers), (2) a preference for value stocks over growth stocks, and (3) exposure to companies that will benefit from a continued expansion in the global economy and rebound in capital spending.
- Real estate investment trusts have played an important role in the fund, however, their sensitivity to interest rates makes them less attractive in a rising interest rate environment. CC&L sold RIOCAN REIT, H&R REIT and SMART REIT, and added to select banks and insurance companies, which can benefit from higher profit margins when interest rates increase.
- The fund paid a distribution of $0.045/unit at the end of September. Its pre-fee yield is 2.8%.

Stock Transactions

Buy

Emera Inc.*
Manulife Financial
Bank of Nova Scotia
Allied Properties REIT

Sell

Peyto Exploration
Smart REIT
H&R REIT

*New Holding

Positioning

- The manager has been reducing the level of risk in the portfolio, but still favours corporate and provincial bonds, with a focus on higher-quality securities.
- Stocks make up roughly one-quarter of the portfolio, providing the fund with an additional source of yield and diversification.

Fund size	$96,616,930
Pre-fee Yield	2.8%
Avg Term to Maturity	9.2 yrs
Duration	6.8 yrs

Income Fund

Attributes

Top Holdings (% of Fund)

Canada 1.00% (Jun/27)	9.9%
Quebec 3.00% (Sep/23)	4.3%
Quebec 4.50% (Dec/20)	2.7%
Ontario 2.80% (Jun/48)	2.5%
TD Bank	2.3%
Royal Bank	2.2%
CC&L High Yield Bond Fd	2.0%
Ontario 3.50% (Jun/24)	1.9%
Canada 0.50% (Mar/22)	1.8%
CHT 1.20% (Jun/20)	1.7%

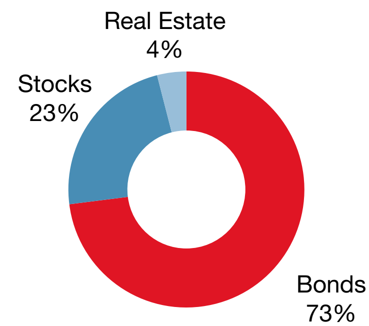
Issuer Allocation (Bonds)

Federal Government	26%
Provincial Government	36%
Corporate	38%

Rating Summary (Bonds)

AAA	37%
AA	34%
A	12%
BBB	15%
BB (or lower)	2%

Asset Mix



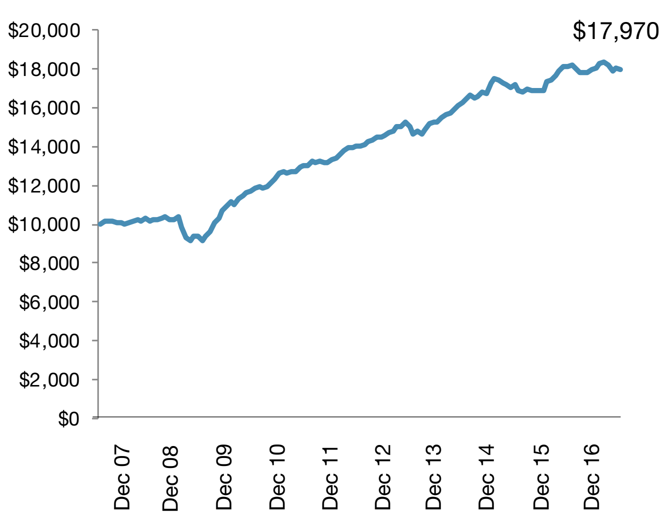
Performance

Compound Annualized Returns (as of September 30, 2017)

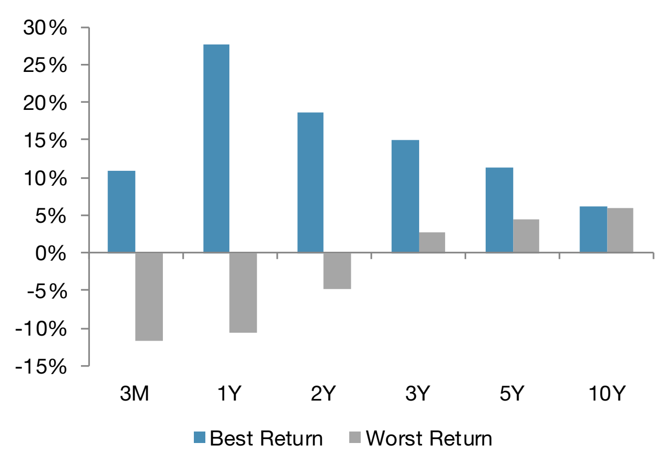
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Income Fund (after-fee)	**-1.1%**	**0.7%**	**-1.0%**	**3.4%**	**2.9%**	**4.4%**	**5.9%**	**5.7%**
FTSE TMX Canada Universe Bond Index	-1.8%	0.5%	-3.0%	1.6%	2.8%	2.7%	4.7%	4.5%
S&P/TSX Composite Index	3.7%	4.4%	9.2%	11.7%	4.5%	8.1%	4.1%	4.7%

*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) rose 3.7% in the quarter. Energy, financial and consumer discretionary stocks were the strongest performers.
- Global stocks, as measured by the MSCI World Index, gained 0.9% in Canadian dollar terms. A stronger loonie detracted from the returns of foreign stocks.

The fund gained 2.8% in the quarter. Since inception (Feb 2007), it has a cumulative return of 100%, which equates to an annualized return of 6.7%.

Portfolio Specifics

- The fund holds 25 stocks, of which 14 are headquartered in Canada, 5 in the U.S., 5 overseas and 1 in Mexico.
- Canadian holdings provided strong results in the quarter. Resource-related investments SUNCOR ENERGY, AGRIUM and WESTSHORE TERMINALS saw double-digit price gains. For the year to date, however, foreign investments have driven performance. U.S. holdings VISA and CBOE have risen significantly, as have overseas investments UNILEVER and NOVOZYMES. FEMSA, a Mexican holding, has also been a strong contributor to performance.
- MAGNA INTERNATIONAL, an Ontario-based auto parts manufacturer, had a good quarter and has been a positive contributor to performance since its addition to the portfolio in late 2015. In July, Jaguar announced that Magna would build its new E-PACE compact SUV at its contract vehicle manufacturing facility in Austria. The announcement further strengthened Magna's reputation as a leading partner for many automakers (Magna also manufactures certain BWM and Mercedes vehicles).
- There weren't many bad stories in the portfolio in the quarter. CCL INDUSTRIES and STARBUCKS saw price declines, but both fell less than 10%. The manager, CGOV, purchased additional shares in Starbucks. CGOV likes the coffee company's management and growth outlook. The stock isn't a bargain, but its valuation is attractive relative to historic levels. As well, with the Canadian dollar gaining strength, CGOV thinks it's a good time to move some money back into the U.S.
- One new stock was purchased in the quarter, KEYENCE. The Japanese company makes automation sensors, vision systems and measuring instruments for manufacturers. It has a strong growth outlook, with the increasing penetration of robots in the manufacturing process. CGOV also likes the fact that Keyence can operate for another 17 years without another sale.
- The fund currently has a cash position of 6%.

Transactions

Buy

Keyence*
Ritchie Bros. Auctioneers
Starbucks

Sell

Unilever
Westshore Terminals
Magna International

*New Holding

Positioning

- Focus remains on best-in-class companies that offer products or services with a distinct competitive advantage and which are in good financial shape.
- Foreign stocks are a key part of the fund, notably in the healthcare, retailing and consumer sectors.

Fund size	$96,100,112
No. of stocks	25

Equity Fund

Attributes

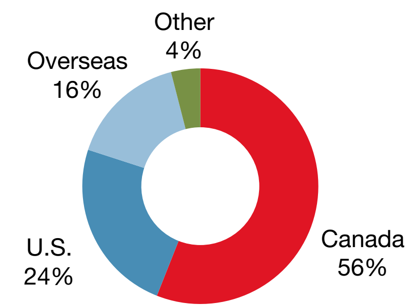
Top Stock Holdings

Visa	5.8%
TD Bank	5.7%
Suncor Energy	5.4%
CBOE Holdings	5.2%
Franco-Nevada	4.8%
Novozymes	4.7%
PrairieSky Royalty	4.4%
CCL Industries	4.2%
Novartis	4.1%
CVS Health	4.0%

Sector Allocation (Stocks)

Industrial Goods & Svc	27.0%
Financial Services	20.9%
Oil & Gas	13.5%
Retailing	11.3%
Basic Materials	9.3%
Consumer Products	6.1%
Healthcare	4.4%
Consumer Cyclical	4.2%
Utilities & Pipelines	2.1%
Technology	1.2%

Geographic Profile (Stocks)



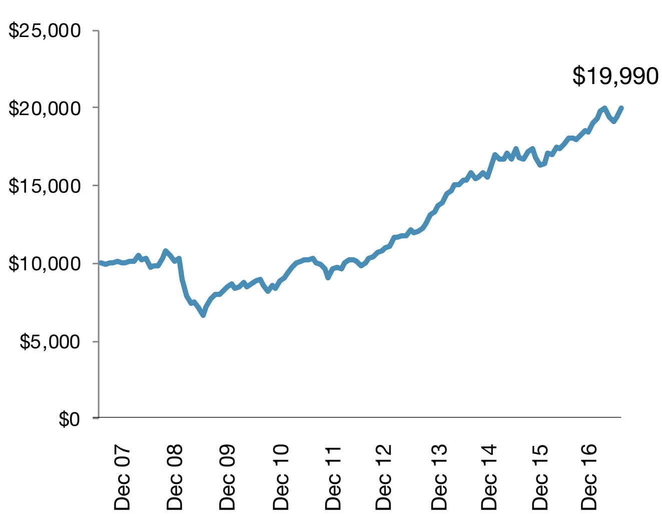
Performance

Compound Annualized Returns (as of September 30, 2017)

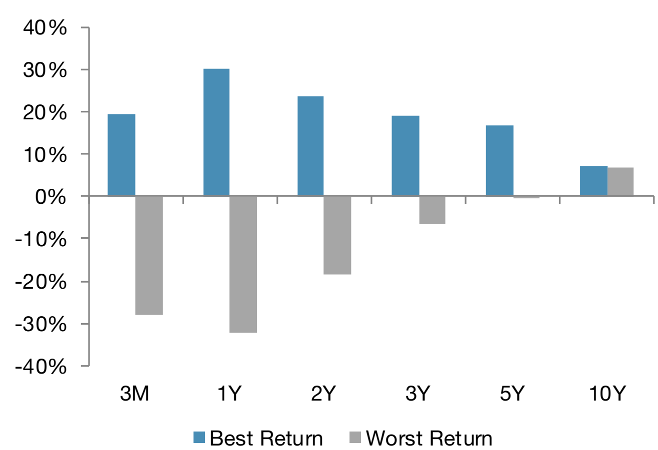
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Equity Fund (after-fee)	**2.8%**	**7.6%**	**10.8%**	**9.5%**	**9.0%**	**13.3%**	**7.0%**	**6.7%**
S&P/TSX Composite Index	3.7%	4.4%	9.2%	11.7%	4.5%	8.1%	4.1%	4.7%
MSCI World Index ($Cdn)	0.9%	8.3%	13.1%	11.4%	12.3%	17.1%	7.2%	6.1%

*Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Global Equity Fund

Market Context

- Global stocks, as measured by the MSCI World Index, were up 0.9% in Canadian dollar terms in the quarter.
- All major developed equity markets rose in the period, led by the U.S. Emerging markets turned in strong performance, with China up 15%.
- Canadian investors didn't experience the full extent of the gains as the loonie appreciated against the U.S. dollar (+4%) and Japanese Yen (+4%). It also gained modest ground on the Euro and British Pound.

The fund was up 2.0% in the quarter. Since inception (Feb 2007), it has a cumulative return of 39%, which equates to an annualized return of 3.2%.

Portfolio Specifics

- The fund holds 43 stocks across 17 countries. European stocks (including the U.K.) make up 48% of the fund, Asian stocks 37%, U.S. 13% and South America 2%.
- Economic growth in Europe has improved the prospects for the continent's banks. The fund's holdings in the region include COMMERZBANK, RBS, BNP PARIBAS and HSBC, each of which has seen strong gains over the year.
- Europe isn't alone in seeing an up-tick in its economy. Indeed, growth around the world has been strong. This has benefited consumer focused companies, especially more economically-cyclical businesses such as GALAXY ENTERTAINMENT and UBISOFT.
- The proportion of the fund in Japanese stocks has come down as the manager, Edinburgh Partners, has reduced the weight in light of strong gains. These companies make up roughly 17% of the portfolio, down from 30% at their peak, and currently include financials (NOMURA, SUMITOMO MITSUI), technology (PANASONIC), and consumer focused companies (JAPAN TOBACCO, TAKASHIMAYA).
- Oil and gas companies, which comprise 10% of the fund, have not kept up with the rest of the market in 2017. These companies have faced the headwind of lower energy prices. The manager believes investors have not yet recognized the significant cost cutting measures these firms have put in place.
- Healthcare holdings (21% of the fund) had a positive impact on performance. The regulatory/political clouds over drug companies have lifted somewhat and these companies are producing strong earnings and growing their product pipelines.
- The fund currently has a cash position of 6%.

Transactions

Buy

Shanghai Fosun*
Apache Corporation
Johnson Controls

Sell

Commerzbank

*New Holding

Positioning

- The fund is built much differently than the global index. It's more focused on Europe and Asia, and has only a modest weighting in U.S. stocks. The manager's experience and research indicates that stocks are more attractively valued in these regions.
- The portfolio is positioned to benefit from a rotation by investors out of high growth companies into more value oriented stocks. The manager believes we are in the early innings of such a rotation.

Fund size	$81,194,958
No. of stocks	43

Global Equity Fund

Attributes

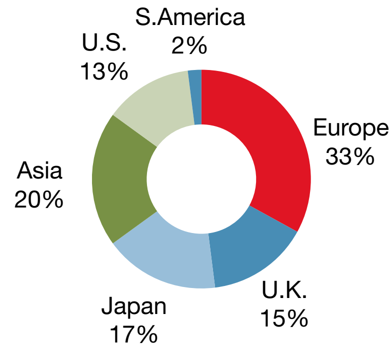
Top Stock Holdings

Panasonic	3.3%
Novartis	3.2%
Shell	3.2%
Commerzbank	3.0%
Ubisoft Entertainment	2.9%
AstraZeneca	2.7%
Celgene	2.7%
DBS Group	2.6%
BNP Paribas	2.5%
Bayer	2.5%

Sector Allocation (Stocks)

Financial Services	30.3%
Healthcare	20.9%
Consumer Cyclical	14.1%
Oil & Gas	10.2%
Technology	8.9%
Industrial Goods & Svc	7.9%
Retailing	4.3%
Comm. & Media	1.8%
Consumer Products	1.6%

Geographic Profile (Stocks)



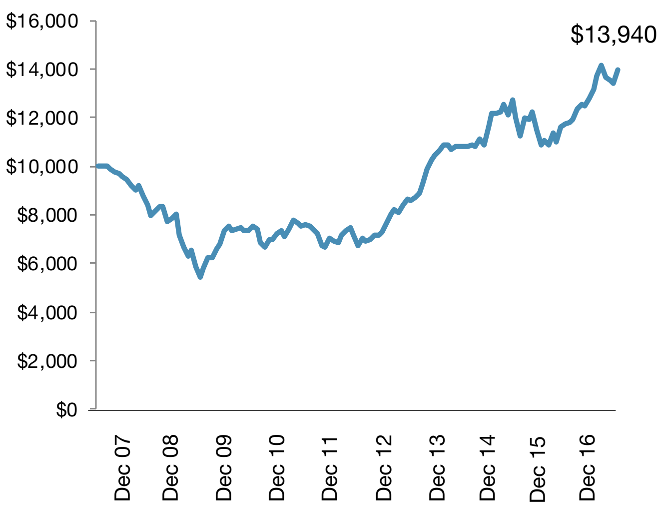
Performance

Compound Annualized Returns (as of September 30, 2017)

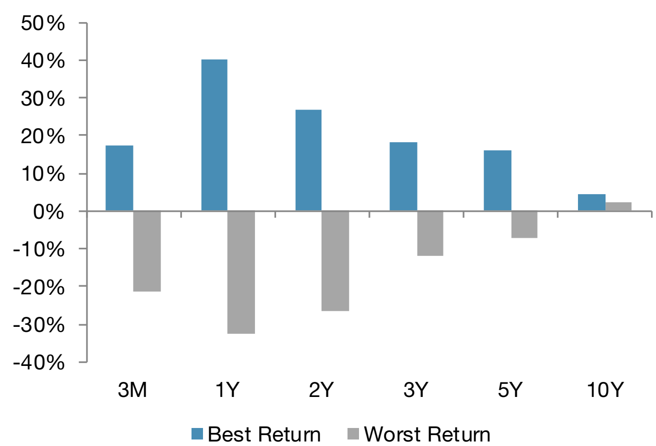
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Global Equity Fund (after-fee)	**2.0%**	**11.1%**	**17.8%**	**11.3%**	**8.6%**	**14.3%**	**4.3%**	**3.2%**
MSCI World Index ($Cdn)	0.9%	8.3%	13.1%	11.4%	12.3%	17.1%	7.2%	6.1%

*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 (S&P/TSX SmallCap Index) rose 2.4% in the quarter. U.S. small-caps gained 1.6% (Russell 2000 Index) in Canadian dollar terms.
- Energy stocks, a prominent component of the market, rebounded and industrial-related stocks performed well. The gold sector, on the other hand, was largely flat.

The fund was up 3.6% in the quarter. Since inception (Feb 2007), it has a cumulative return of 96%, which equates to an annualized return of 6.6%.

Portfolio Specifics

- The portfolio consists of 24 stocks, 11 of which have a market capitalization of less than $1 billion. While the majority of holdings are Canadian companies, there are three U.S. stocks which make up 12% of the fund.
- Performance has been solid year-to-date, with the top contributors being SPIN MASTER (up 50%), POINTS INTERNATIONAL (+40%) and BRICK BREWING (+23%).
- MEG ENERGY, a volatile holding that we wrote about last quarter, rebounded significantly in the summer, proving it's a stock that requires patience.
- The two biggest detractors to performance this year have been ECHO GLOBAL LOGISTICS and DHX MEDIA (both are down 25%). DHX, which is a leading kids' content company (its brands include Teletubbies, Degrassi and Peanuts), has been a particular disappointment. It has great assets, but management has executed poorly. The manager, Galibier Capital Management, is re-evaluating the stock.
- STANTEC has long been one of the fund's largest holdings. It's a well managed company that operates in an attractive industry, engineering and consulting services. The manager purchased another stock in the sector, FLUOR CORPORATION, in the summer. Fluor is a multinational engineering and construction firm headquartered in Texas. Its earnings have been impacted this year by cost increases on certain projects and the stock is trading at a multi-year low. Galibier believes that Fluor is very good at what they do and feel the stock represents a good opportunity.
- PARK LAWN was also purchased in the quarter. The company specializes in memorialization, cemetery and funeral services.
- The fund currently has a cash position of 1%.
- The fund has gained 11.6% since September 30, 2016, which is Galibier's starting date as portfolio advisor. The index is up 1.2% over the same period.

Transactions

Buy

Fluor Corporation*
Park Lawn*
Dream Global REIT
Echo Global Logistics

Sell

Martinrea International
Points International
Spin Master

*New Holding

Positioning

- Key areas of investment include capital goods, technology, transportation, food & beverages and commercial & professional services.
- Stocks in general are more expensive today than they have been in several years. As a result, the manager is avoiding businesses with high valuations (relative to historic levels), and is focused on identifying companies with interesting and enduring competitive advantages.

Fund size	$52,281,625
No. of stocks	24

Small-Cap Equity Fund

Attributes

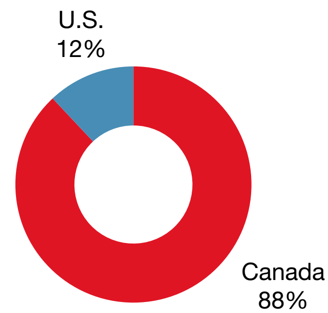
Top Stock Holdings

MacDonald Dettwiler	5.6%
Stantec	5.5%
Liquor Stores N.A.	5.3%
MEG Energy	5.2%
Diversified Royalty	5.2%
Points International	5.1%
Echo Global Logistics	5.1%
Spin Master	5.0%
Pure Technologies	4.9%
Brick Brewing	4.8%

Sector Allocation (Stocks)

Industrial Goods & Svc	42.8%
Technology	13.8%
Consumer Cyclical	12.1%
Oil & Gas	10.1%
Retailing	5.4%
Consumer Products	4.8%
Real Estate	4.6%
Utilities & Pipelines	3.4%
Comm. & Media	3.0%

Geographic Profile (Stocks)



Performance

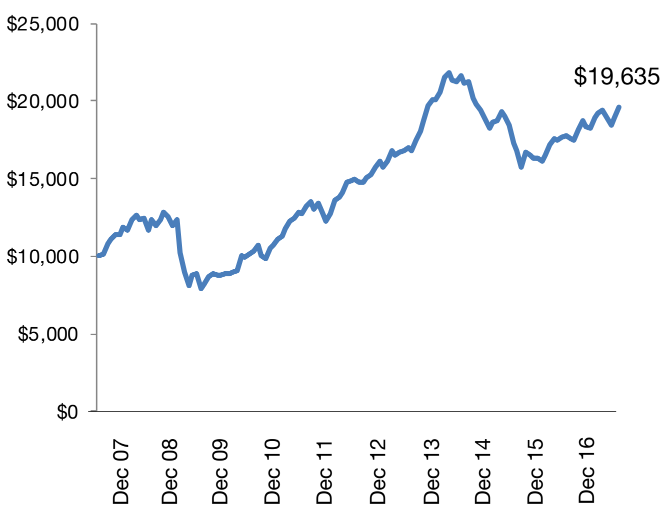
Compound Annualized Returns (as of September 30, 2017)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep[1]
Small-Cap Equity Fund (after-fee)*	**3.6%**	**5.1%**	**11.6%**	**11.7%**	**-0.9%**	**4.5%**	**4.8%**	**6.6%**
S&P/TSX SmallCap Index	2.4%	-1.9%	1.2%	17.2%	2.5%	3.9%	1.4%	1.7%
Russell 2000 Index ($Cdn)	1.6%	3.1%	14.9%	14.0%	16.3%	19.3%	10.3%	8.1%

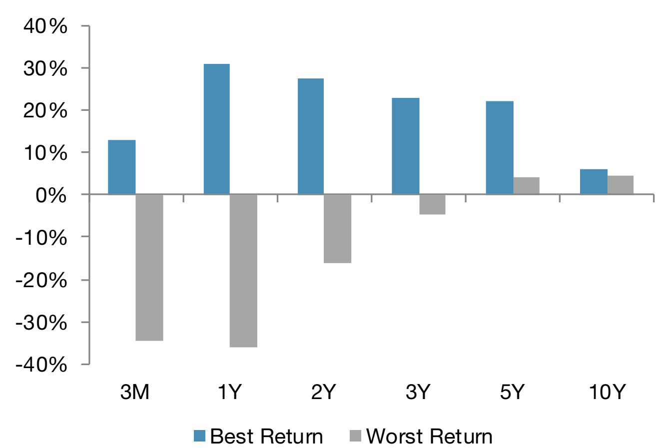
*The fund has gained 11.6% since September 30, 2016, which is Galibier's starting date as portfolio advisor. The index is up 1.2% over the same period.

[1]Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Savings Fund

Market Context

- The Bank of Canada raised its key lending rate twice in the quarter, by 0.25% each time. The rate now stands at 1.0%.
- Economic growth in Canada has been stronger than expected of late, which prompted the central bank to remove some of the considerable monetary stimulus in place.
- Economic activity has accelerated in many countries and global growth has become more synchronized. Central banks worldwide have become more active in response.

Positioning

- The fund had a good quarter. The manager's (Connor, Clark & Lunn) tactical trading of corporate paper added value.
- Corporate notes (including bank paper, floating rate notes and short-dated bonds) comprise 70% of the portfolio.
- Investments in T-Bills remain focused on provincial securities (30% of the fund).
- The pre-fee yield of the fund at the end of September was 1.3%.

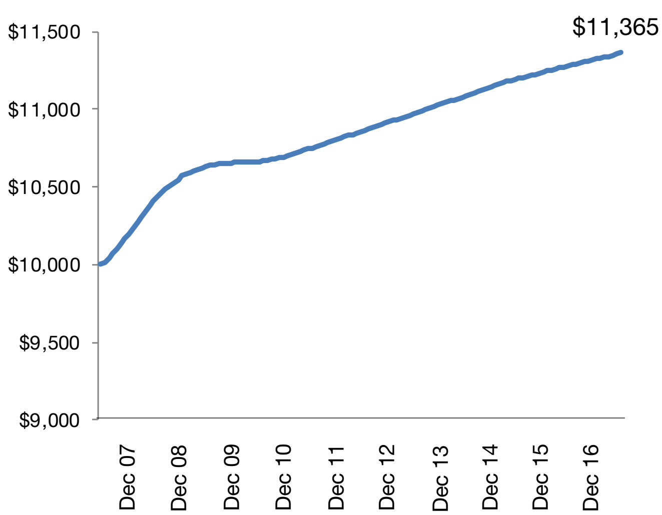
Performance

Compound Annualized Returns (as of September 30, 2017)

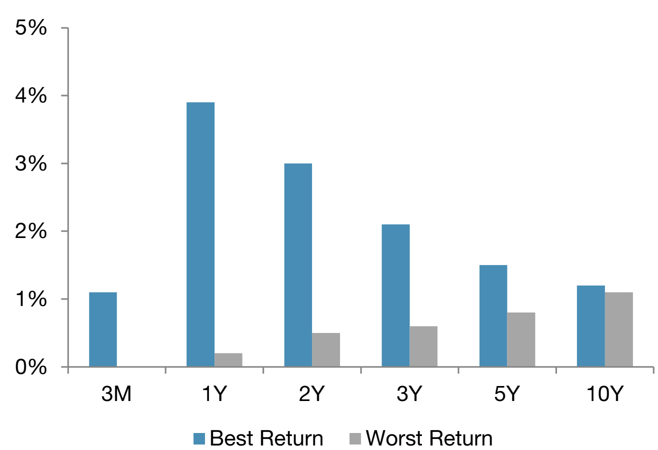
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Savings Fund (after-fee)	**0.2%**	**0.5%**	**0.7%**	**0.7%**	**0.8%**	**0.9%**	**1.1%**	**1.2%**
FTSE TMX Canada 91 Day T-Bill Index	0.1%	0.3%	0.5%	0.5%	0.6%	0.7%	1.1%	1.3%

*Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Stock Snapshot

FLUOR®

Overview

Fluor is a Texas-based engineering and construction company in the Fortune 500 with a market capitalization of $6 billion USD. It is one of the few companies in the world that works on complex industrial, chemical, mining and energy projects.

Fluor employs more than 60,000 employees with operations in 25 countries and has been in business for more than a century.

The company breaks its business into four areas: (1) energy, chemicals and mining; (2) industrial and power; (3) government; and (4) maintenance and modification. The energy, chemicals and mining business is the largest, accounting for half of the company's revenues.

The stock is held in our Small-Cap Equity Fund (4.3% position size).

Investment Case

Fluor is one of the largest firms in an oligopolistic industry. Only a handful of engineering firms have the capability and capacity to work on large-scale projects, which include power plants, oil & gas refineries, bridges & highways, advanced manufacturing facilities, and environmental remediation.

The company's engineering staff has operated in a unique way over the last 20 years. Much of it is based out of India and the Philippines. Additionally, the engineers are moved to where the projects are. This setup offers Fluor cost advantages over its peers and flexibility when one region has more projects than another.

While these characteristics have served the company well in the past, Fluor has had a cloud over its head more recently because of the cyclicality of its projects. That said, it still boasts more than $35 billion USD in backlog of projects it has already won, which represents approximately two years' worth of revenue. The firm's revenues also have the potential to grow as Fluor's clients consider increasing their capital spending in a growing economy.

Risks to Outlook

Fluor generates more than 70% of its sales from commodity driven projects (energy, mining, chemicals, and power). The volatile nature of these commodities, along with the uncertainty surrounding nuclear power, can result in Fluor's clients delaying or canceling projects. While the manager of our Small-Cap Fund (Galibier Capital) has taken this into account in their analysis, higher than expected delays or cancellations would negatively impact the stock.

An interesting fact: Fluor started the largest employer-sponsored apprenticeship program in California with a four-year program for designers in 1982.

Fluor Corporation: Price History

Source: Google

Investing's answer to gravity

Special to the National Post, by Tom Bradley (September 9, 2017)

We can't help it. It's human nature. Our view of how our investments will do in the future is influenced by how they've done in the recent past and what the headlines are telling us today. Unfortunately, both factors are poor predictors of what returns will be.

Extrapolating past returns is easy to do, but there's no evidence that it works. There's a reason why ETFs and mutual funds carry a warning label — "Past performance does not guarantee future results."

As for the media, what's in the spotlight is always interesting, but not always important when it comes to your portfolio. For instance, while Trump, North Korea and Brexit dominate the airwaves, there are hundreds of other factors that will have a bigger impact on long-term returns.

The most reliable factor in determining what returns will be is the starting point. Specifically, the price you pay for an asset, or what's referred to as valuation. Are you buying at Costco where bargains abound, or the Apple Store where nothing is on sale?

Over longer periods, valuation is the closest thing to gravity that investors have. Stock prices will eventually reflect the value of the underlying companies. But to be clear, valuation is useless in predicting the market's direction in the next quarter, year or even two years. Stocks can stay cheap or expensive for extended periods.

So, what should you expect from your portfolio over the next 5 years?

For fixed income investments, the current starting point is not good. Safety is expensive. I say that because the most reliable predictor of bond returns is the current yield, and the Canadian bond market, which includes government and corporate bonds, is yielding just 2 per cent. As interest rates fluctuate, there will be short spurts of good returns, but you should count on core fixed income securities earning in the neighbourhood of 1-3 per cent.

The equation for stock returns is also simple. It's the sum of three things: dividends, profit growth and the change in valuation. Unfortunately, stocks are much harder to call because the inputs are far less certain.

The first one is the easiest. Based on current yields, you can expect dividends to contribute 2 to 3 per cent per year to market returns.

Corporate profits have typically grown at 6 per cent, but I believe a more sustainable pace is 3 to 4. The short-term outlook is good with the global economy picking up, but we're entering an uneasy transition. We're going from being debt fuelled to debt impaired. From being driven by baby boomers to supporting them. And from rising corporatism to more populism.

The biggest swing factor of the three, however, is valuation. What investors are willing to pay for profits can vary wildly. When I started my career in the early 1980s, high quality stocks traded at single digit price-to-earnings ratios. In the late 1990's, those same companies garnered multiples in the thirties and beyond.

Today, P/E's are in the mid to high teens, which is closer to historical averages, although after eight years of good markets, many analysts (including myself) believe they're at the high end. Some say stocks are downright expensive. Suffice to say, this variable will more likely moderate returns than boost them, as it has since 2009.

When we add it all up, we're looking at an annualized return for stocks of 4 to 6 per cent.

When we combine bonds and stocks, the expected return for a balanced portfolio is in the range of 3 to 5 per cent. In comparison to the last 5 years, that doesn't sound very exciting and you might ask, should I make some changes?

While every situation is different, in general the answer is no. The projections are well above inflation and the order of returns is perfectly normal — i.e. stocks beating bonds.

Rather, you should stick to the asset mix in your investment plan, make sure you're not above your target for higher risk assets (high-yield bonds and stocks) and be patient. There's too much capital chasing too few opportunities right now, but it won't always be that way. You're playing the long game.

Steadyhand
10 YEARS

Eating our own cooking

One of our key business principles is co-investment - the practice of investing alongside our clients.

We've updated our numbers and can report that on average, our team has **91%** of our financial assets invested in our funds. Now that's home cooking!

Published on October 10, 2017, by Steadyhand Investment Funds Inc.

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