

Canadian Balanced



COMMENTARY Q3 2016

FRANK MERSCH | GREG TAYLOR | RICK BROWN

FRONT STREET DIVERSIFIED INCOME CLASS
FRONT STREET GROWTH & INCOME CLASS

MARKET OVERVIEW

EQUITIES

For the quarter ending September 30, 2016, the S&P/TSX Composite Index was up +4.7%, led by the consumer staples, consumer discretionary, industrials and energy sectors (IT strong as well, but it is a small group). It was perhaps a surprising result given the U.K.'s vote to exit the European Union, weak global economic data and uncertainty from the U.S. Federal Reserve. A long-awaited interest rate hike was previously proposed in September and now appears to be pushed out to December.

The telecommunications, utilities, real estate and materials sectors all underperformed. With higher interest rates forecasted, "bond proxy" sectors seem to have given up leadership. We also continue to see energy providing a boost to the Canadian market. With OPEC attempting to put a freeze on production, oil prices have started to rebound. However, it remains to be seen if Saudi Arabia is able to "herd its cats" of Iran and Iraq, not to mention Russia.

With a likely rate increase in December and perhaps a freeze on oil production, we have increased our cyclical weighting in the portfolio. We have also added to our oils and golds. While we believe the impending U.S. presidential election will create some volatility, historically it only disrupts the markets for a short period and then it gets back to the economy.

Generally, we believe that while the U.S. economy is steadily improving, we also are witnessing a general improvement in the second largest economy of the world. Chinese fiscal stimulus, in addition to monetary stimulus, has resulted in an uptick in industrial production, retail sales and housing. These improvements have resulted in a number of commodity rebounds, which should continue to provide

underlying support for Canadian markets. Moreover, a steepening yield curve would also provide support to the Canadian financials sector.

Finally, if this market has taught us one thing, it is to expect the unexpected. We remain vigilant in this belief and will continue to maintain a higher degree of liquidity.

FIXED INCOME

Most fixed income asset classes performed reasonably well during the quarter, but high-yield and investment-grade corporates led the way as credit spreads tightened. Treasuries lagged as investors sold these assets to take on more risk. The improved market sentiment helped to drive performance and money flows, which helped to deliver a decent quarter for the market.

Later in the quarter, the focus shifted to the timing of interest rate increases by the Fed and the rate of future interest rate moves. U.S. 10-year yields started the quarter at +1.47%, and ended at +1.595%, but fluctuated significantly, with a low of +1.359% on July 8 to a high of +1.728% on September 13.



FRONT STREET BALANCED MONTHLY INCOME CLASS

FUND MANAGERS:
FRANK MERSCH & RICK BROWN

Formerly the Front Street Diversified Income Class

The Front Street Balanced Monthly Income Class outperformed its benchmark during the third quarter of 2016. Stocks connected to the energy sector performed well given rebounding oil prices. The financials sector also

contributed to performance. Gold equities detracted from performance after gold prices dipped somewhat.

We expect the coming period to bring heightened volatility, and we have positioned the Fund accordingly, with a higher than usual cash weighting.



FRONT STREET GROWTH & INCOME CLASS

FUND MANAGERS:

FRANK MERSCH, GREG TAYLOR & RICK BROWN

The Front Street Growth & Income Class outperformed its benchmark during the third quarter of 2016. Stocks connected to the energy sector performed well given rebounding oil prices. The financials sector also contributed to performance. Gold equities detracted from performance after gold prices dipped somewhat.

We expect the coming period to bring heightened volatility, and we have positioned the Fund accordingly, with a higher than usual cash weighting.



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