RAYMOND JAMES | Steele Wealth Management

Third Quarter 2015

"Wake Me Up When September Ends"

Equity Market Weakness Crests in September as Poor Chinese Economic Growth Data Spooks Investors

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Equity Markets Fall Most Since 2011 As Investors Fear Falling Chinese Growth

- The S&P/TSX Composite Total Return Index lost 7.9% during the 3rd quarter of 2015.
- The more defensive and tame sectors, consumer staples, telecom, utilities, financials, consumer discretionary, industrials and information technology, led the TSX Composite Index in the quarter while the more cyclical and high-flying sectors, materials, energy and health care (particularly biotech), trailed.
- Equity markets experienced a rapid decline in the three trading days starting August 20, whereby the S&P 500 and S&P/TSX Composite Index fell as much as 12% and 9% respectively. The decline was exasperated by chaos in the ETF market which had some large cap ETFs trading 10%-30% down on the day, despite the broad markets only being down about 6%. Sparking the market decline was poor Chinese manufacturing data, which indicated that Chinese manufacturing sector activity was at a six year low. Further adding to investor worries was the widely anticipated hike in U.S. interest rates set to occur sometime in between September and December.
- Oil prices remained volatile in Q3 starting the quarter at US$57/bbl WTI and falling as low as US$38/bbl, before ending the quarter at US$45/bbl. Oil prices came under pressure as a nuclear deal was finalized between Iran and the P5+1 UN security council members that allows Iran to increase oil exports in exchange for permitting the inspection and oversight of Iran's nuclear facilities and activities by the International Atomic Energy Agency. Iran expects to increase oil production by 1.5 million barrels per day by the end of 2016. The International Energy Agency predicts that the world will be in an oil surplus until late 2016 excluding Iranian production growth, so if Iran can achieve its production target, the world can expect to be in an oil surplus until at least late 2017, notwithstanding a major geopolitical crisis. Add these two years oil surplus to an already record-high level of oil inventories and it appears that oil prices may remain low for several years. Goldman Sachs recently lowered their long-term oil price outlook to US$50 (WTI). Though oil production growth is the key driver of oil prices, concerns about Chinese economic growth and Asian oil demand have also put pressure on oil prices of late.
- The Canadian economy is in technical recession, with Canadian GDP having declined ever so slightly in each of the first two quarters of 2015. The shallowness of the decline has BMO economist Doug Porter claiming this is the "Best. Recession. Ever.". Most economists agree, noting that despite the energy sector related economic stagnation, national job gains came in at 93,800 in the first half of this year, and home and auto sales activity remains near cyclical highs. To further underline the inherent strength in the Canadian economy, the Bank of Canada held steady on interest rates in September citing strength in non-energy sectors and rising export activity because of rising U.S. demand and a low Canadian dollar.
- Greece dominated the headlines in Q2 but barely got mention in Q3, as the contentious EU bailout program was passed with ease in Greek parliament. Following the vote, Greek PM Tsipras called a parliamentary election to legitimize the acceptance of the bailout. Tsipras was elected PM in the election and formed a ruling coalition.

PIMG Model Benchmarking Disclosures

- The numbers presented on the following two pages reflect those of our two models, Balanced Growth and Balanced Income. As a client of Steele Wealth Management, you may or may not have your account linked to one or both of these models. In our discussions prior to signing your PIMG documentation, we outlined which model(s), if any, your accounts would be linked to. If you are unsure whether your account is linked to one or more of these models, please let us know and we can clarify this for you.

- Model returns presented are those of two individual accounts whose returns 100% reflect that of the model's holdings and transactions and are not impacted by deposits or withdrawals that could impact return calculations. The accounts we use to reflect model performance incur a 1% annual investment management fee, charged monthly, which is also subject to 13% HST, charged monthly, for a total cost of 1.13% annually. Your individual account performance may deviate from the model account based on any differences in fees charged relative to the model account, differences in account holdings relative to the model account as well as any deposits or withdrawals made throughout the reporting periods outlined.

- On January 15, 2014, we materially changed the composition of our two model portfolios. We renamed our Tactical Taxable and Tactical Registered models to Balanced Growth and Balanced Income and made major changes to model allocations and exposures. The Tactical Taxable and Tactical Registered models were invested in 80%-85% common equity and 15%-20% preferred equity and our exposure was virtually 100% in Canadian dollars and Canadian companies. The Balanced Growth model has an asset allocation of ~75% common equity and ~25% fixed income, of which half is invested in preferred equity, and roughly 40% exposure to non-Canadian securities. The Balanced Income model has an asset allocation of ~50% common equity and ~50% fixed income, of which a third is invested in preferred equity, and roughly 30% exposure to non-Canadian securities. With these changes, our two models now reflect a more universally appropriate choice, in terms of asset allocation and risk, for the vast majority of our clients and investors in general. As a result, we expect these new models will remain in force for the foreseeable future.

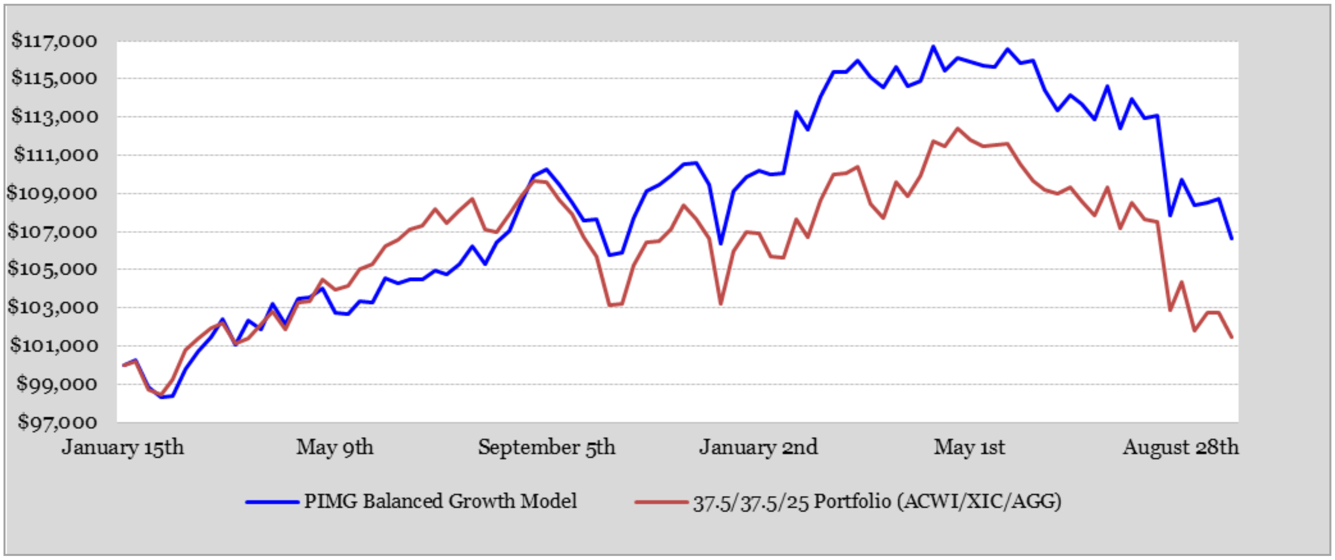
- As a result of the model changes outlined above, we also changed our benchmarks to reflect the new asset allocations and exposures. Benchmark information is detailed in the disclosures at the bottom of the following two pages.

Benchmark of iShares XIC/ACWI/AGG (37.5%/37.5%/25%)

vs

The PIMG Balanced Growth (BG) Model

January 15, 2014 (Inception of BG Model) to September 30, 2015



01/15/2014 – 09/30/2015	**PIMG Balanced Growth Model**	**37.5% XIC / 37.5% ACWI / 25% AGG**	**iShares XIC**	**iShares ACWI**	**iShares AGG**
Cumulative Return Since Inception	6.66%	1.49%	1.46%	-2.78%	6.54%
Compound Annual Return	3.83%	0.87%	0.85%	-1.63%	3.77%
Standard Deviation	8.14%	8.27%	12.15%	12.29%	3.39%
Sharpe Ratio	0.10	-0.26	-0.18	-0.38	0.23
Largest Monthly Gain	4.16%	3.53%	4.13%	5.51%	2.22%
Largest Monthly Loss	-3.99%	-4.25%	-4.31%	-6.81%	-1.07%
Number of Up Months	13	11	10	11	11
Number of Down Months	8	10	11	10	10
Correlation with Balanced Growth	--	0.90	0.88	0.81	-0.34

PIMG Balanced Growth Model	**3 month**	**6 month**	**9 month**	**12 month**	**3 year**	**5 year**	**10 year**	**Inception**
	-6.08%	-7.11%	-4.88%	-4.81%	n/a	n/a	n/a	6.66%

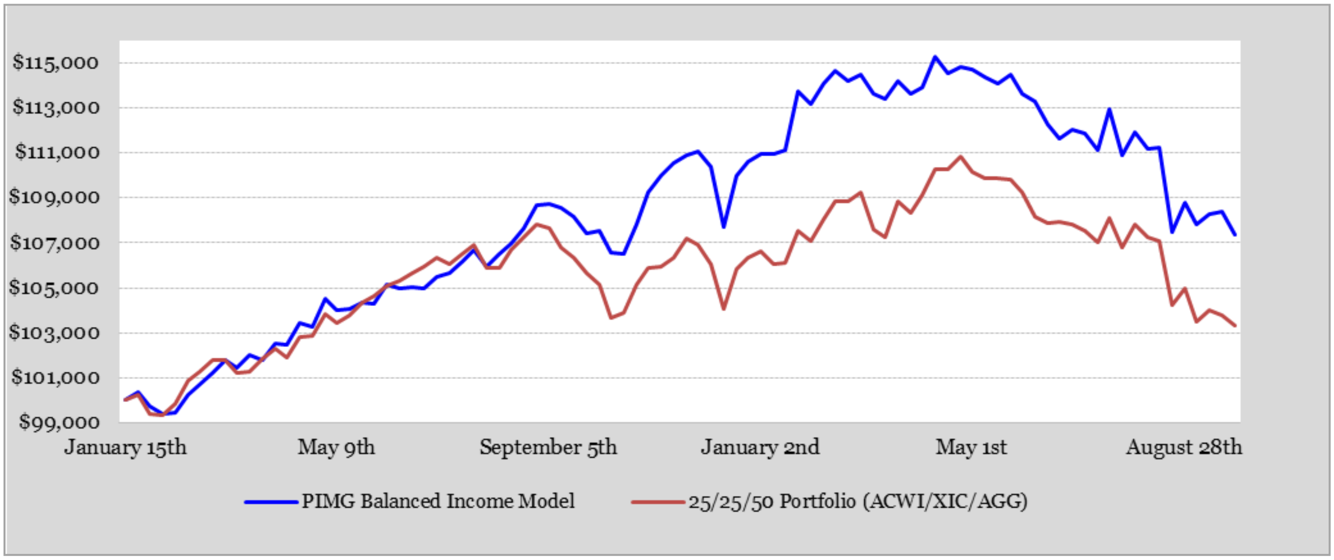
We have assumed a 1% investment management fee plus 13% HST when calculating the returns for our PIMG models. To the best of our knowledge, the ETFs used as benchmarks track the indices they represent though material tracking error and misrepresentation can occur which is beyond our control. The 37.5% XIC / 37.5% ACWI / 25% AGG index is an index consisting of 37.5% iShares XIC (S&P/TSX Compositie Index ETF), 37.5% of iShares ACWI (All-Country World Index ETF) and 25% iShares AGG (Barclays Aggregate Bond Fund). Volatility and correlation data are calculated from weekly returns. For the purpose of calculating Sharpe ratios, a risk-free rate of 3% is assumed. All returns presented for the PIMG Models and the ETFs used for comparison are in Canadian dollars. Data used to calculate returns are derived from Market-Q (for ETFs) and Dataphile (for the Models). All returns presented are "total returns", meaning they include all dividend payments & interest payments.

Benchmark of iShares XIC/ACWI/AGG (25%/25%/50%)

vs

The PIMG Balanced Income (BI) Model

January 15, 2014 (Inception of BI Model) to September 30, 2015



01/15/2014 – 09/30/2015	PIMG Balanced Income Model	25% XIC / 25% ACWI / 50% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	7.34%	3.34%	1.46%	-2.78%	6.54%
Compound Annual Return	4.23%	1.93%	0.85%	-1.63%	3.77%
Standard Deviation	5.91%	5.33%	12.15%	12.29%	3.39%
Sharpe Ratio	0.21	-0.20	-0.18	-0.38	0.23
Largest Monthly Gain	2.49%	2.48%	4.13%	5.51%	2.22%
Largest Monthly Loss	-3.06%	-2.95%	-4.31%	-6.81%	-1.07%
Number of Up Months	13	12	10	11	11
Number of Down Months	8	9	11	10	10
Correlation with Balanced Income	--	0.87	0.88	0.78	-0.24

PIMG Balanced Income Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	-3.64%	-4.93%	-2.79%	-2.25%	n/a	n/a	n/a	7.34%

To the best of our knowledge, the ETFs used as benchmarks track the indices they represent though material tracking error and misrepresentation can occur which is beyond our control. The 25% XIC / 25% ACWI / 50% AGG index is an index consisting of 25% iShares XIC (S&P/TSX Compositie Index ETF), 25% of iShares ACWI (All-Country World Index ETF) and 50% iShares AGG (Barclays Aggregate Bond Fund). Volatility and correlation data are calculated from weekly returns. For the purpose of calculating Sharpe ratios, a risk-free rate of 3% is assumed. All returns presented for the PIMG Models and the ETFs used for comparison are in Canadian dollars. Data used to calculate returns are derived from Market-Q (for ETFs) and Dataphile (for the Models). All returns presented are “total returns”, meaning they include all dividend payments & interest payments.

PIMG Balanced Growth Model

Lost 5.59% during the quarter (from July 1 to September 30)

The model's asset allocation as of September 30 was 1.7% cash, 17.0% bonds, 10.8% preferred equity, 5.4% alternatives and 65.1% common equity.

Top five outperformers in Q3 were:
- Open Text Corp (Technology/Enterprise Software) at +24.38%
- Russel Metals (Industrials/Metals Distribution) at +17.15%
- WSP Global (Industrials/Engineering) at +16.02 %
- Sysco Corp (Industrials/Food Distribution) at +15.85%
- Progressive Waste Solutions (Industrials/Waste Management) at +5.82%

Top five underperformers in Q3 were:
- Baytex Energy (Energy/Medium Oil) at -76.46%
- Crescent Point Energy, formerly Legacy Oil + Gas (Energy/Light Oil) at -38.25%
- Sandvine Corp (Technology/Network Hardware) at -35.38%
- Aimia Preferred C (Preferred Share/Fixed Reset) at -25.76%
- Performance Sports Group (Consumer Discretionary/Branded Sports Goods) at -20.46%

<u>During Q3, we bought:</u>

- Russel Metals (RUS): We purchased a full position in Russel as its valuation had fallen to recessionary levels despite much of the market shrugging off the possibility of recession. Russel traded at 6.2x trailing earnings ex-cash and 12x ex-cash if when annualized its most recent quarter. Russel has shown an ability to remain profitable throughout recessions and with a large net cash balance, we believe there is very little risk of bankruptcy, even in the worst-case scenario with respect to the economy. We think buying at 6.2x trailing and a yield above 7% is a rare opportunity to buy a bellwether stock with limited downside and plenty upside if economic conditions normalize. Over time, Russel should see a boost in its manufacturing-facing businesses which should help offset weakness in energy. Energy amounts to 45% of total revenues but only 20% relates to oil and gas drilling, the rest being related to pipelines and storage.

- Open Text Corp (OTC): We purchased a full position in Open Text as it had fallen to a well below average valuation and as IBM's and SAP's recent reports show that Open Text's woes are not unique and are more likely a symptom of economic/sectoral weakness. Open Text traded at 16.5x its depressed earnings level (of the two previous quarters) and 11x its normalized earnings level (of the two quarters leading up to the past two). A fair value for Open Text is likely a small premium to the market multiple of ~19x so even without a return to previous earnings levels, there is upside in Open Text shares. We expect Open Text to achieve earnings similar to that of recent history when economic growth and business spending recovers and that its cost cutting program will help it get there as well. As Open Text has proven itself an adept acquirer, we believe this depressed market could create some opportunity for Open Text to acquire smaller, private peers at attractive prices, further accelerating its recovery toward previous earnings levels.

- Black Diamond Group (BDI): We purchased a small position in Black Diamond after oil prices staged a material rally from their multi-year lows of US$38 WTI, yet Black Diamond shares remained near their lows. Black Diamond traded at a very low EV/EBITDA multiple of 6x trailing on depressed earnings which are 20%-30% below pre-2015 levels, versus 7.5x long-term. We think Black Diamond should be able to weather low oil prices as it has exposure to some major late stage, lower cost oil sands projects that are likely to continue producing. Black Diamond offers plenty of optionality to not just oil prices but also the potential for west coast LNG projects. We believe Black Diamond could easily double its business should west coast LNG become a reality.

- Saputo Inc (SAP): We purchased a full position in Saputo as cheese prices are expected to improve over the next three to six months, and Saputo's valuation of ~20x trailing earnings (at a depressed earnings level) is cheap considering its incredibly low debt profile relative to peers. We believe Saputo has the opportunity to grow through acquisition and can use debt to finance these acqusitions, providing plenty of earnings growth going forward. At the very least, we expect stock buybacks financed by debt issuance to increase thereby improving Saputo's valuation relative to peers. We believe Saputo can generate 20%-30% upside from financial engineering (i.e. debt issuances and stock buybacks) alone.

- iShares iBoxx U.S. High Yield Bond Index ETF CAD-Hedged (XHY): We purchased a full position in iShares XHY as the iBoxx U.S. High Bond Index has fallen more than the S&P 500 since mid-2014. Often when this happens, as history has shown, equities begin to exhibit weakness in coming months relative to high yield bonds. This ETF currently offers a yield-to-maturity of 6.9% and a modest duration of 4.2 years. We sold half of our position in the AGF Floating Rate Income Fund (AGF4076) that also holds high yield bonds but has a lower duration. AGF4076 has outperformed XHY over the last 15 months as U.S. short-term rates have risen but long-term rates have fallen. We believe XHY provides a better opportunity for total returns going forward and that investors will realize a long-term return of close to 6% after management fees and defaults are incorporated.

<u>During Q3, we sold:</u>

- Canadian Tire Corp (CTC.A): We sold our position in Canadian Tire as it had yet to price in a Canadian recession and remained overpriced relative to its historical trading multiple. Though we believe that as a result of Target's exodus from Canada that Canadian Tire has a good chance to capture more of the housewares market in the near-term, we do not think its shares should trade above their historical range considering the high probability of a Canadian recession, combined with Canadian Tire's above average exposure to discretionary purchases (e.g. sports equipment, housewares, automotive improvements and repairs). We believed that switching from CTC.A to RUS was a good move at the time as CTC.A shares had not priced in recession and RUS shares had, in our opinion.

- Agrium Inc (AGU): We sold our position in Agrium as it had held up well during the market turmoil in August and it traded at a high valuation of 9x trailing EV/EBITDA, a 30% premium to its long-term average. The price dynamics of the fertilizer industry continue to worsen as potash prices continue to decline as Uralkali and Belaruskali ramp up production and as nitrogen margins are depressed by an extended period of low natural gas prices in North America. Fertilizer demand expectations are likely on the decline due to the worsening growth outlook in Asia. If there is another Asian currency crisis, many Asian buyers could be temporarily priced out of the fertilizer markets. As the outlook for Agrium is worsening, we do not think owning it at a 30% premium to its long-term average is prudent.

- WSP Global (WSP): We sold half of our position in WSP Global as it is was the most expensive engineering company in the world, trading at 9.7x forward EV/EBITDA versus the next highest at 9.5x and the average at 7.8x, as per our RJ infrastructure analyst Frederic Bastien. We believe most of the upside has been realized, but have opted to keep a small position as WSP could grow into its valuation as well as due to a lack of good equity alternatives in the current market.

- AGF Floating Rate Income Fund (AGF4076): We sold half of our position in AGF Floating Rate Income Fund as it had greatly outperformed longer duration high yield bond funds and we believe the return prospects of longer duration high yield bond funds are now more attractive. We will look to switch the rest of this fund into longer duration high yield exposure if AGF4076 outperforms further.

PIMG Balanced Income Model

Lost 3.56% during the quarter (from July 1 to September 30)

The model's asset allocation as of September 30 was 1.6% cash, 25.3% bonds, 9.5% convertible debentures, 14.2% preferred equity, 4.7% alternatives and 44.7% common equity.

Top five outperformers in Q3 were:
- WSP Global (Industrials/Engineering) at +16.02 %
- Fortis Inc. (Utilities/Diversified) at +9.78%
- Smart REIT, formerly Calloway REIT (REITs/Commercial) at +7.12%
- Progressive Waste Solutions (Industrials/Waste Management) at +5.82%
- BCE Inc. (Telecom/Diversified) at +4.15%

Top five underperformers in Q3 were:
- Crescent Point Energy (Energy/Light Oil) at -38.24%
- Aimia Preferred C (Preferred Share/Fixed Reset) at -25.76%
- Enbridge Preferred N (Preferred Share/Fixed Reset) at -16.00%
- Enbridge Inc. (Utilities/Diversified) at -14.37%
- Great-West Lifeco (Financials/Insurance) at -11.18%

During Q3, we bought:

- Fixed Income Top-Ups: We decided to put some of the idle cash to work by boosting some fixed income positions by 10%-25%. The securities we added to were Enbridge Preferred N (ENB.PR.N), Dundee Corp Preferred C (DC.PR.C), Aimia Preferred C (AIM.PR.C), Fairfax Financial Preferred C (FFH.PR.C), Lysander Corporate Value Bond Fund (LYZ801A) and AGF Floating Rate Income Fund (AGF4076).

- Black Diamond Group (BDI): Same reasoning as the Balanced Growth Model.

- Saputo Inc (SAP): Same reasoning as the Balanced Growth Model.

- iShares iBoxx U.S. High Yield Bond Index ETF CAD-Hedged (XHY): Same reasoning as the Balanced Growth Model.

<u>During Q3, we sold:</u>

- Agrium Inc (AGU): Same reasoning as the Balanced Growth Model.

- WSP Global (WSP): Same reasoning as the Balanced Growth Model.

- AGF Floating Rate Income Fund (AGF4076): Same reasoning as the Balanced Growth Model.

Going Forward:

The models outperformed in the quarter due to continued weakness in the energy and materials sectors, of which we were underweight, as well as continued strength in the U.S. dollar versus the Canadian dollar (up ~6% during the quarter) which improves the Canadian dollar return of our U.S. dollar positions. A strong performance by Open Text gave a notable boost to the Balanced Growth model. This outperformance was offset by continued weakness on behalf of our preferred share holdings, as falling Canadian inflation and interest rate expectations pushed the Canadian yield curve toward all-time lows.

As we noted last quarter, the fixed reset preferred share market is pricing in near record low rates in perpetuity. Many of the fixed reset holdings we own now have a yield-to-call of 15%-20% at the first call date and 9%-13% at the second call date. We believe it is possible that interest rates could remain low for the next several years as the oil glut is expected to continue and this should keep inflation and interest rate expectations under wraps. That said, we believe it is highly unlikely that the Government of Canada 5-year rate will remain at the 1% level for as long as eight to ten years, which is the time frame in which most fixed resets reach their second call date. For this reason, we see 9%-13% annual returns as being fairly reliable and highly attractive.

The opportunity for gains in fixed income has expanded to the high yield bond market with the iBoxx U.S. High Yield Bond Index ETF (XHY) now brandishing a yield-to-maturity of 6.9%, comparable to what we expect to receive from equity markets for the foreseeable future. The markets are evolving such that many credit sensitive fixed income securities are beginning to look more attractive than the highly valued and exhausted equity market. It is fair to mention that weakness in credit sensitive fixed income markets often predicts weakness in equity markets so moving out of equities into credit sensitive fixed income makes sense based on market history.

We remain slightly bearish on the Canadian energy sector considering the extent of excess global oil production and global oil inventories. As a result, we remain underweight the energy sector and will likely continue to be so. We added two companies that have some indirect energy market exposure, Russel Metals (in the Balanced Growth model) and Black Diamond Group (in both models), which trade at very low valuations and should fare well even if the energy sector continues to deteriorate.

Our U.S. dollar exposure rose modestly from the end of last quarter sitting at 13.7% (13% last quarter) for the Balanced Growth model and 4.7% for the Balanced Income model (4.6% last quarter). The rise in U.S. dollar exposure was entirely due to strength in the U.S. dollar.

We remain cautious on the equities and as stated above are considering a slight shift from equities to credit sensitive fixed income. That said, we are comfortable with our equity positions as a whole and believe they should perform better than average if we experience further market weakness.

As at the end of Q3, the models yield 3.1% (Balanced Growth) and 4.1% (Balanced Income) from 2.5% and 3.8% at the end of Q2.

Sincerely,

Steele Wealth Management

The information contained in this report was obtained from sources believed to be reliable, however, we cannot present that it is accurate or complete. Information has been sourced from the RJL Bond Desk or RJ Private Client Solutions, unless otherwise noted. Index and sector returns represented in this commentary are measured using the S&P/TSX Total Return Index and S&P/TSX GICS Sector Indices as detailed in Raymond James Ltd.'s *Insights & Strategies: Quarterly Edition*. This report is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the author and not necessarily those of Raymond James Ltd. (Member Canadian Investor Protection Fund).

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