RAYMOND JAMES | Steele Wealth Management

Fourth Quarter 2015

"Intracontinental Divergence"

U.S. Equity Markets Take the Initial U.S. Fed Rate Hike Well While Canadian Markets Flounder on Low Oil Prices and Lack of Growth

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U.S. and Canadian Interest Rates, Economies and Markets Diverge In 2015

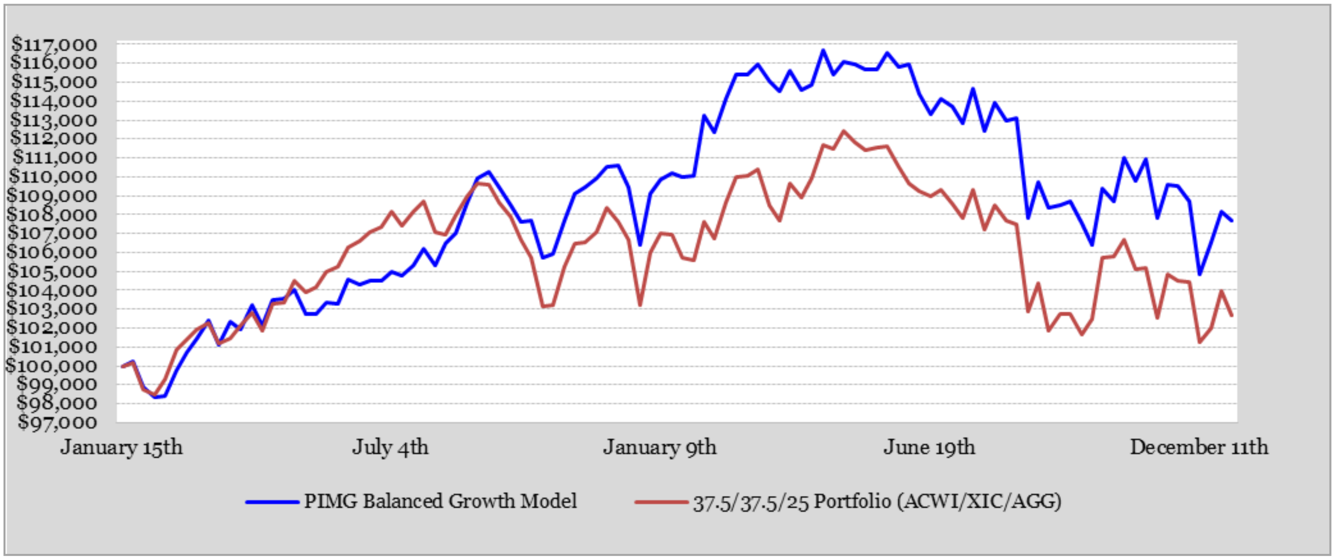
- The S&P/TSX Composite Total Return Index lost 1.4% during the 4th quarter of 2015.
- The more defensive and non-interest rate sensitive sectors, namely consumer staples, financials, materials and information technology, led the TSX Composite Index in the quarter while the more cyclical sectors and interest rate sensitive sectors, such as health care, consumer discretionary, energy, industrials, telecom and utilities, trailed.
- The S&P 500 gained 7% in the fourth quarter, outperforming the S&P/TSX Composite by 8.4%, one of the greatest quarterly divergences in history for these two indices. U.S. equity markets benefitted from investors flocking to the safety of the U.S. dollar, as well as a positive outlook for the U.S. economy which was aided by the first rate hike in over nine years by the U.S. Federal Reserve. Canadian equity markets were hurt by nonexistent GDP growth and oil and natural gas prices falling to multi-year lows.
- The WTI oil price was US$37 at end of trading on December 31, finishing the year at its lowest point since early February 2009, and down over 20% in the quarter. Oil prices remain under pressure as Iran hopes to export up to an additional 1.5 million barrels per day by the end of 2016, and as slower than expected global economic growth has resulted in lower than expected oil demand growth. Notwithstanding some unforeseen geopolitical crisis, all signs point to an oversupplied oil market until at least late 2017.
- The performance of the Canadian dollar, down 16% versus the U.S. dollar in 2015, reflects the Canadian economy's weakness relative to the rest of the world. Canadian GDP came in virtually flat year-over-year versus global and U.S. growth of a little over 2%. The Canadian unemployment rate has risen from 6.6% in January 2015 to 7.1% in November 2015. The RBC Manufacturing PMI came in at its lowest level since the series started in 2010, and the series shows that Canadian manufacturing sector has been in contraction for six straight months, despite a much lower Canadian dollar making Canadian exports more attractive on the world stage. The economic weakness is centered on the oil-dependent provinces of Alberta, Newfoundland and Saskatchewan, all of which are in or are near recession, while the provinces of Ontario and Quebec are experiencing economic growth just shy of global rates. The slew of poor economic data puts the odds of another Canadian interest rate cut in 2016 at over 60% versus below 30% in November 2015.
- In December, the U.S. Federal Reserve raised the U.S. benchmark interest rate by 0.25% to 0.50% and provided interest rate guidance below expectations. Raising the interest rate, while tempering interest rate expectations, ensured that markets remained calm following the announcement. With a shallow trajectory of rate hikes now in place, most market participants see the initial interest rate hikes as having little effect on the real economy, and are therefore not worried about the effect of higher interest rates on the stock market. Rate hikes will depend on U.S. economic data, which has weakened as of late, lowering the odds of a near-term hike.
- The European economy is a bright light in an otherwise dim world. While the Chinese, Brazilian and Canadian manufacturing PMIs are at or near post-2008 cycle lows and the U.S. and Indian PMIs are at their lowest levels since 2013, the euro zone PMI is near its highest level since 2011. The European outperformance is almost entirely due to a weak Euro.

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 fully 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 December 31, 2015



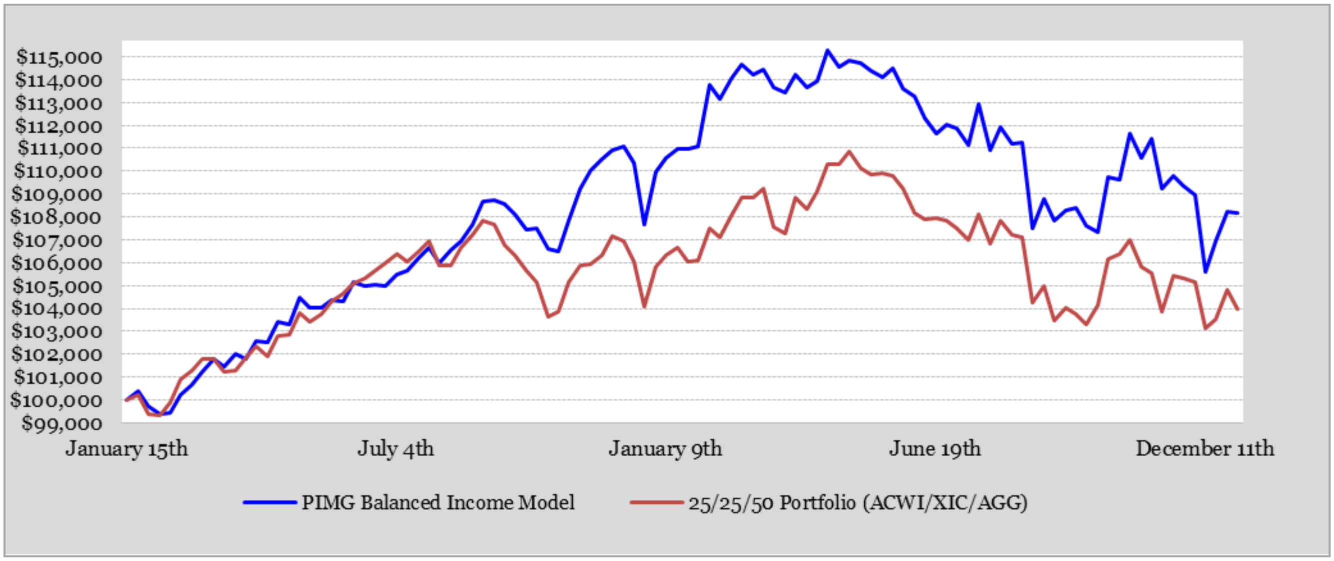
01/15/2014 – 12/31/2015	PIMG Balanced Growth Model	37.5% XIC / 37.5% ACWI / 25% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	7.72%	2.67%	0.05%	1.88%	5.84%
Compound Annual Return	3.86%	1.35%	0.03%	0.95%	2.94%
Standard Deviation	8.86%	8.89%	13.00%	12.88%	3.28%
Sharpe Ratio	0.10	-0.19	-0.23	-0.16	-0.02
Largest Monthly Gain	4.16%	3.60%	4.13%	7.66%	2.22%
Largest Monthly Loss	-3.99%	-4.25%	-4.31%	-6.81%	-1.07%
Number of Up Months	14	12	11	12	12
Number of Down Months	10	12	13	12	12
Correlation with Balanced Growth	--	0.90	0.89	0.81	-0.35

PIMG Balanced Growth Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	1.01%	-5.02%	-6.06%	-3.80%	n/a	n/a	n/a	3.86%

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. All return numbers beyond 12 months are annualized numbers.

Benchmark of iShares XIC/ACWI/AGG (25%/25%/50%)
vs
The PIMG Balanced Income (BI) Model

January 15, 2014 (Inception of BI Model) to December 31, 2015



01/15/2014 – 12/31/2015	PIMG Balanced Income Model	25% XIC / 25% ACWI / 50% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	8.16%	3.96%	0.05%	1.88%	5.84%
Compound Annual Return	4.08%	2.00%	0.03%	0.95%	2.94%
Standard Deviation	6.59%	5.75%	13.00%	12.88%	3.28%
Sharpe Ratio	0.16	-0.17	-0.23	-0.16	-0.02
Largest Monthly Gain	3.02%	2.48%	4.13%	7.66%	2.22%
Largest Monthly Loss	-3.06%	-2.95%	-4.31%	-6.81%	-1.07%
Number of Up Months	14	13	11	12	12
Number of Down Months	10	11	13	12	12
Correlation with Balanced Income	--	0.87	0.88	0.79	-0.27

PIMG Balanced Income Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	0.55%	-3.12%	-4.40%	-2.26%	n/a	n/a	n/a	4.08%

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. All return numbers beyond 12 months are annualized numbers.

PIMG Balanced Growth Model

Gained 0.97% during the quarter (from October 1 to December 31)

The model's asset allocation as of December 31 was 0.8% cash, 16.7% bonds, 11.2% preferred equity, 4.4% alternatives and 66.9% common equity.

Top five outperformers in Q4 were:

- Sandvine Corp (Technology/Network Hardware) at +52.59%
- Baytex Energy (Energy/Medium Oil) at +29.70%
- Saputo Inc. (Consumer Staples/Dairy Production & Sales) at +13.43%
- Open Text Corp (Technology/Enterprise Software) at +11.46%
- Brookfield Asset Management (Preferred Shares/Fixed Reset) at +11.12%

Top five underperformers in Q4 were:

- Performance Sports Group (Consumer Discretionary/Branded Sports Goods) at -25.39%
- Russel Metals (Industrials/Metals Distribution) at -23.88%
- Dundee Corp Preferred C (Preferred Shares/Retractable) at -11.60%
- Black Diamond Group (Industrials/Remote Workforce Accommodation) at -11.18%
- Algoma Central Corp (Industrials/Great Lakes Shipping) at -8.28%

During Q4, we bought:

- Royal Bank Preferred J (RY.PR.J): We purchased a full position in Royal Bank Preferred J with the proceeds of sale from Brookfield Asset Management Preferred Z (BAM.PR.Z). By switching, we were able to extend the maturity date of our holding by 2.4 years and maintain similar credit-adjusted current and reset yields while upgrading credit quality.

- Corus Entertainment (CJR.B): We purchased a full position in Corus Entertainment. At the time of purchase, Corus traded at an all-time low valuation of 6.2x EV/EBITDA versus previous lows of 6.7x and an historical average of 8x, and at a ~35% discount to its larger and more diversified peer Shaw Communications. Investor sentiment is negative on Corus as a result of the rising popularity of "Over-The-Top" (OTT) programming (e.g. Netflix) and the CRTC's Let's Talk TV policy which will force TV providers to offer a-la-carte service offerings as of 2017. Corus looks like a bargain as the trend toward OTT programming is mostly played-out as 1 in 3 households already have Netflix service and as Let's Talk TV expected to have little effect on media company earnings. We believe sentiment toward Corus, and media companies in general, will improve significantly in 2016 as worries about the rollout of a-la-carte TV service offerings prove to be overblown.

- TD Bank Preferred D (TD.PF.D): We purchased a full position in TD Bank Preferred D as the fixed reset preferred share market crashed again and made new cycle lows. At the time of purchase, the spread between TD Bank preferred shares and comparable treasury bonds stood at roughly 4.5%. This spread is ~80% above the historical average spread and almost triple the spread at the current cycle's lows. Preferred share spreads have blown out to a much greater degree than high yield bond and other lower quality credit spreads so Canadian preferred shares remain an anomaly at this stage.

- Enbridge Preferred E (ENB.PF.E): We purchased a full position in Enbridge Preferred E with the proceeds of sale from Enbridge Preferred N (ENB.PR.N). By switching, we were able to extend the maturity date of our holding by 1.5 years, obtain a higher current yield and maintain a similar reset yield.

During Q4, we sold:

- Brookfield Asset Management Preferred Z (BAM.PR.Z): We sold our position in Brookfield Asset Management Preferred Z at a time when we comparable bank preferred shares were more attractive on multiple levels.

- Baytex Energy Corp (BTE): We sold our position in Baytex as we are growing concerned about the company's ability to meet its debt obligations. With a 3x debt-to-market cap ratio, Baytex relies entirely on a rebound in oil prices to pay down its debt and grow production. At current oil prices, Baytex is unable to pay a dividend and will very likely experience rapidly falling production, making it all the more difficult to service its debt obligations.

- Dundee Corp Preferred C (DC.PR.C): We sold ¾ of our position in Dundee Preferred C. We sold ½ of our position in the early stages of the preferred share market meltdown as it they had held up well but we wished to retain some shares as they carried a ~14% yield-to-retraction. As the preferred share market selloff accelerated and as oil prices again hit new lows, investors began to doubt the solvency of Dundee Corp as an organization and highly discounted this preferred share. We ended up selling ½ of our remaining position as the market was beginning to price in the potential for a Dundee Corp bankruptcy. As we believe there is still a chance that these Dundee Preferred C shares will be paid in full, we wished to maintain a small position.

- Aimia Preferred C (AIM.PR.C): We sold about a fifth of our position in Aimia Preferred C following a major earnings miss. We intended to sell more, but there was very little liquidity at the time. Aimia has repeatedly missed expectations over the past two years and the misses have increased in scale over time. If the trend of increasingly disappointing operating data continues, Aimia's credit quality is likely to deteriorate quickly. We will continue to watch this position and sell if the price is right.

- AGF U.S. AlphaSector Fund (AGF5030): We sold a small portion of our position in AGF5030 to fund the purchase of the bank preferred shares. We chose to liquidate a portion of AGF5030 as the performance of the underlying securities and strategy has been poor yet the fund has retained much of its value due to U.S. dollar currency exposure.

- Enbridge Preferred N (ENB.PR.N): We sold our position in Enbridge Preferred N to buy Enbridge Preferred C which had a longer term to maturity, a better current yield and slightly better reset terms. As it is unlikely that the Bank of Canada will raise interest rates soon, it is important to own fixed reset preferred shares that do not reset for several years to allow enough time for interest rates to climb to a normalized level.

PIMG Balanced Income Model

Gained 0.75% during the quarter (from October 1 to December 31)

The model's asset allocation as of December 31 was 1.0% cash, 24.9% bonds, 9.2% convertible debentures, 14.1% preferred equity, 3.7% alternatives and 47.1% common equity.

Top five outperformers in Q4 were:
- Saputo Inc. (Consumer Staples/Dairy Production & Sales) at +13.43%
- Great-West Lifeco (Financials/Insurance) at +9.03%
- Enbridge Preferred E (Preferred Shares/Fixed Reset) at +8.10%
- Fairfax Preferred C (Preferred Shares/Fixed Reset) at +7.66%
- RioCan REIT Preferred C (Preferred Shares/Fixed Reset) at +7.30%

Top five underperformers in Q4 were:
- Dundee Corp Preferred C (Preferred Shares/Retractable) at -11.60%
- Black Diamond Group (Industrials/Remote Workforce Accommodation) at -11.18%
- Progressive Waste Solutions (Industrials/Waste Management) at -7.14%
- Enbridge Inc. (Utilities/Diversified) at -6.23%
- WSP Global (Industrials/Engineering) at -4.78%

<u>During Q4, we bought:</u>

- Royal Bank Preferred J (RY.PR.J): Same reasoning as the Balanced Growth Model but with the proceeds of RioCan REIT Preferred C (REI.PR.C).

- Corus Entertainment (CJR.B): Same reasoning as the Balanced Growth Model.

- TD Bank Preferred D (TD.PF.D): Same reasoning as the Balanced Growth Model.

- Enbridge Preferred E (ENB.PF.E): Same reasoning as the Balanced Growth Model.

<u>During Q4, we sold:</u>

- RioCan REIT Preferred C (REI.PR.C): We sold our position in RioCan REIT Preferred C at a time when we comparable bank preferred shares were more attractive on multiple levels.

- Dundee Corp Preferred C (DC.PR.C): Same reasoning as the Balanced Growth Model.

- Aimia Preferred C (AIM.PR.C): Same reasoning as the Balanced Growth Model.

- AGF U.S. AlphaSector Fund (AGF5030): Same reasoning as the Balanced Growth Model.

- Enbridge Preferred N (ENB.PR.N): Same reasoning as the Balanced Growth Model.

Going Forward:

The models performed in line with their benchmarks during the quarter despite the Canadian equity market's poor performance, down over 1% versus world equity markets up 5%, and our slight overweight exposure to that market, ~44% exposure versus our benchmark at ~39%. This was possible due to a rebound in our fixed reset preferred share holdings and our underweight allocations to the Canadian energy sector, which experienced another dismal quarter. Also notable in the Balanced Growth model was the 50%+ quarterly performance from Sandvine which helped offset the ~25% declines in the stocks of Performance Sports Group and Russel Metals.

The increasingly poor Canadian economic data and rising odds of another cut to the Canadian key interest rate in 2016 is making us increasingly concerned about the near-term price impact on our fixed reset preferred share holdings. That said, our fixed reset preferred share holdings currently stand at 10.4% and 9.5% in the Balanced Growth and Balanced Income models, respectively, and we believe the impact of an another interest rate cut will be temporary. As the odds of one or more U.S. interest rate hikes in 2016 remain high, and the fact that these rate hikes will indirectly provide monetary stimulus to the Canadian economy, we believe the Bank of Canada will be able to avoid further rate cuts in 2016 so long as the U.S. economy performs in line with the current, already downgraded expectations. The fixed resets we own currently have an average yield-to-call (soft) of ~11%. Given the attractive current yields, a ~4 year average yield-to-call (soft) and our belief that the 5-Year Government of Canada bond yield will normalize to at least the 2012-late 2014 post-European Sovereign Debt Crisis average of 1.5% by 2019, we believe there is a good chance that this ~11% yield-to-call (soft) can be realized and there is little reason to sell the shares now to avoid potential near-term volatility.

We continue to be slightly bearish on the Canadian energy sector considering the extent of excess global oil production and global oil inventories. We believe the bottom for oil is in the mid-$20s, a level reached subsequent to year end, as this is the level at which the vast majority of new potential production outside of the Middle East is uneconomic. We see oil prices remaining subdued until late 2017 unless Iran is blocked from exporting its oil, which is a real possibility considering the UN is looking to stop the Syrian Civil War, and Iran is largely invested in one controversial faction, and Iran and Saudi Arabia's raised tensions following Saudi Arabia's execution of a high level Shia cleric. We remain underweight the energy sector and will likely continue to be so until we see basis for a major and sustained spike in oil prices. We believe many small- and mid-cap Canadian energy companies will go bankrupt in 2016-2017 and that most large caps are wildly overvalued.

We reduced our U.S. dollar exposure by about 1% in the quarter as a result of the sale of AGF5030.

We have shifted slightly from common equities to credit sensitive fixed income. We are happy with our equity positions but anticipate reducing the cyclicality of the models in the short-term.

As at the end of Q4, the models yield 3.4% (Balanced Growth) and 4.5% (Balanced Income) from 3.1% and 4.1% at the end of Q3. The increase is mostly due to the addition of Corus Entertainment.

Sincerely,

Steele Wealth Management

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