RAYMOND JAMES | Steele Wealth Management

Third Quarter 2016

"Central Bank Pivot?"

Central Banks Ponder Other Whether Their Actions Over the Past Eight Years Were Fruitful

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Bank of Japan Quasi-Raises Interest Rates; Trump Looks Presidential, Briefly

- The S&P/TSX Composite Total Return Index gained 5.5% during the 3rd quarter of 2016.

- The consumer discretionary, consumer staples, industrials, IT and health care sectors led the S&P/TSX Composite Index in the quarter while the energy, financials, materials, real estate, telecom and utilities sectors trailed.

- The S&P/TSX Composite outperformed the S&P 500 by 1.6% (measured in local currency), the third consecutive quarter of outperformance, driven by gains in consumer and cyclical stocks.

- The price of oil was ~US$48 (WTI) at end of trading on September 30, no change from the price on June 30. Oil prices were volatile throughout the quarter as ongoing recoveries in Nigerian and Libyan oil production were offset by news that OPEC members have agreed to a production cut to be finalized in November. The agreement calls for OPEC output of 32.5-33 million barrels per day, down from current production of 33.24 million but far higher than their long-standing production target of 30 million and notably above their revised ~32.3 million production target set in November 2015. While the market cheered the OPEC deal, likely due to the cartel's ability to reach agreement where it couldn't before, specific terms have not been offered and the deal could easily fall apart during negotiations about who cuts, how much to cut and when to cut production. Also, there are well-founded concerns that some OPEC members will cheat – Iran, Iraq and Nigeria have previously stated their intent to grow production and Venezuela and Libya are facing dire fiscal situations and desperately need oil revenues and U.S. dollars.

- U.S. interest rate expectations remained mostly steady throughout the quarter with near term expectations rising slightly and long-term expectations falling slightly. Markets now expect a 50% chance of a rate hike in December (65% chance as of October 13) and only a 70% chance of a rate hike by September 2017 (80% chance as of October 13). The European Central Bank (ECB) stood pat on rates and low interest rate expectations persist. The ECB may be forced to provide additional stimulus if capital issues at Deutsche Bank, Germany's largest bank and the world's largest derivatives trader, intensify. The International Monetary Fund recently called Deutsche Bank the world's most dangerous and systemically important bank. The Bank of Japan (BOJ) did something unexpected and unprecedented by targeting a 0% 10-year government bond yield, effectively raising interest rates. As the 10-year yield was negative 0.3% at the time, this means the BOJ will attempt to raise the yield. Japanese banks rallied on the news as a normal yield curve allows banks to borrow short and lend long and pick up the spread. Currently, banks in Japan and Europe are struggling with historically flat yield curves that make profitability difficult.

- The Canadian and U.S. housing markets have been on fire due to low mortgage rates. As of August, U.S. and Canadian house prices are up 5% and 10% respectively. Vancouver and Toronto remain the key drivers of Canadian house prices, up 20% and 13% respectively. In late August, the B.C. government enacted a tax on foreign real estate buyers within the Vancouver metro area. The law was felt immediately with September home sales falling 18% and 26% from the month and year before, respectively, compared to mostly gains elsewhere in Canada.

- Donald Trump reigned in the rhetoric and boosted his chance of U.S. election victory to ~50%. Given his pro-business corporate tax cuts and his anti-business protectionism, it is unclear how the market would react to a Trump presidency. Subsequent to quarter end, as of October 13, scandals have reduced Trump's odds to ~20%.

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.

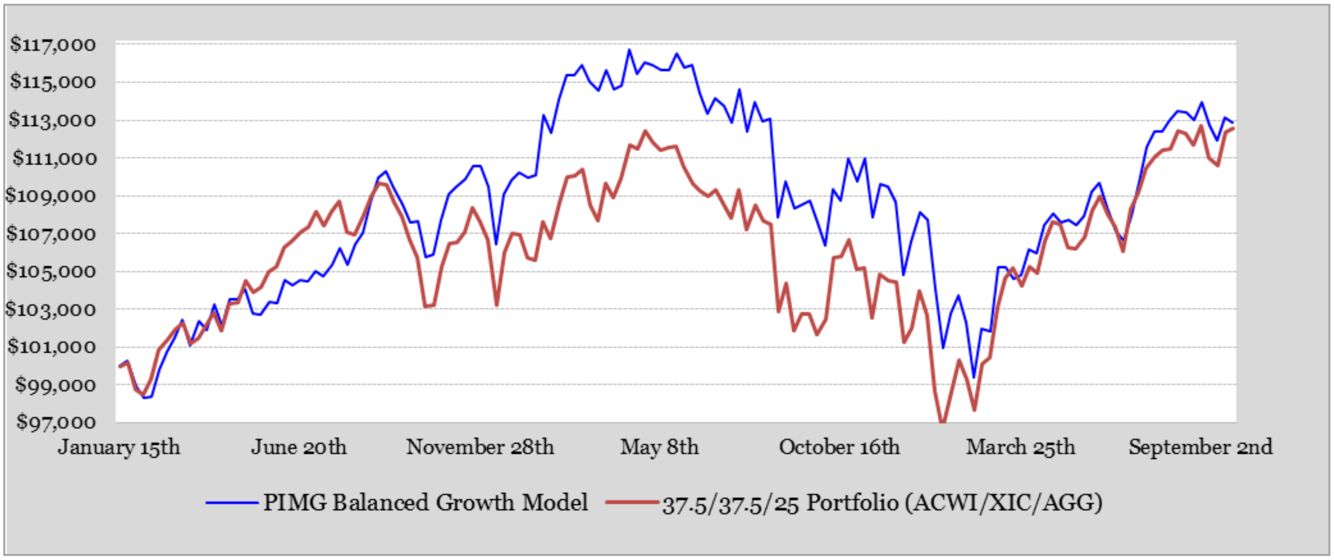
- Model returns presented are those of two individual accounts whose returns fully reflect that of the model's holdings and transactions and are not impacted by deposits or withdrawals that could impact return calculations. The accounts we use to reflect model performance incur a 1% annual investment 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 September 30, 2016



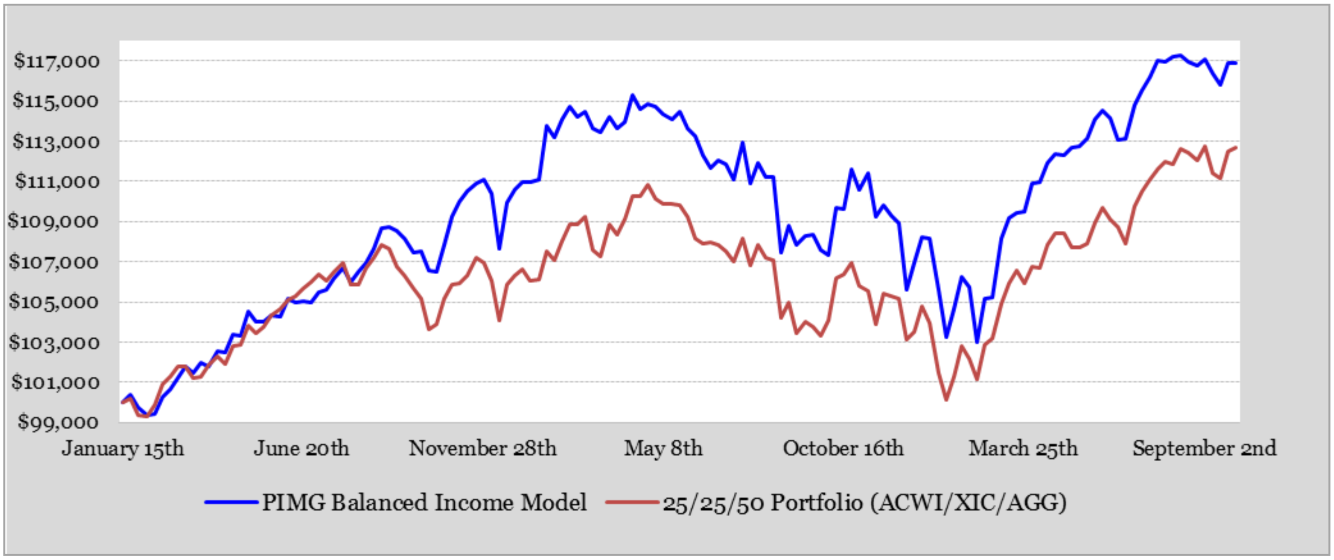
01/15/2014 – 09/30/2016	PIMG Balanced Growth Model	37.5% XIC / 37.5% ACWI / 25% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	12.86%	12.58%	15.88%	7.87%	11.88%
Compound Annual Return	4.56%	4.47%	5.58%	2.83%	4.23%
Standard Deviation	9.14%	9.12%	12.82%	13.45%	3.16%
Sharpe Ratio	0.17	0.16	0.20	-0.01	0.39
Largest Monthly Gain	4.16%	5.04%	5.45%	7.66%	2.22%
Largest Monthly Loss	-3.99%	-4.25%	-4.31%	-6.81%	-1.07%
Number of Up Months	19	20	19	18	20
Number of Down Months	14	13	14	15	13
Correlation with Balanced Growth	--	0.90	0.88	0.83	-0.34

PIMG Balanced Growth Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	4.48%	6.43%	4.77%	5.81%	n/a	n/a	n/a	4.56%

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 September 30, 2016



01/15/2014 – 09/30/2016	PIMG Balanced Income Model	25% XIC / 25% ACWI / 50% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	16.90%	12.71%	15.88%	7.87%	11.88%
Compound Annual Return	5.93%	4.51%	5.58%	2.83%	4.23%
Standard Deviation	6.88%	5.97%	12.82%	13.45%	3.16%
Sharpe Ratio	0.43	0.25	0.20	-0.01	0.39
Largest Monthly Gain	4.87%	3.65%	5.45%	7.66%	2.22%
Largest Monthly Loss	-3.06%	-2.95%	-4.31%	-6.81%	-1.07%
Number of Up Months	20	21	19	18	20
Number of Down Months	13	12	14	15	13
Correlation with Balanced Income	--	0.87	0.88	0.81	-0.25

PIMG Balanced Income Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	1.86%	5.47%	8.08%	8.90%	n/a	n/a	n/a	5.93%

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.

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PIMG Balanced Growth Model

Gained 4.5% during the quarter (from July 1 to September 30).

The model's asset allocation as of September 30 was 5.3% cash, 17.0% bonds, 9.0% preferred equity, 3.2% alternatives and 65.5% common equity.

Top five outperformers in Q3 were:
- Nintendo Company (IT/Video Game Development) at +87.83%
- Apple Inc. (IT/Consumer Electronics) at +20.62%
- AIMIA Preferred C (Preferred Share/Fixed Reset) at +14.35%
- TransForce Inc. (Industrials/Trucking) at +13.96%
- Open Text Corp (IT/Enterprise Information Management Software) at +11.64%

Top five underperformers in Q3 were:
- Black Diamond Group (Industrials/Remote Workforce Accommodation) at -15.68%
- Crescent Point Energy (Energy/Light Oil) at -14.80%
- AMC Networks (Consumer Discretionary/Media) at -13.01%
- Cara Operations (Consumer Discretionary/Restaurants) at -7.85%
- Corus Entertainment (Telecom/Media) at -6.64%

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

- Jean Coutu Group (PJC.A): We purchased a full position in Jean Coutu as it has significantly underperformed its consumer staples and pharmacy peers as a result of its limited growth and the looming effects of Quebec's Bill 81 which is expected to pressure PJC.A's margins. We expect the impact of Bill 81 should be marginal and believe it will be scrapped just as similar bills in Ontario, Saskatchewan and Alberta were scrapped. Jean Coutu currently trades at ~17x trailing and future earnings and has a net cash position of ~$100 million and monetizable real estate of ~$500 million. If Jean Coutu monetized its assets and boosted its debt load to match that of its peers and use those funds to buy back stock, we believe the shares could trade at closer to 11x earnings. This compares to consumer staples and pharmacy peers at 19x-27x earnings. We believe PJC.A provides ample upside with little downside due to its low risk financial structure and discount to peers. Further, we believe it is possible that McKesson Corp, which owns IDA/Guardian and Rexall Canada, could make a move for Jean Coutu due to Jean Coutu's low relative valuation, McKesson's non-existent footprint in Quebec making antitrust issues doubtful and the low Canadian dollar.

- Artis REIT (AX.UN): We purchased a full position in Artis REIT as its large sustainable distribution of 8.2% and its incredibly low valuation of ~10x AFFO versus similarly sized peers at ~14x make it a great way to add income and stability to the portfolio as well as some long-term upside. As Artis continues to acquire new properties and further diversify its business, it should eventually garner a valuation similar to its peers which implies a ~40% upside in addition to the 8.2% per year. The shares could be volatile in the near-term as Artis has outsized exposure to the Alberta office market but the negative effects of this exposure are already priced in and Artis could experience above average AFFO growth when the energy market eventually stabilizes, further boosting the potential 40% upside relative to peers.

- Chipotle Mexican Grill (CMG-US): We purchased a small position in Chipotle following news that Pershing Square acquired 9.9% of the company. Due to a lack of strong competition in the Mexican style segment, Chipotle has some of the most efficient fast-food restaurants in North America. Chipotle shares are down over 40% since October 2015 when news broke of a widespread E. Coli outbreak at several Chipotle locations. News of several norovirus and salmonella outbreaks also occurred around the same time and the company's brand value took a major hit. Same store sales are down roughly 25% since the peak. Due to a lack of competition in its segment, we see Chipotle recovering from its current sales trough as consumers have few options for healthy and fairly affordable Mexican style fast food. According to our analyst estimates, Chipotle trades at about 35x forward earnings compared to Yum at ~25x but Chipotle's multiple should naturally be much higher than peers due to its high capex spend and thus higher rates of depreciation, etc. We believe the market is almost fully discounting Chipotle's unmatched growth fairway at its current valuation. Chipotle only has 2,000 stores, almost entirely in the U.S. and most analysts predict Chipotle can achieve a U.S. store count of 4,000 to 5,000 in the long-term as well as build a strong presence in most other Western countries. We believe Pershing will push Chipotle to monetize the stores either through franchising or outright sale to an investor group or competitor.

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

- Waste Connections (WCN): We sold our remaining half position in Waste Connections as its valuation is incredibly stretched at 40x 2017 GAAP earnings (26x adjusted earnings), 13.5x 2017 EBITDA and 20x 2017 cash flow per share, according to RJ analyst estimates. Overall, WCN currently trades at a ~20% premium relative to WM and RSG with ambitious cost and revenue synergies already included. We see very little WCN can do in the next one to three years to generate positive surprises that push the stock much higher given the high valuation, little future acquisition potential and high expectations for cost/revenue synergies. WCN's valuation completely ignores the fact that waste collection is a cyclical business and shouldn't trade at a similar valuation to low volatility stocks in the consumer staples, utilities and telecom sectors.

- Nintendo Company (NTDOY-US): We sold half of our position in Nintendo following the announcement that Super Mario will be coming to iOS at Apple's iPhone 7 event. Nintendo was up almost 20% on the day and we feel the announcement shouldn't have added much value, particularly because the game will be a pay-once-and-play game and the upside is minimal as a result. The spike was most likely due to investor awareness of Nintendo stock as a result of the iPhone event's broad audience. At a valuation of ~$37 billion (~$29 billion ex-cash), we believe much of Nintendo's potential is played out, especially if Nintendo is going to release pay-once-and-play games which do not garner the same valuation as free to play games with in-app purchases. Activision Blizzard and EA have valuations of $32 and $25 billion respectively and are currently much more profitable than Nintendo.

- iShares 1-3 Year Treasury Bond ETF (SHY): We sold our position in iShares SHY to fund the purchase of Chipotle Mexican Grill. iShares SHY was the best way to park U.S. dollar cash in a Canadian dollar account and avoid paying currency conversion fees.

PIMG Balanced Income Model

Gained 1.9% during the quarter (from July 1 to September 30).

The model's asset allocation as of September 30 was 4.7% cash, 24.6% bonds, 4.4% convertible debentures, 11.6% preferred equity, 3.3% alternatives and 51.4% common equity.

Top five outperformers in Q3 were:

- AIMIA Preferred C (Preferred Share/Fixed Reset) at +14.35%
- Waste Connections (Industrials/Waste Management) at +10.26%
- Royal Bank of Canada (Financials/Diversified Banking) at +7.51%
- BMO Covered Call Banks ETF (ETF/Covered Call Banks) at +7.30%
- Enbridge Inc. (Utilities/Pipelines) at +6.32%

Top five underperformers in Q3 were:

- Black Diamond Group (Industrials/Remote Workforce Accommodation) at -15.68%
- Crescent Point Energy (Energy/Light Oil) at -14.80%
- Cara Operations (Consumer Discretionary/Restaurants) at -7.85%
- Corus Entertainment (Telecom/Media) at -6.64%
- Smart REIT (Financials/REIT) at -6.38%

During Q3, we bought:

- Jean Coutu Group (PJC.A): Same reasoning as the Balanced Growth Model.

- Artis REIT (AX.UN): Same reasoning as the Balanced Growth Model.

During Q3, we sold:

- Waste Connections (WCN): Same reasoning as the Balanced Growth Model.

Going Forward:

The **Balanced Growth** model outperformed its benchmark in the third quarter due to outsized gains in Nintendo and Apple. Nintendo only accounted for ~1.5% of the model on July 1 and generated ~30% of returns realized throughout the quarter. The outsized gains from individual security selection were partially offset by a lack of energy sector exposure. We believe the energy sector is getting ahead of itself considering the current oil price and the high likelihood of another 9-18 months of excess oil supply. Some large oil companies are trading within earshot of their 2014 highs, when oil prices were around US$100. We remain highly underweight the materials and energy sectors and believe the unwinding of the commodity supercycle remains in force and that these sectors remain in a long-term downtrend. With the potential for a European banking crisis as well as political shock due to Brexit and the French election, we are confident that global economic growth will remain low and that these sectors will remain out of favour over the medium term. Our cash position has fallen to ~5%, from 10% at the end of Q2, as we purchased some deep value stocks. We will look to maintain a notable cash position given current market valuations but feel comfortable adding stocks like Jean Coutu, Artis REIT and Chipotle Mexican Grill on weakness.

The **Balanced Income** model underperformed its benchmark during the quarter. This underperformance was almost entirely the result of the model's lack of energy sector exposure and general weakness experienced by interest rate sensitive equities.

We believe global interest rates will remain depressed given the weak economic outlook. We feel that the U.S. Federal Reserve has some capability to raise interest rates given the U.S. economy's relative strength and the minimal effect interest rate increases will have on the long-end of the yield curve. We believe the U.S. Fed will need to raise interest rates several times before other countries follow. It is possible that central banks may experiment with interest rates, similar to the BOJ's recent move to target the 10 year bond yield, given the pressure low rates puts on the profitability and solvency of commercial banks. In particular, we believe the ECB may mimic the BOJ's action to shore up ailing commercial banks like Deutsche Bank. That said, aside from shoring up commercial banks by creating a spread for them to exploit, we believe global deflationary pressures remain and may intensify if central banks materially reel in monetary stimulus. As a result, the tailwinds are likely to remain in place for the consumer staples, REIT, telecom and utilities sectors.

After the BOJ's interest rate action, it is likely that global central banks (ex-U.S.) will remain on hold in the coming months and will probably only cut rates further during a financial crisis. If the U.S. Fed starts to raise interest rates, this acts as an effective cut for all other central banks and relieves their pressure to cut interest rates.

We are mostly unconcerned about the U.S. election and believe it will have a mostly immaterial effect on long-term growth expectations given the limited power held by the U.S. executive branch.

As at the end of Q3, the models yield 2.9% (Balanced Growth) and 3.7% (Balanced Income) from 2.7% and 3.6% at the end of Q2. The increase is due to the addition of high yielding Artis REIT.

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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