Fourth Quarter 2016

"Surprise Trump Victory"

Equity Markets Spike and Bond Markets Plummet as Investors Price in Higher Growth, Inflation and Interest Rate Expectations

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Trump's Infrastructure and Tax Proposals Boost Economic Growth and Inflation

- The S&P/TSX Composite Total Return Index gained 4.5% during the 4th quarter of 2016.

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

- The S&P/TSX Composite outperformed the S&P 500 by 0.7% (measured in local currency), the fourth consecutive quarter of outperformance, driven by gains in cyclical stocks.

- The price of oil was ~US$54 (WTI) at end of the year, up from ~US$48 at the end of the third quarter and up from ~US$37 at the beginning of 2016. Oil prices were volatile throughout the year and only really began to rally consistently surrounding the OPEC meetings in the latter half of the year. OPEC's November 30 meeting was the key turning point for oil prices in 2016 with prices rising 15% the two days following the meeting. OPEC nations committed to a greater than expected production cut of 1.2 million barrels per day, with Saudi Arabia taking more than its fair share of the commitment despite its previous comments that it was hesitant to cut without similar cuts from most of its peers. The OPEC deal was quickly followed by a deal made by eleven non-OPEC members, led by Russia and Mexico, to cut production to aid in the effort to boost oil prices. Subsequent to year-end, several OPEC nations signaled compliance with the deal, quelling widespread fears that cheating would be rampant as is historically the case.

- U.S. interest rate expectations skyrocketed during the fourth quarter following Trump's election as U.S. president. While U.S. equity futures fell roughly 5% immediately after it was apparent Trump would win the election, investors were quick to disregard Trump's protectionist trade stance and embrace his proposals to significantly boost infrastructure spending and cuts taxes across the board, pushing U.S. stocks up 5% since the election. Trump's U.S. government debt rhetoric throughout the campaign also raises the odds of future deficit spending compared to a potential Clinton administration as well as the previous administration, further boosting and solidifying economic growth and inflation expectations. U.S. bonds sold off substantially with the five- and thirty-year U.S. Treasury bond rates rising to 2.03% and 3.11% by the end of 2016, up from 1.29% and 2.58% on the day of the U.S. election and up from 0.98% and 2.11% on July 8, the lowest level for U.S. thirty-year bond yields on record. While the rapid pivot from all-time lows for long-term U.S. Treasury yields to multi-year highs for short-term U.S. Treasury yields could signal a paradigm shift in U.S. interest rate expectations and perhaps global interest rate expectations, from ever declining rates to rising rates, the U.S. and global yield curves remain historically flat. Economic growth and inflation expectations are well within their modest post-2008 crisis ranges and while investors are pricing in some near-term U.S. interest rate hikes, they seem unconvinced that the growth and inflation outlook has improved much.

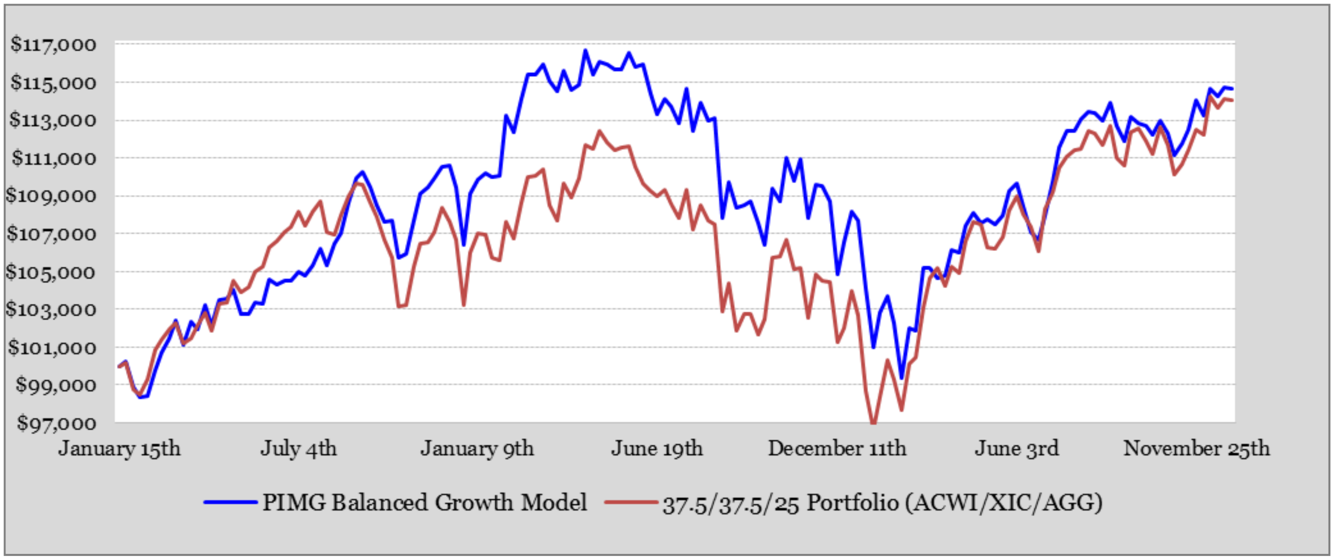
- Canadian and U.S. mortgage rates spiked since the U.S. election in line with rising interest rates. The long-term effect of higher mortgage rates on housing prices is arguable given that they are primarily the result of higher economic growth expectations. Higher employment levels and wage growth should mostly offset the negative effects of higher mortgage interest costs. The Canadian and U.S. housing markets continue to perform well with the exception of several U.S. west coast cities that are experiencing stagnation after years of country leading price gains and Vancouver which is seeing outright price declines as a result of the Vancouver-specific policy changes.

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, 2016



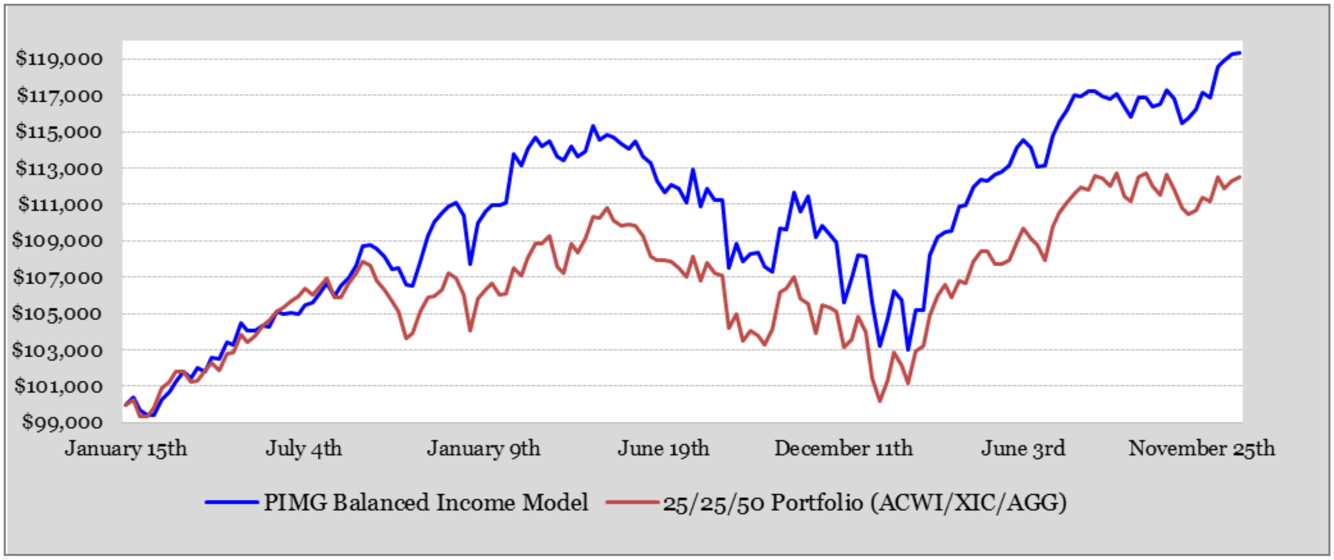
01/15/2014 – 12/31/2016	PIMG Balanced Growth Model	37.5% XIC / 37.5% ACWI / 25% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	14.69%	14.04%	21.06%	9.00%	8.39%
Compound Annual Return	4.77%	4.57%	6.71%	2.97%	2.78%
Standard Deviation	8.89%	8.94%	12.56%	13.22%	3.35%
Sharpe Ratio	0.20	0.18	0.30	0.00	-0.07
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	21	22	22	20	21
Number of Down Months	15	14	14	16	15
Correlation with Balanced Growth	--	0.90	0.88	0.83	-0.29

PIMG Balanced Growth Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	1.62%	6.18%	8.16%	5.81%	n/a	n/a	n/a	4.77%

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, 2016



01/15/2014 – 12/31/2016	PIMG Balanced Income Model	25% XIC / 25% ACWI / 50% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	19.30%	12.51%	21.06%	9.00%	8.39%
Compound Annual Return	6.18%	4.09%	6.71%	2.97%	2.78%
Standard Deviation	6.71%	5.87%	12.56%	13.22%	3.35%
Sharpe Ratio	0.47	0.19	0.30	0.00	-0.07
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	23	22	22	20	21
Number of Down Months	13	14	14	16	15
Correlation with Balanced Income	--	0.87	0.88	0.81	-0.20

PIMG Balanced Income Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	2.05%	3.95%	7.63%	10.30%	n/a	n/a	n/a	6.18%

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 1.6% during the quarter (October 1 to December 31).

The model's asset allocation as of December 31 was 5.4% cash, 16.9% bonds, 9.0% preferred equity, 3.2% alternatives and 65.5% common equity.

Top five outperformers in Q4 were:
- TransForce Intl (Industrials/Trucking) at +29.60%
- TD Bank (Financials/Diversified Banking) at +14.74%
- Royal Bank of Canada (Financials/Diversified Banking) at +12.90%
- Enbridge Preferred E (Preferred Share/Fixed Reset) at +10.08%
- AIMIA Preferred C (Preferred Share/Fixed Reset) at +9.35%

Top five underperformers in Q4 were:
- Nintendo Company (IT/Video Game Development) at -19.53%
- Empire Company (Consumer Staples/Grocery) at -19.22%
- Cara Operations (Consumer Discretionary/Restaurants) at -9.21%
- Chipotle Mexican Grill (Consumer Discretionary/Restaurants) at -8.88%
- Rogers Communications (Telecom/Diversified) at -6.14%

During Q4, we bought:

- TD Bank Preferred D (TD.PF.D): We swapped Royal Bank Preferred J for TD Bank Preferred D as Royal Bank Preferred J was trading at a higher price despite its lesser attributes (e.g. yield, reset rate) and similar credit quality. TD Bank Preferred D historically traded at a ~$0.50 premium to Royal Bank Preferred J.

- Sprott Energy Fund (SPR006): We swapped Crescent Point Energy and Black Diamond Group for Sprott Energy Fund as the fund manager has shown tremendous skill in timing the energy sector as well as in picking the winners. As large cap energy stocks appear to be very expensive relative to energy prices, we believe investing in mid- and small-cap energy companies will provide the most return for the risk taken. We also believe that it is very difficult to differentiate between mid- and small-cap energy companies so outsourcing this function to a proven fund manager makes sense. The Sprott Energy Fund invests exclusively in small and mid-cap energy companies. We will look to add to this fund as we become more constructive on the energy sector in general.

During Q4, we sold:

- Royal Bank Preferred J (RY.PR.J): Reasoning detailed above under "TD Bank Preferred D".

- Crescent Point Energy (CPG): We sold Crescent Point as we are unsure whether it offers the best value amongst mid-cap producers and would rather own Sprott Energy Fund for that type of exposure.

- Black Diamond Group (BDI): We sold Black Diamond as we are unsure whether it offers the best value within the energy sector and would rather own Sprott Energy Fund for that type of exposure.

PIMG Balanced Income Model

Gained 2.1% during the quarter (October 1 to December 31).

The model's asset allocation as of December 31 was 5.1% cash, 24.1% bonds, 4.2% convertible debentures, 11.3% preferred equity, 3.4% alternatives and 51.9% common equity.

Top five outperformers in Q4 were:
- Manulife Financial (Financials/Life Insurance) at +30.22%
- TD Bank (Financials/Diversified Banking) at +14.74%
- Royal Bank of Canada (Financials/Diversified Banking) at +12.90%
- Enbridge Preferred E (Preferred Share/Fixed Reset) at +10.08%
- AIMIA Preferred C (Preferred Share/Fixed Reset) at +9.35%

Top five underperformers in Q4 were:
- Cara Operations (Consumer Discretionary/Restaurants) at -9.21%
- Smart REIT (Financials/REIT) at -7.51%
- Power Corp Preferred D (Preferred Share/Perpetual) at -5.66%
- Great West Lifeco Preferred H (Preferred Share/Perpetual) at -4.64%
- Sun Life Financial Preferred C (Preferred Share/Perpetual) at -3.88%

During Q4, we bought:

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

- Sprott Energy Fund (SPR006): Same reasoning as the Balanced Growth Model.

During Q4, we sold:

- Royal Bank Preferred J (RY.PR.J): Same reasoning as the Balanced Growth Model.

- Crescent Point Energy (CPG): Same reasoning as the Balanced Growth Model.

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

Going Forward:

The **Balanced Growth** model underperformed its benchmark slightly in the fourth quarter as the cyclical sectors (e.g. the materials, energy, industrials and financials sectors) experienced a significant rally following the U.S. election. Further, some of the big gains achieved by Nintendo were reversed during the fourth quarter but this was partly mitigated by our decision to sell half of the position near the end of the third quarter. Fixed reset preferred shares performed well and perpetual preferred shares performed poorly in response to rising interest rates. We believe the losses experienced by the perpetual preferred shares is due to investors switching from perpetuals to fixed resets but that the decline in perpetuals is not sustainable going forward as interest rates still remain near historical lows and most perpetuals historically traded near par (i.e. $25) when the prime lending rate was in the 4%-6% range, up from 2.7% today.

Our oil price outlook has improved markedly in response to the OPEC and non-OPEC deals as excess oil supply will completely be wiped out if these countries stick to their respective agreements. While there has never been a time when most OPEC members did not cheat on a public supply agreement, we believe there is a higher chance of compliance this time as a result of budgetary issues for most petro-economies and the agreement allows for some production growth by the growth-oriented OPEC nations, likely improving the odds of compliance by those most at risk of cheating. We remain underweight the energy sector going into 2017 but will look to add small and mid-cap exposure, likely through the Sprott Energy Fund when energy stock prices look more reasonable relative to oil prices. We remain underweight the materials sector as we believe the unwinding of the commodity supercycle remains in force and that these sectors remain in a long-term downtrend, albeit with some countertrends as seen in oil prices due to supply manipulation. In the fourth quarter, Chinese officials stated that they are willing to let Chinese annual economic growth rate fall below their stated 6.5% minimum, which could mean less demand for industrial metals than expected in 2017 and beyond.

The **Balanced Income** model outperformed its benchmark during the quarter. This outperformance was due to the rapid decline in prices experienced by bonds in general, which are well represented in the model's benchmark. This outperformance was in spite of the general weakness experienced by interest rate sensitive equities throughout the quarter.

At the end of 2016, the market is pricing in three U.S. interest rate hikes. We believe three hikes will be difficult to achieve and would likely require an entire year with no negative U.S. economic data surprises, which we think is unlikely. We think it is appropriate to maintain an overweight position in interest rate sensitive equities as we believe the market will reduce interest rate expectations in 2017. If we do experience falling interest rate expectations, we will be quick to ramp up our cyclical exposure as we believe we truly experienced a paradigm shift in interest rate expectations in late 2016. Trump's economic policies mark a marked shift from the past eight years.

As at the end of Q4, the models yield 2.6% (Balanced Growth) and 3.5% (Balanced Income) from 2.9% and 3.7% at the end of Q3. The increase is mainly due to swapping BDI and CPG for SPR006.

We expect to adjust our strategic sector/asset allocation in early 2017. While the models have outperformed their benchmarks, we feel the Balanced Growth model in particular could do better if it held larger positions in our most favoured dividend-paying blue chip stocks and had less exposure to our favoured small- and mid-cap stocks. Going forward, we expect to hold fewer common equity ETFs, hold larger positions in dividend-paying blue chip stocks and invest in more alternative asset

ETFs in a bid to boost returns and reduce portfolio volatility. As stated previously, this effort will be focused on the Balanced Growth model as we are hesitant to do much to the Balanced Income model which has provided excellent returns for the risks taken as demonstrated by a Sharpe ratio of 0.47, which is well ahead of all benchmarks and sub-benchmarks we record. The Balanced Income model is already fairly concentrated and has avoided many of the pitfalls experienced by the Balanced Growth model over the past three years.

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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