First Quarter 2017

"Trump Rally to Trump Dilly Dally"

The Trump Rally Continues From Q4 and Then Abruptly Ends in March as Republican Lawmakers Fail to Agree on Health Care

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Trump’s American Health Care Act Fails in the House; Trump Rally in Doubt

- The S&P/TSX Composite Total Return Index gained 2.4% during the 1st quarter of 2017.

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

- Reversing a yearlong trend, the S&P 500 returned 6.1%, outperforming the S&P/TSX Composite by 3.7% (measured in local currency), driven mostly by energy sector weakness.

- The price of oil was ~US$51 (WTI) at end of the quarter, down from ~US$54 at the end of 2016. Despite OPEC members and non-OPEC nations broadly conforming to the oil supply deals reached in November and December 2016 and the broad expectation for a material oil demand-supply imbalance in the coming months when seasonal oil demand picks up, oil prices were mostly range bound between $50 and $55 during the quarter as US production increased far more quickly than expected. US oil production increased nearly 400,000 barrels per day between October 2016 and March 2017, an increase of almost 5%. Investors are now fairly cautious in their oil price forecasts as US production is expected to ramp up much faster as oil prices rise, limiting oil price upside. Towards the end of the quarter, Saudi Arabia, which had previously boasted that it had cut oil production even more than it agreed to in the November OPEC deal and that this could lead to further OPEC production cuts, announced that it raised production back up to the agreed upon level. This put energy investors on their heels as the opportunity for further OPEC production cuts is now limited.

- While US interest rate expectations were nowhere near as volatile as they were in the fourth quarter of 2016, they were still more volatile than most of the last decade. Interest rate expectations ranged from 2.5 quarter point rate hikes in 2017 to 3.5 quarter point rate hikes. US and global economic data has been some of the best we’ve seen in the business/market cycle and in March the US Federal Reserve hiked the key US interest rate by 0.25% as a result. As at the end of the first quarter, the market expects a total of three 0.25% US interest rate hikes in 2017, in line with what was expected at the beginning of 2017. These expectations are largely dependent on a continuation of solid employment growth figures and tame inflation. The Trump administration’s inability to get the American Health Care Act through the House does not provide investors with a lot of confidence in the ability of the administration to achieve any of its platform promises. Most notably, without a major cut in corporate and/or personal taxes or a notable boost to infrastructure spending, it is possible that employment growth, inflation and interest rate hikes could underwhelm in 2017.

- Europe is due to have several major elections in 2017. In March, the Netherlands voted for the status quo despite broad concern that nationalist Geert Wilder’s Party for Freedom would see a surge in Senate representation. Voters in France head to the polls on April 23 and likely again for a run-off election on May 7. In light of economic stagnation and terrorist events, Marine Le Pen’s nationalist and Eurosceptic Front National is now a key contender and is expected to enter a run-off election with social liberal En Marche ! Party. While Marine Le Pen is unlikely to win in a run-off against En Marche !’s Macron, according to recent polls, investors are concerned of a Donald Trump like upset that could have global repercussions given Le Pen’s Eurosceptic policies.

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.

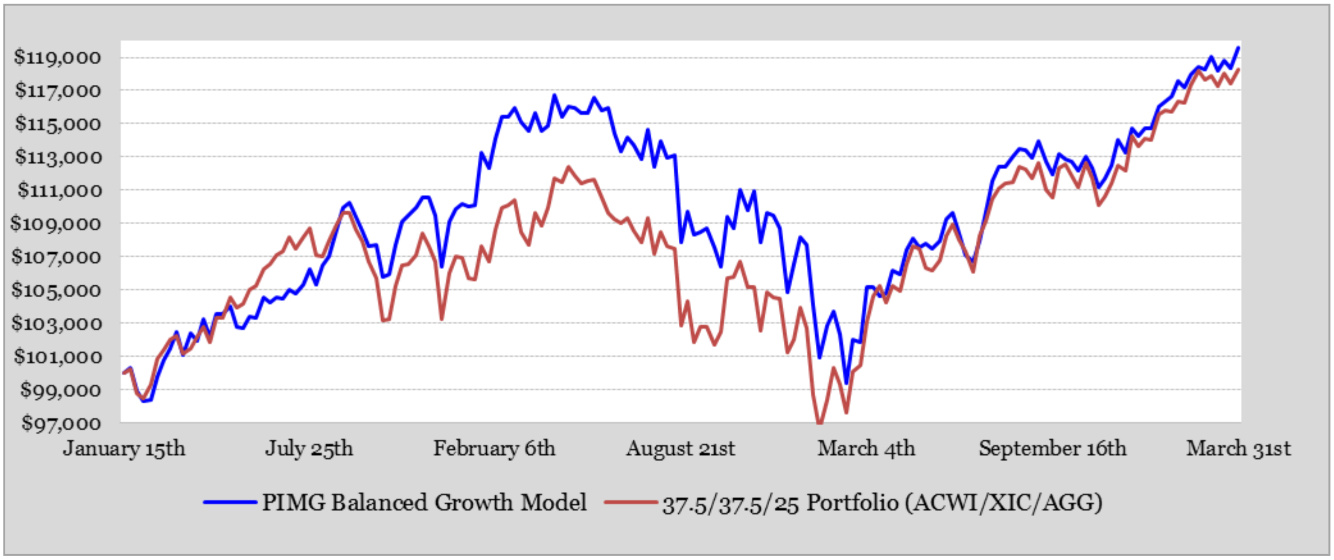
- Model returns presented are those of two individual accounts whose returns fully reflect that of the model's holdings and transactions and are not impacted by deposits or withdrawals that could impact return calculations. The accounts we use to reflect model performance incur a 1% annual investment 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 March 31, 2017



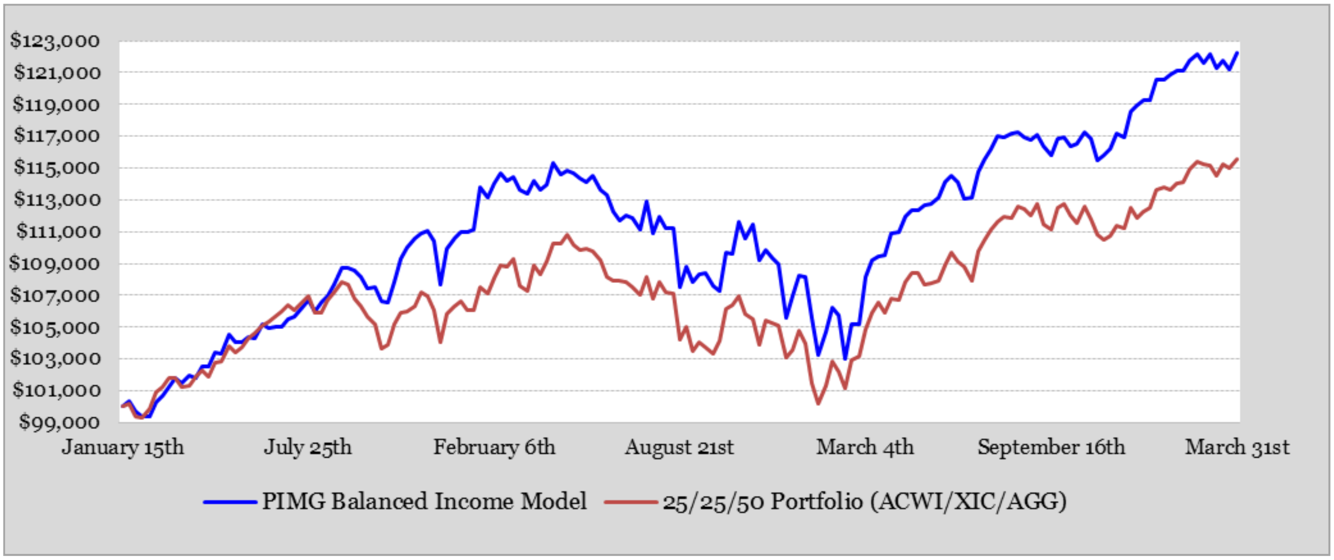
01/15/2014 – 03/31/2017	PIMG Balanced Growth Model	37.5% XIC / 37.5% ACWI / 25% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	19.60%	18.25%	24.00%	16.54%	9.27%
Compound Annual Return	5.77%	5.39%	6.97%	4.91%	2.82%
Standard Deviation	8.62%	8.67%	12.23%	12.81%	3.32%
Sharpe Ratio	0.32	0.28	0.32	0.15	-0.06
Largest Monthly Gain	4.16%	5.04%	5.45%	7.66%	2.22%
Largest Monthly Loss	-3.99%	-4.25%	-4.31%	-6.81%	-2.56%
Number of Up Months	24	25	25	23	23
Number of Down Months	15	14	14	16	16
Correlation with Balanced Growth	--	0.90	0.88	0.83	-0.28

PIMG Balanced Growth Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	4.28%	5.97%	10.72%	12.79%	5.12%	n/a	n/a	5.77%

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 March 31, 2017



01/15/2014 – 03/31/2017	PIMG Balanced Income Model	25% XIC / 25% ACWI / 50% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	22.23%	15.58%	24.00%	16.54%	9.27%
Compound Annual Return	6.49%	4.64%	6.97%	4.91%	2.82%
Standard Deviation	6.52%	5.70%	12.23%	12.81%	3.32%
Sharpe Ratio	0.54	0.29	0.32	0.15	-0.06
Largest Monthly Gain	4.87%	3.65%	5.45%	7.66%	2.22%
Largest Monthly Loss	-3.06%	-2.95%	-4.31%	-6.81%	-2.56%
Number of Up Months	26	25	25	23	23
Number of Down Months	13	14	14	16	16
Correlation with Balanced Income	--	0.87	0.88	0.80	-0.19

PIMG Balanced Income Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	2.46%	4.56%	6.50%	10.27%	6.06%	n/a	n/a	6.49%

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 4.28% during the quarter (January 1 to March 31).

The model's asset allocation as of March 31 was 5.9% cash, 17.6% bonds, 8.2% preferred equity, 3.2% alternatives and 65.1% common equity.

Top five outperformers in Q1 were:
- Apple Inc. (IT/Mobile Computing) at +23.04%
- AIMIA Preferred C (Preferred Share/Fixed Reset) at +19.75%
- Chipotle Mexican Grill (Consumer Discretionary/Restaurants) at +16.70%
- Rogers Communications (Telecom/Diversified) at +14.59%
- Enbridge Preferred E (Preferred Share/Fixed Reset) at +13.60%

Top five underperformers in Q1 were:
- Sprott Energy Fund (Mutual Fund/Energy) at -18.27%
- TransForce Inc. (Industrials/Trucking) at -10.79%
- Lysander Corporate Value Bond Fund (Mutual Fund/Corporate Bonds) at +0.55%
- Jean Coutu Group (Consumer Staples/Drug Retailing) at +0.62%
- AGF Floating Rate Income Fund (Mutual Fund/Floating Rate Notes) at +0.94%

During Q1, we bought:

- iShares US Investment Grade Corporate Bond Index ETF CAD-Hedged (XIG): We purchased a position in XIG with the proceeds from the sale of TD Bank Preferred D. XIG provides us with a solid 3%+ yield and should help lower the risk of the portfolio until preferred share yields improve. As a risk management technique, we expect to continue rolling the proceeds of our fairly priced higher risk fixed income positions into XIG and wait for opportunities to arise.

- Sprott Energy Fund (SPR006): We added to our position in Sprott Energy Fund as the energy sector had declined nearly 15% from its December high while oil prices remained largely in their US$50-US$55 (WTI) trading range. We continue to believe that large cap energy stocks are overvalued relative to energy prices and that investing in mid- and small-cap energy companies will provide the most return for the risk taken, particularly in a rising oil price environment. 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.

During Q1, we sold:

- TD Bank Preferred D (TD.PF.D): We sold our position in TD Preferred D as the shares had a current yield of 3.85% and a yield-at-next-call of ~4.15% (assuming a 5-year Government of Canada bond yield of 1.12% at the time). The yields were too low relative to other preferred shares and corporate bonds.

- Empire Company (EMP.A): We sold our position in Empire following a rally in the shares as a result of the appointment of Michael Medline as CEO. While we believe the CEO change is good news for Empire's legacy business in the long-term, given Medline's long track record as a successful retail CEO, we believe it will take a long time for Empire to see materially better same store sales growth as it appears many former Safeway customers in western Canada are unlikely to frequent the store going forward. Additionally, Empire's current struggles mean the company will likely remain behind the curve in the grocery pickup and delivery initiatives and that Empire's growth rate will remain below average as a result.

PIMG Balanced Income Model

Gained 2.46% during the quarter (January 1 to March 31).

The model's asset allocation as of March 31 was 4.9% cash, 24.9% bonds, 4.2% convertible debentures, 9.4% preferred equity, 3.4% alternatives and 53.2% common equity.

Top five outperformers in Q1 were:

- AIMIA Preferred C (Preferred Share/Fixed Reset) at +19.75%
- Enbridge Preferred E (Preferred Share/Fixed Reset) at +13.60%
- Royal Bank of Canada (Financials/Diversified Banking) at +7.57%
- Power Corp Preferred D (Preferred Share/Perpetual) at +7.37%
- Fortis Inc. (Utilities/Diversified) at +7.28%

Top five underperformers in Q1 were:

- Sprott Energy Fund (Mutual Fund/Energy) at -18.66%
- Manulife Financial (Financials/Life Insurance) at -0.48%
- Enbridge Inc. (Utilities/Regional Gas Pipelines) at -0.37%
- Rogers Sugar Debenture D (Convertible Debenture/Sugar Distribution) at -0.09%
- Lysander Corporate Value Bond Fund (Mutual Fund/Corporate Bonds) at +0.17%

During Q1, we bought:

- iShares US Investment Grade Corporate Bond Index ETF CAD-Hedged (XIG): Same reasoning as the Balanced Growth Model.

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

During Q1, we sold:

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

Going Forward:

The **Balanced Growth** model outperformed its benchmark in the first quarter as our overweight positions in the telecom and utilities sectors paid off. As we predicted, these defensive sectors were due for a rally after underperforming in the latter half of 2016. Unexpectedly these sectors didn’t require a material decline in interest rate expectations to do so. We believe these sectors still have some room to run and that they should do so if our call for less than three US interest rate hikes is proven correct. Rogers Communications experienced quite the turnaround in the first quarter and is now adding mobile customers faster than its peers.

The model was also buoyed by a continuation of the late 2016 preferred share rally. We believe most preferred shares, particularly fixed reset preferred shares, are approaching fair value and in some cases are significantly overvalued. Our preferred share holdings now consist of high yield preferreds with expectations of improving credit conditions (e.g. AIM.PR.C, ENB.PF.E) and perpetuals trading below $25 (e.g. POW.PR.D, SLF.PR.C). We believe there is further upside for these particular preferred share segments but believe the upside is on a company-by-company basis.

Restaurant stocks, which we are greatly overweight, also rebounded notably in the first quarter. There is reason to believe that the worst is over for Chipotle Mexican Grill based on a recent analyst comment stating that same store sales growth for the first quarter will easily beat analyst consensus expectations. Cara Operations showed marginal operational improvement over the past quarter and demonstrated that it has plenty of opportunity for growth in its retail segment.

Finally, Apple Inc. has an outstanding quarter, up over 23%. Investors piled into Apple after iPhone 7 sales beat expectations and analysts ramped up their earnings and target price estiamtes. We doubt Apple will continue to climb at this rate and will likely look to pare down the position over time.

Despite the quarterly decline in oil prices, our newfound optimism (as of Q4) about the long-term trend in oil prices remains. We are encouraged by the rapid and high compliance rate among OPEC members and non-OPEC nations. While the US oil supply response has been much more rapid than we expected and this has limited oil price gains over the past three months, we have always been fairly skeptical about the ultimate oil price upside and we believe oil prices are still on track to achieve a price of ~$US70 over the next couple of years. We believe the oil price incline will be a relatively slow and steady one going forward. We remain underweight the energy sector and will look to add small- and mid-cap exposure as opportunities arise.

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. As seen in 2016, the commodity sector is entirely dependent on Chinese fiscal stimulus and we believe this stimulus will have diminishing returns for the commodity sector going forward.

We have recently added iShares US Investment Grade Corporate Bond Index ETF CAD-Hedged (XIG) as a placeholder for cash in some situations. At this point in the economic/market cycle, we believe it is prudent to be more tactical with our asset allocation. Shifting from credit sensitive fixed income securities and higher risk equities to an investment grade corporate bond ETF should limit overall portfolio downside while looking for new opportunities.

The **Balanced Income** model underperformed its benchmark during the quarter. Global equity markets significantly outperformed the Canadian equity market during the quarter and the model underperformed as a result, despite the model's high allocation to defensive stocks. Unlike the Balanced Growth model, the Balanced Income model did not have any major outperformers in its common equity basket in the first quarter. That said, the Balanced Income model is designed to provide high but reliable income with limited volatility and it is expected that the model will underperform when equity markets are rising rapidly and outperform when equity markets fall rapidly.

At the end of Q1 2017, the market is pricing in two U.S. interest rate hikes in addition to the March rate hike. Our interest rate stance is unchanged since the end of the 2016. We believe three hikes will be difficult to achieve and would likely require an entire year with few or no negative US economic data surprises. Despite their solid performance in the first quarter, we think it is appropriate to maintain an overweight position in interest rate sensitive equities as we believe investors as a group will reduce their interest rate expectations throughout 2017. The inability of the Trump administration to push the American Health Care Act through the House shows that investors may be disappointed with the upcoming changes to taxation and bank regulation. We believe underwhelming tax or bank regulation changes should be the trigger for equity market weakness and a decline in interest rate expectations.

As at the end of Q1, the models yield 2.6% (Balanced Growth) and 3.4% (Balanced Income) roughly in line with 2.6% and 3.5% yields, respectively, at the end of Q4.

We are currently working to rearrange our models. While the models have outperformed their benchmarks, we feel the models 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.

Sincerely,

Steele Wealth Management

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