GENUS

INVESTMENT COMMENTARY

Q1 2017

REFLATION THEME REMAINS ON TRACK, DESPITE TAKING PAUSE

Q1 MARKET REVIEW

Global equities racked up solid gains in the first quarter of 2017. Although investors remain concerned over the timeline and details of U.S. pro-growth policies, stocks significantly outperformed bonds. U.S. bond yields were range-bound, caught between rate hikes and rising uncertainty over the magnitude and timing of fiscal stimulus. As a result, the foreign exchange market experienced more volatility than most other asset classes.

During the quarter, sectors that typically benefit from a reflationary environment, namely Financials, Energy, and Industrials, took a breather, while IT emerged as the market leader. Energy shares were dragged down by crude oil prices, which suffered a sell-off in late February due to renewed concerns about a supply glut caused by record-high U.S. inventories. The Canadian dollar traded marginally higher in the first quarter, but was then held back due to lower oil prices and the Bank of Canada (BoC)'s dovish views on future economic growth.

GENUS INVESTMENT STRATEGY AND ASSET ALLOCATION CALLS

We continue to be positioned for a reflation theme of rising global yields, tighter global monetary policy, and U.S. pro-growth measures. While we see limited near-term upside in U.S. equities, solid corporate earnings and valuations elsewhere in the world have kept us cautiously neutral on global equities.

Within equities, we have upgraded the Eurozone to benchmark weight based on relatively cheap valuations, stronger economic growth, and easing political risk. We have also tactically increased our emerging markets exposure, as we believe the U.S. dollar is facing some short-term headwinds. We have funded these trades by cutting U.S. stocks back to benchmark weight.

In terms of sectors, we have moderated the magnitude by which we are overweight cyclicals versus non-cyclicals, remaining constructive on IT, Industrials, and Financials.

KEY TAKEAWAYS

- U.S. economic data were buoyant during the quarter. However, it is worth noting that "soft" data (based on sentiment) outperformed "hard" data (based on real economic output). This divergence was largely driven by high expectations of the Trump administration's pro-growth policies and bias towards reflation (cutting taxes, repatriating overseas foreign assets, and increasing infrastructure spending to stimulate the economy).
- U.S. corporations delivered solid earnings in the fourth quarter of 2016. Growth forecasts for the first quarter of 2017 accelerated to their highest levels since 2011.
- China's support for the global economy is expected to wane in 2017 as officials have cut back monetary stimulus and lowered their growth targets because of ongoing structural reforms.
- Eurozone equity and euro valuations look attractive. Although economic conditions are improving in Europe, political risk remains in 2017.
- Currency volatility is likely to continue given ongoing Brexit negotiations, the upcoming French elections, U.S. policy risks, and China–U.S. trade talks.
- In terms of portfolio positioning, we are now underweight bonds, neutral equities and overweight cash. Within equities, we are trimming our U.S. exposure to benchmark weight and tactically increasing our European and emerging markets exposure to benchmark weight. We are also moderating the magnitude of our overweight in cyclical versus non-cyclical stocks while remaining constructive on Information Technology (IT), Industrials and Financials.

Q2: WHAT WE ARE WATCHING

1. U.S. ECONOMIC DATA DIVERGING

Global economic data have continued to beat expectations since the U.S. election. However, "soft" economic data are outpacing "hard" data. (Soft data are generally based on surveys aiming to assess sentiment, while hard data measure real economic activity.) For example, the U.S. Consumer Confidence Index (soft) hit a 16-year high in late March, whereas retail sales (hard) remained sluggish in the first quarter.

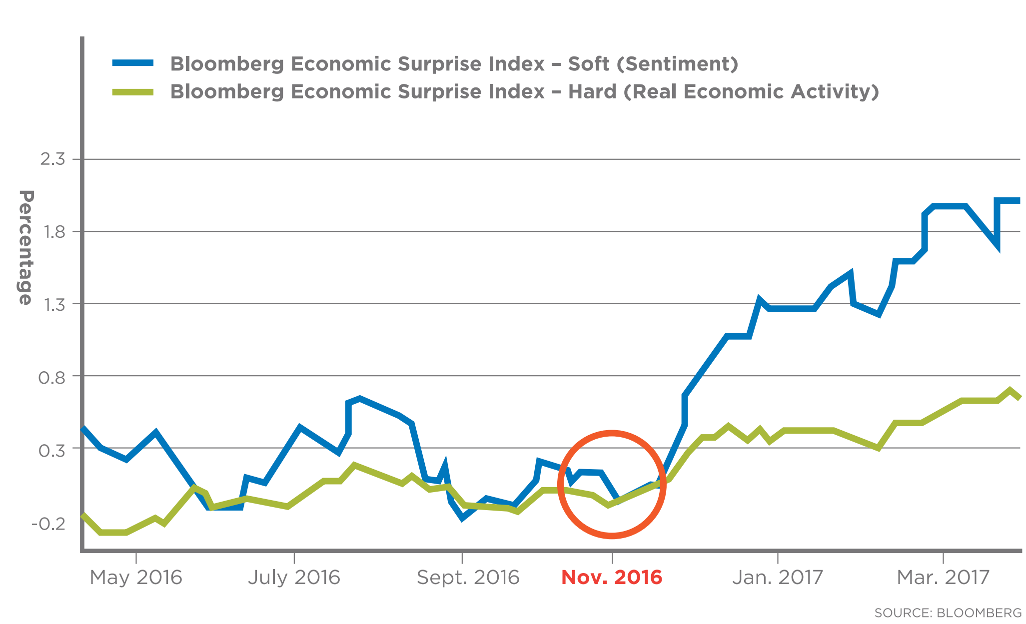
The divergence between hard and soft data was largely sparked by Trump's election. However, as time marches on, this optimism is looking more fragile. We believe market participants could see a convergence of hard and soft indicators.

2. SOLID U.S. CORPORATE EARNINGS

U.S. corporate earnings are providing support, and we expect this to continue in the near term. In the fourth quarter of 2016, 68% of S&P 500 companies reported earnings that beat analysts' estimates (led by IT companies). This was above the long-term average of 64%, indicating a more supportive U.S. corporate environment. Looking ahead to the first-quarter earnings season, earnings growth for the S&P 500 is projected to increase to 9% (based on earnings per share, year-over-year), which will mark the highest bottom-line growth since the fourth quarter of 2011.

> *Global economic data has continued to beat expectations since the U.S. election. However, "soft" economic data is running ahead of "hard" data.*

DIVERGENCE OF U.S. ECONOMIC DATA



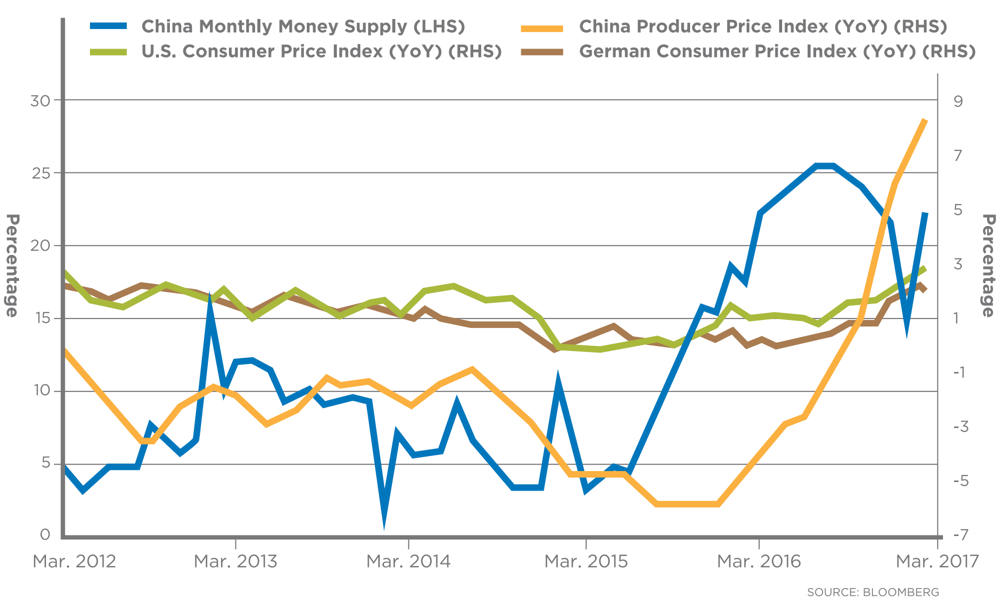
SOURCE: BLOOMBERG

REFLATION THEME REMAINS ON TRACK, DESPITE TAKING PAUSE (Continued)

3. CHINA PEAKING

In December 2015, Chinese officials increased government spending and boosted money supply to 25% (up from 5%) to combat deflation. These measures filtered into the global economy, giving it a timely shot in the arm. These ripple effects are just slowing; China is unlikely to enact such measures again in 2017. Early in March, Premier Li lowered China's GDP growth target to 6.5% and trimmed money supply growth to 12%, sending a clear message that Chinese officials will shift their focus from short-term support to long-term structural reform.

CHINA PEAKING



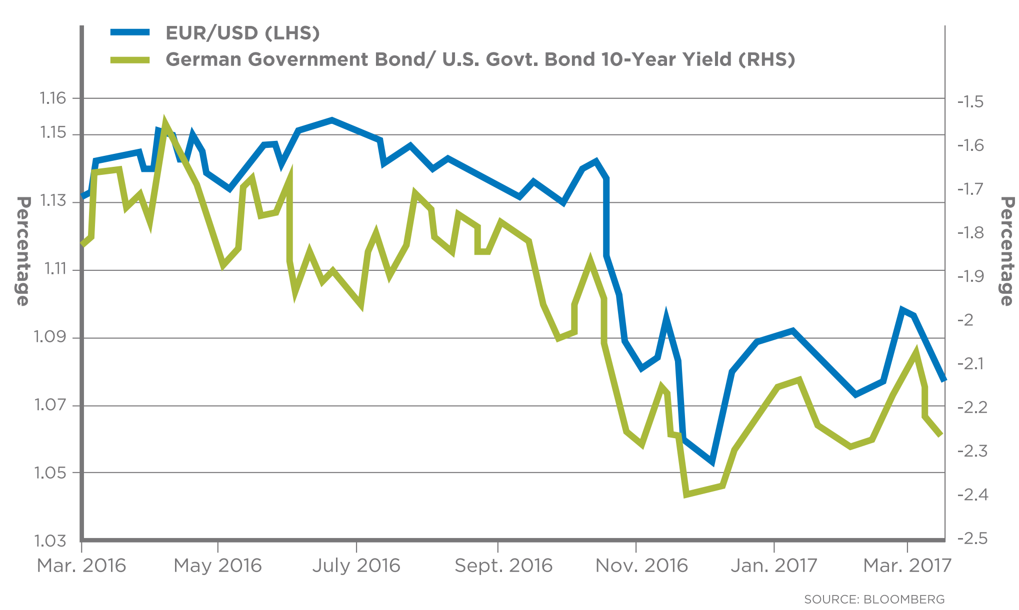
4. EUROPE LOOKING MORE ATTRACTIVE

Europe has underperformed the United States since 2009 as the American economy has led the global recovery. Stronger earnings and the expectation of tax cuts have pushed U.S. shares even higher, resulting in 12-month forward price-to-earnings ratios of 18.2x versus 15.5x for Europe. We think this valuation gap is stretched.

As with equity valuations, the euro has also been dragged down versus the U.S. dollar by monetary policy divergence. While the U.S. Federal Reserve has been ahead of the European Central Bank (ECB) in normalizing monetary policy, the markets have now fully priced this in. Going forward, we feel the ECB may be the dark horse, and could surprise the markets by signalling an earlier end to quantitative easing (QE), especially given recently improved unemployment and inflation data.

Moreover, recent fears over anti-EU populist sentiment seem to be abating. The outcome of the Dutch election and recent French election polls reduced demand for "safe haven" German 2-year bunds, causing yields to rise to –0.74% at quarter end from a record low of –0.95% in February. This has helped support the euro as U.S. dollar–euro spreads compressed. We believe that if this sentiment carries through to the French elections, both the euro and German bund yields have a lot more room to rise, as the market will begin to anticipate the end of European QE.

EURO COULD APPRECIATE AS MARKET ANTICIPATES THE END OF QE



TRENDS IN CURRENCY VOLATILITY

USD: U.S. POLICY RISK ON THE RISE. Following the initial Obamacare setback, concerns have sprouted around the Trump administration's proposed tax reforms and infrastructure spending increases. Any signs of delay or under-delivery in these areas add risk to the U.S. dollar.

CNY/USD: CHINA–U.S. TRADE RELATIONSHIP. There is uncertainty ahead for the world's two largest trading nations. President Trump has repeatedly called out China's trade and foreign exchange policies, threatening punitive tariffs. China would likely retaliate against such a move. The headlines alone will make for a bumpy ride.

EUR: FRENCH ELECTIONS. French anti-EU National Front Party leader Marine Le Pen has promised to lead France away from the EU and the euro. Although she is currently trailing in the polls ahead of the final round, any signs that populism may be gaining momentum could cause the euro to dip materially.

GBP: BREXIT NEGOTIATIONS. Following the official triggering of Article 50, the UK and Europe now have two years to negotiate terms. Negotiations will ebb and flow, as will the pound in response. Key issues still up for discussion are the "exit fee" to be levied, trade deals, and immigration and security policies.

CAD: NAFTA. Renewed NAFTA talks and upcoming OPEC meetings could shake the Canadian dollar out of its recent sideways range. Add in the cross-currents of better-than-expected economic performance and a dovish BoC, and we could see some bigger moves in the second quarter.

GENUS BALANCED FUND ASSET ALLOCATION

(AS AT MARCH 31, 2017)

ASSET CLASS	CURRENT %
Corporate Bonds	14.0
Commercial Mortgages	11.9
Federal Bonds	0.5
Provincial Bonds	0.5
Cash and Cash Equivalents	11.2
TOTAL FIXED INCOME	**38.1**
Canadian Equity	24.3
U.S. Equity	20.0
International Equity	11.7
Emerging Markets	5.9
TOTAL EQUITY	**61.9**
TOTAL PORTFOLIO	**100.0**

GENUS POOLED FUND PERFORMANCE

Returns are shown Net of Fund Expenses[1]		Compound Annual Returns			
As at March 31, 2017	**3 month**	**1 year**	**3 years**	**5 years**	**10 years**
Balanced Fund	3.1	11.5	7.0	8.7	4.8
EQUITIES					
Canadian Alpha[2]	2.0	16.8	4.6	7.1	3.4
Dividend Equity	2.8	14.8	10.0	12.0	
Global Alpha[3]	5.8	17.8	8.6	14.0	5.6
CanGlobe Equity	4.5	15.0	7.8	11.4	4.9
Emerging Markets	12.3	22.9	8.6	7.0	-
FIXED INCOME					
Government Bond	1.1	1.1	3.7	3.3	4.3
Short-Term Corporate Bond	1.3	2.9	2.7	2.9	3.7
Strategic Bond	2.5	5.4	5.3	5.3	-
Commercial Mortgage	0.9	2.8	3.4	3.7	-
FOSSIL FREE					
Fossil Free Dividend Equity[4]	3.0	13.5	10.8	-	-
Fossil Free CanGlobe Equity[5]	5.6	20.0	11.7	-	-
Fossil Free Corporate Bond	2.3	3.9	5.0	-	-
Fossil Free High Impact Equity	7.3	15.1	-	-	-
INDEX RETURNS					
S&P/TSX Composite	2.4	18.6	5.8	7.8	4.7
S&P 500 Index (C$)	5.5	20.8	17.6	20.0	9.1
MSCI Emerging Mkt (C$)	10.9	21.3	8.2	7.2	4.6
MSCI World Index (C$)	5.9	19.0	13.0	16.5	6.3
DEX Universe Bond Index	1.2	1.5	4.1	3.5	4.8

Past performance is no guarantee of future results.

1 Does not include Genus management Fees

2 **Mandate change:** Genus U.S. Equity mandate changed to Global Equity (Sept 14, 2012) and Global Alpha (June 30, 2014).

3 **Mandate change:** Genus Canadian Equity changed to Canadian Alpha on June 30, 2014.

4 **Mandate change:** Biosphere Canadian Equity (100%TSX) changed to Biosphere Dividend Equity (40% TSX, 30% S&P 500, 30% MSCI EAFE) as at April 1, 2013. Name change to Fossil Free Dividend Equity on March 31, 2015.

5 **Mandate change:** Biosphere Global Equity (50% S&P 500 / 50% MSCI EAFE) changed to Biosphere CanGlobe Equity (40% TSX, 30% S&P 500, 30% MSCI EAFE). Name change to Fossil Free CanGlobe Equity on March 31, 2015.

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