Partners | QUARTERLY PROFILE

2nd Quarter 2019

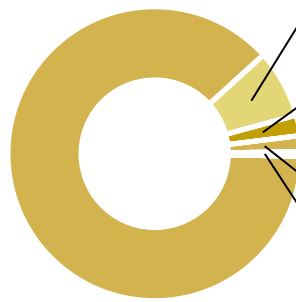
barometer

HIGH INCOME

PORTFOLIO OBJECTIVE

The investment objective of the portfolio is to achieve a high level of income by investing primarily in Canadian income trusts, Canadian fixed income securities, and other Canadian income producing securities.

ASSET ALLOCATION



PORTFOLIO REVIEW

After a strong April, U.S. equity markets pulled back in May, but resumed strength with a strong end to the

MAJOR HOLDINGS

COMPANY	% OF PORTFOLIO
CDA GOVT 2% 01SEP23	3.99%
US T NT 2.875% 31OCT2023	3.90%
ECOLAB INC	3.51%
TC ENERGY CORP	3.19%
MASTERCARD INCORPORATED	3.12%
AMERICAN TOWER REIT	3.07%
NEXTERA ENERGY INC	2.99%
STARBUCKS CORP	2.94%
EMERA INC	2.94%
WASTE CONNECTIONS INC	2.94%

2nd Quarter 2019	QTD	1YR	3YR	5YR	10YR
Barometer - High Income*	**1.3%**	**3.9%**	**7.0%**	**4.6%**	**10.3%**
Customized Benchmark	1.3%	8.3%	5.5%	4.6%	8.1%

*Return Data Source: Inception to March 2009 are representative gross, composite WRAP returns in C$ which are linked thereafter to RJ Partners Program composite, gross returns in C$. All performance data represents past performance and is not necessarily indicative of future performance. Benchmark: 50% FTCUBI, 20% TSX Capped REIT, 30% TSX High Dividend Index.

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quarter in June. Barometer portfolios performed well through the May pullback, and generally finished the quarter in a positive position.

Within the S&P 500 Index, the financial sector was the strongest performer on the back of U.S. insurance companies which fell into favour with investors given their strong domestic presence and minimal international exposure. Gold rallied in June, breaking out of a five-year consolidation on the back of a weakening U.S. Dollar and its status as a safe haven asset given the spike in policy uncertainty seen during the month. As a result of the strength in gold, the materials sector enjoyed a quarter of strong performance. In April, crude oil continued the rally it began in December but experienced a difficult May due to geopolitical instability within OPEC. Bonds rallied throughout the quarter as globally, bond market investors demonstrated willingness to accept lower yields. Economic weakness in Europe bolstered demand for U.S. Treasuries as fixed income managers struggle to navigate in a world with approximately $13 trillion in negative yielding sovereign debt. In such an environment, any amount of yield becomes attractive.

During the quarter, U.S. economic data was mixed. Strong GDP growth over the quarter led to a large inventory build which could produce a hangover-like effect into the second quarter. However, as the growth slows, the probability of interest rate cuts by the Federal Reserve increases, providing a catalyst to strengthening markets. As it stands, the futures market places the odds of a rate cut by the Fed in July at 100%, and nearly 95% for two rate cuts before the end of the year. It will be important to watch U.S. economic data to determine whether these rate cuts will occur, but S&P 500 performance following the first Fed rate cut in a non-recessionary environment is usually consistent with good forward performance over one- and two-year time horizons.

As mentioned, markets pulled back in May and as that began to happen our market breadth models turned negative as well. When our models turned down, we hedged out much of the equity market exposure from our portfolios by shorting index futures and trimming positions as they began to break down. The proceeds were generally kept in cash or government bonds while we waited for leadership groups to re-assert themselves. As our models began to turn positive towards the end of May, we increased equity market exposure, focusing on strong sectors preparing for June.

Within the portfolios, exposure to the information technology sector contributed most significantly to performance. Themes within this sector, such as payments processing and cloud software continue to perform well and remain themes that we favour. We also saw strong performance from the consumer discretionary sector, as companies levered to the health of the American consumer outperformed.

Over the course of the quarter, the Barometer High Income Mandate increased exposure to the financials sector from approximately 15.5% to 18.5% of the portfolio, as we added some insurance names such as Travelers Companies Inc. (TRV:NYSE) and Progressive Corp. (PGR:NYSE). These names fell into favour as investors sought insulation from U.S.-China trade tensions and liked the strong domestic focus of insurance companies with minimal international exposure. The Mandate also added exposure to the consumer staples sector, adding Costco Wholesale Corp.(COST:NASDAQ) and Procter & Gamble Co. (PG:NYSE). These traditionally defensive names performed well during the quarter as the sector underwent multiple expansion on the back of investors seeking lower volatility securities during a period of heightened policy uncertainty.

Despite some mixed economic data that was released during the quarter, the U.S. consumer remains robust. The portfolio held some names leveraged to the purchasing habits of the U.S. consumer, like Starbucks Corp. (SBUX:NASDAQ) continues to benefit from their investment in technology, specifically in mobile ordering, which allows the company to track customer's preferences and increases the stickiness of their business.

Exposure to the energy sector in the mandate was taken from 19% to 11% as the contributed negatively to performance over the course of the second quarter. We were stopped out of names like Marathon Oil Corp. (MRO:NYSE) and Canadian Natural Resources Ltd. (CNQ:TSX) as the companies fell out of favour with investors as the price of crude oil declined.

OUTLOOK

As we enter July, our market breadth models remain positive. Moving forward, all eyes are on the Federal Reserve for indication of rate cuts, and indication as to whether they will continue to cut. As it stands, the futures market places the odds of a rate cut by the Fed in July at 100%, and nearly 95% for two rate cuts before the end of the year. The strength of the European economy must also be monitored, as its weakness is depressing yields in the U.S. Should we see the bond market back off, investors will be more inclined to increase equity exposure.

Market participants remain vigilant of global trade tensions, specifically between the U.S. and China. Should further indication be given that these tensions are increasingly likely to be settled in the near-term, we expect more investors to be willing to adopt a risk-on posture. Generally, investors are underexposed to equities and have sat on the sidelines through most of this move to new highs. Exposure levels and ETF inflows and outflows are data points we carefully measure as contrarian indicators to show when a trend may be overextended, or as is the case currently with U.S. equities, remain under-owned.

As was done successfully in May, we continue to monitor breadth models and will not hesitate to take a defensive stance should we see signs of deterioration.