Building your financial future

Team Chartier, Grandmaison
Wealth Management Advisors
and Portfolio Managers

# 4th Quarter Summary

**Asset Allocation Strategy**

With reference to the 3rd quarter, there were no portfolio weighting changes. At the start of 2018 we have slightly increased our target weight in Canadian equities and slightly decreased our target weight in American equities (except in the “Income” Profile).

**Portfolio Model Revisions**

With the exception of the progressive replacement of Fidelity NorthStar with an addition to Trimark Global Endeavour, we have not removed any existing positions nor have we introduced any new ones to the portfolio model. In our opinion the portfolio was well positioned for the financial market landscape.

Trimark Global Endeavour is a concentrated portfolio of 25 to 40 stocks that are actively managed by Jeff Hyrich and his team at Invesco – Trimark. It primarily consists of high quality foreign companies (American and International) in the midsize capitalization segment. This segment provides a greater diversification to our model portfolio. The management approach of Jeff Hyrich’s team is based on careful selection and long-term retention of high quality companies. The portfolio turnover rate (buying and selling) is quite low.

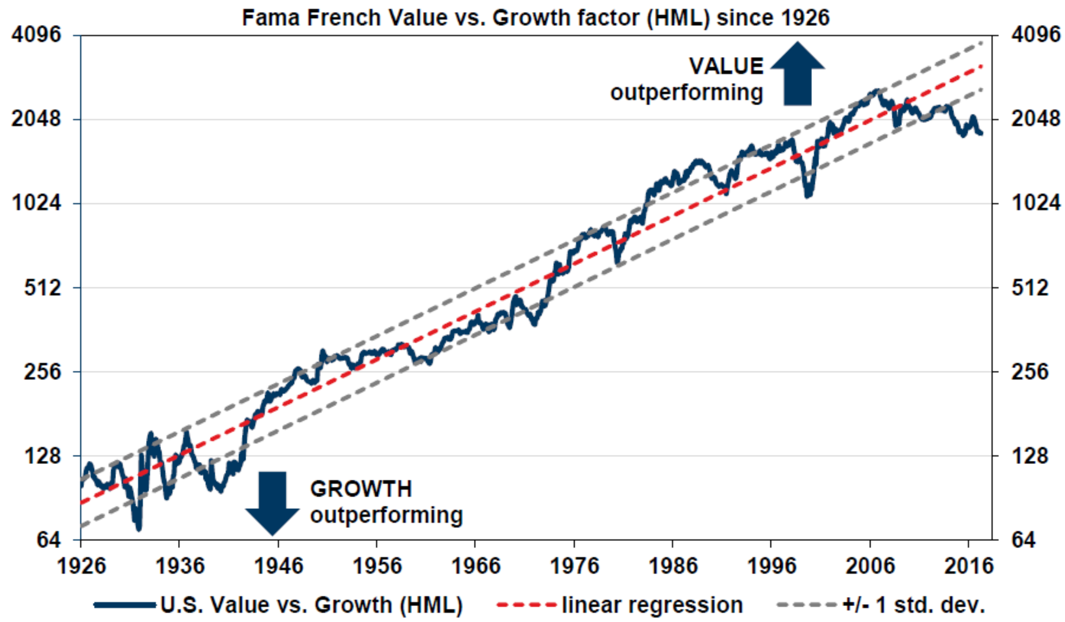
The portfolio is structured as a “Platform Traded Fund” with reduced management fees. Its performance as of December 31, 2017 ranks it in the first quartile of its category (Global Equities) over 1, 3, 5, and 10 years according to Morningstar Research.

**4th Quarter and 2017 Highlights**

The returns of the major equity markets were driven upward mostly by the technology sector and emerging markets. However, the rise of the Canadian dollar has considerably reduced the return of foreign investments that are exposed to currency exchange fluctuations (for example, the return of the U.S. Equity S&P500 index of 21.8% in US dollars translated into a return of 13.8% for a Canadian investor).

As illustrated in the chart below, Growth type companies such as Amazon, Alphabet (Google), and Facebook outperformed Value type companies such as Verizon, General Motors, and banks.

# 21 Value appears increasingly cheap relative to growth




Source: AQR

When the blue line "**U.S. Value vs. Growth**" is over the red dotted line, Value companies outperform Growth companies. When it is below, Growth companies outperform, as has been the case for the last 7 years. However periods where Value companies have outperformed Growth companies have often been longer since 1926.

Since the shift between Value and Growth is cyclical, we will make adjustments to our models during the 1st quarter of 2018 in order to increase our exposure to value style companies.

We reviewed before year-end net capital gains realized in our clients' taxable accounts. Sales of positions showing an unrealized loss were made in cases where it was beneficial to the client. We also reviewed in taxable accounts mutual fund positions which were about to make a significant taxable distribution before year end.

Mutual funds that have realized capital gains may be obligated to allocate such gains to their unitholders. Fund distributions do not affect the total economic value of the investment, which remains the same immediately before and immediately after the distribution, the unit value generally decreasing by the amount paid. However, there will be a tax impact: unitholders will receive either a T3 or T5 and must report the distribution on their income tax return.

In certain cases, it is fiscally advantageous for unitholders to realize the actual gain by selling the fund prior to the anticipated distribution and repurchasing it after. Here is an example:

- Purchase of 1,000 units of fund ABC in 2016 at $10 for a total of $10,000
- Gradual increase in unit value to $11.50 for a total of $11,500
- Capital gains of $2.00 per share were realized within the fund, which has the obligation to allocate them to unitholders
- $2.00 per unit are distributed on December 21, 2017; the unit price drops to $9.50
- The unitholder's tax rate is 37%

| | Unitholder retains the units | Unitholder sells the units before the distribution and repurchases them thereafter |
|---|---|---|
| **Total value before distribution (1,000 units @ $11.50)** | **$11,500** | **$11,500** |
| Cash distribution | $2,000 | n/a |
| Taxable share of the distribution | $1,000 | n/a |
| Realized gain (sale for $11,500$ minus initial cost of $10,000) | n/a | $1,500 |
| Taxable share of the gain | n/a | $750 |
| Market value of units after distribution (1,000 units @ $9.50) | $9,500 | $9,500 |
| Cash received through distribution | $2,000 | n/a |
| Net cash from the sale for $11,500 less buy back for $9,500 | n/a | $2,000 |
| **Total value after distribution (1,000 units @$9.50 plus $2,000 cash)** | **$11,500** | **$11,500** |
| Taxes owed (37%) | $370.00 | $277.50 |

**Conclusion** : as demonstrated in the above example, it was fiscally advantageous to sell before the distribution and repurchase after.