

# Morningstar Strategic Canadian Equity Fund

## Fund Commentary

The Morningstar Strategic Canadian Equity Fund uses a bottom up, fundamentally based, disciplined stock selection process focusing on high-quality companies trading at reasonable valuations. Rather than making predictions on where markets may be headed in the short-term, Morningstar pays particular attention to the fundamental characteristics of stocks in the Canadian universe meeting its criteria. Below are some of the key characteristics of the Fund at the end of the 4th quarter:

<u>Weighted Factor</u>	<u>INDEX(%)</u>	<u>FUND(%)</u>
Return on Equity	11.5	19.6
5 Year Average ROE	13.7	18.7
Reinvestment Rate	6.4	11.7
Estimate Revisions	0.1	1.1
Earnings Momentum	0.8	3.7
Total Yield	-1.1	2.8
Price/Earnings	20.8	14.5
Price Change (9 Month)	13.7	12.5

Source: Morningstar CPMS

As shown above, the Fund holds stocks with strong quality and valuation characteristics relative to those that are held in the benchmark S&P/TSX Composite. Quarter-end

sector weightings relative to the benchmark are provided in the table below:

<u>Sector</u>	<u>INDEX(%)</u>	<u>FUND(%)</u>
Energy	21.43	0.00
Materials	11.81	14.28
Industrials	8.88	20.00
Consumer Discretionary	5.03	17.29
Consumer Staples	3.84	11.47
Health Care	0.60	0.00
Financials	34.99	22.66
Information Technology	2.74	8.53
Telecomm Services	4.83	2.86
Utilities	2.83	0.00
Real Estate	3.03	2.91

Source: Morningstar CPMS

Return on equity and earnings growth for most companies in the energy sector remain weak, although expectations remain high. Trailing valuations (Price to Earnings (P/E) and Price to Cash Flow (P/CF) also look relatively high in the sector. Combined, these factors explain the Fund's zero weighting in energy stocks. Furthermore, temporary the

Organization of the Petroleum Exporting Countries (OPEC) production cuts come online in 2017, and Morningstar analysts believe further oil price increases will be tempered by expanding U.S. shale production forcing mid-cycle pricing to stabilize. Morningstar's disciplined investment process necessitates that it continue to concentrate the Fund's holdings on companies with strong fundamentals trading at modest valuations.

## Positive Contributors

Transcontinental Inc. and Chorus Aviation Inc. were two Fund holdings having good total return performance over the quarter. Transcontinental's latest earnings report handily beat consensus expectations. Chorus Aviation remains a strong holding because of its quality metrics.

Sectors that added to performance in the quarter were Industrials and Materials, where the fund held overweight positions.

# Morningstar Strategic Canadian Equity Fund

## Negative Detractors

Current holdings Gildan Activewear Inc. (GIL) and Alimentation Couche-Tard Inc. (ATD.B) were the largest performance detractors in the Fund over the quarter. Both stocks continue to look favourable to us based on a variety of their ranking metrics, which we will continue to monitor.

The Funds underweight positions in Financials and Energy stocks were the largest source of sector underperformance in the quarter.

Morningstar Associates Inc. is a wholly owned subsidiary of Morningstar Research, Inc.

## About Morningstar Investment Management

The Morningstar Investment Management group, through 11 investment advisory subsidiaries, creates custom investment solutions that combine award-winning research and global resources with proprietary Morningstar data. With approximately US\$200 billion in assets under advisement and management at September 30, 2016, the Morningstar Investment Management group provides comprehensive retirement, investment advisory and portfolio management services for financial institutions, plan sponsors and financial advisors around the world.

# Morningstar Strategic Canadian Equity Fund

FOR DISTRIBUTION TO INVESTORS BY REGISTERED DEALERS ONLY.

Bridgehouse Asset Managers® is a trade name of Brandes Investment Partners & Co. (Bridgehouse). Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. (Brandes LP), which is an affiliate of Bridgehouse. Bridgehouse is the manager of the Bridgehouse Funds and has hired Brandes LP, Greystone Managed Investments Inc. (Greystone), Lazard Asset Management (Canada), Inc. (Lazard), Morningstar Associates, Inc. (Morningstar) and Sionna Investment Managers Inc. (Sionna) as portfolio sub-advisors (collectively, the “portfolio sub-advisors”) in respect of the Bridgehouse Funds. The foregoing reflects the thoughts, opinions, and investment strategies of Bridgehouse and/or the portfolio sub-advisors and are subject to change at their discretion, based on changing market dynamics or other considerations. Bridgehouse and the portfolio sub-advisors have taken reasonable steps to provide accurate and current data. The data has been gathered from sources believed to be reliable, however Bridgehouse and/or the portfolio sub-advisors are not responsible for any errors or omissions contained herein. Indices are unmanaged and cannot be directly invested into. Securities mentioned herein are not to be construed as a recommendation to buy or sell. Past performance is not a reliable indicator of future results. This material has been provided by Bridgehouse and is for informational purposes only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and is not to be construed as a recommendation to buy or sell. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This report may contain forward-looking statements about the

economy, and markets; their future performance, strategies or prospects. Units and shares of the Bridgehouse Funds are available through registered dealers only and are not available through Bridgehouse.

The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” “forecast,” “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. You are cautioned to not place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. Before making any investment decisions, you are encouraged consider these and other factors carefully. Where applicable, please note that MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

Published January 26, 2017