

# Morningstar Strategic Canadian Equity Fund

## Fund Commentary

The first quarter of 2018 saw the Canadian equity market decline along with the S&P/TSX Composite total return, dropping 4.5% over the period.

During the quarter, Info Tech & Real Estate were the only sectors with positive performance, rising 10.2% and 0.5% respectively on a total return basis. The strong return in the Info Tech sector was attributable to companies such as Shopify Inc., Mitel Networks Corp. and Constellation Software, Inc.; all these companies had positive earnings surprises in the latest reported quarter. Some of the weaker performing sectors during the quarter were Health Care, Energy and Telecom, returning -13.5%, -9.4% and -6.7% respectively.

For the quarter, the Morningstar Strategic Canadian Equity Fund outperformed its benchmark, the S&P/TSX Composite Index.

### Positive Contributors

Some of the stronger three-month contributors in the portfolio were Canfor Corp., Constellation Software Inc., CCL Industries Inc. and Norbord Inc., all of which reported good earnings surprises.

### Negative Contributors

Some of the portfolio detractors in the quarter were Cogeco Communications, First National Financial Corp., Maple Leaf Foods and North West Company Inc., the latter two reported only slightly negative earnings surprises thereby slightly missing Morningstar's sell filters for the stocks.

### Positioning and Outlook

Over the course of the first quarter, the Fund sold four positions and bought three positions, resulting in 34 positions held currently. The four positions that the Fund sold were Celestica Inc., Westjet Airlines Ltd., Quebecor Inc. and Alimentation Couche-Tard Inc.; the former three

due to negative analysts' estimate revisions with the latter due to a poor earnings surprise.

As Canadian companies begin to report their next quarter's earnings in April and May, Morningstar will be looking to add as many as two positions to the holdings. The Fund will typically hold 30-40 positions and thus it is within its target range of holdings and is more concentrated than most Canadian equity portfolios in terms of the count of companies held.

Valuations in the portfolio continue to be appealing, and remain below benchmark levels. As expected, quality indicators are above benchmark levels in the portfolio. Both characteristics are important drivers in Morningstar's selection process.

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<b>Weighted Factor</b>	<b>INDEX(%)</b>	<b>FUND(%)</b>
Last Reported Return on Equity	13.0%	20.4%
5 Year Average ROE	13.5%	18.7%
Reinvestment Rate (Earnings less dividends/book value)	6.4%	12.5%
Estimate Revisions	3.4%	4.6%
Earnings Momentum	6.5%	4.2%
Total Yield (Expected yield + Shareholder buyback yield)	-1.4%	2.2%
Price/Earnings	16.9x	13.5x
Price Change (9 Month)	1.6%	6.1%

Source: Morningstar CPMS

The Energy sector in Canada continues to experience difficulties related to product transportation from production centres. The Fund remains underweight the Energy sector. Morningstar will continue to monitor the fundamentals of companies within the Energy sector and will introduce exposure to the sector only when specific company fundamentals warrant.

While Morningstar waits for fundamentals to improve in some sectors such as Energy, it remains overweight in other sectors that have been able to provide the portfolio a combination of valuation and growth opportunities, such as Consumer Discretionary, Consumer Staples and Industrials.

As always, Morningstar continues to apply the discipline of the investment strategy to the portfolio and its holdings.

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

<b>Sector</b>	<b>INDEX(%)</b>	<b>FUND(%)</b>
Energy	18.54%	0.00%
Materials	11.52%	11.77%
Industrials	9.71%	17.65%
Consumer Discretionary	5.50%	20.59%
Consumer Staples	3.60%	11.76%
Health Care	1.20%	0.00%
Financials	34.79%	29.41%
Information Technology	3.79%	5.88%
Telecommunication Services	4.58%	2.94%
Utilities	3.73%	0.00%
Real Estate	3.04%	0.00%

Source: Morningstar CPMS

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