

Morningstar Strategic Canadian Equity Fund

Fund Commentary

The Canadian equity market bounced back from its second quarter 1.6% loss to deliver a 3.7% return in the third quarter, its strongest of the year to date. So far in 2017, the Canadian Equity market has posted a 4.5% total return.

For the third quarter, Energy, Consumer Discretionary and Financials had the strongest sector performance, rising 6.6%, 4.7% and 4.5% respectively on a total return basis. The weaker performing benchmark sectors during the quarter were Health Care, Consumer Staples, Utilities and Real Estate, returning -10.3, -2.7, -1.9 and -1.0 respectively.

The Energy sector made a strong move, most notably in September, as there appears to be some support for the notion that commodity supply and demand characteristics are moving in the direction that might give backing to higher prices. Meanwhile in Healthcare, five of the six benchmark constituents finished lower for the third quarter, contributing to the poor performance in the sector.

Against this backdrop, the Morningstar Strategic Canadian Equity Fund outperformed its benchmark, the S&P/TSX Composite Index.

Positive Contributors

Great Canadian Gaming Corp., Toromont Industries Ltd., Canfor Corp. and Linamar Corp. were noteworthy contributors over the quarter.

Great Canadian Gaming Corp., in partnership with Brookfield Business Partners L.P. and Clairvest Group Inc., was selected by the Ontario Lottery and Gaming Corporation to have the exclusive rights to operate a variety of gaming facilities in the Greater Toronto Area for a minimum of 22 years.

During the quarter, Toromont entered into a definitive agreement to acquire the Hewitt group of companies, which will add new markets to their operations and add

to their growth in eastern Canada, particularly in Quebec, Western Labrador and the Maritimes.

Negative Detractors

The Fund's underweight to the Energy sector, which performed well during the quarter, was a detractor from performance.

Positioning and Outlook

Over the course of the third quarter, the Fund sold four stocks (Extendicare Inc., MTY Food Group, Intertape Polymer Group, Inc. and Capital Power Corp.) and purchased four new positions (Canadian National Railway, Cogeco Communications Inc., Westjet Airlines Ltd. and Power Corp).

To date in 2017, the Fund has exited twelve positions and initiated twelve positions, keeping the net total number of stocks in the portfolio at 35. The Fund will typically

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hold 30-40 positions so it is currently at the midpoint, and still more concentrated than most Canadian equity strategies in terms of the count of names in the portfolio.

Valuations in the portfolio are attractive, and remain below benchmark levels. Quality indicators are above benchmark levels. Both characteristics are important components of the selection process.

Despite the Fund's underweight within the Energy sector, which performed well during the quarter, the Fund delivered a positive return relative to the benchmark. The Morningstar Investment Management group believes this highlights the strong stock picking ability of the Fund's rules-based methodology.

The Morningstar Investment Management group looks forward to the new quarter as the Fund continues to apply the discipline of the investment strategy to the portfolio and its holdings.

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