Greystone Quarterly Market Update

Q1-2018

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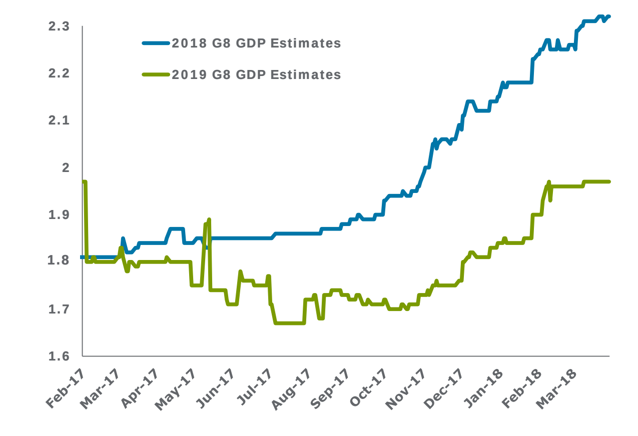
Chief Executive Officer & Chief Investment Officer

As the 10-year anniversary of the global financial crisis and subsequent recovery approaches, we are frequently asked if it is time to turn defensive with multi-asset portfolios. Our conclusion is "not yet." Consensus views that the next recession is at least one or two years away appear reasonable, given positive leading indicators and a penchant for central banks to default into accommodative postures at signs of uncertainty. We think there is also a chance that the cycle extends beyond consensus views to three years or more.

The global economy is benefitting from sustained growth in the U.S. and China, as well as a turnaround in Europe. Notable is the recovery in Japan, which recently posted eight quarters of positive economic growth for the first time in 20 years. China's consumer is successfully taking over from fixed-asset investment and the export sector as the engine of the economy. This is a structural shift that we believe will create new opportunities for investors who can access companies exposed to the burgeoning middleclass. While perhaps mistimed, the U.S. tax cut is providing a late cycle boost to an already robust economy. Forecasting agencies are responding and continue to revise upwards their GDP growth outlooks.

Figure 1: Consensus GDP Estimates Increasing



Source: Bloomberg.

The recent rise in volatility appears to us as a healthy correction and we do not believe it will derail synchronous global growth or the path of central bank normalization. We remain constructive on equities as earnings growth momentum remains strong and is supported by underlying fundamentals.

Unemployment rates in the U.S., Germany, Japan and Canada are all near pre-crisis lows, indicating capacity constraints may be looming. Central banks are also removing monetary stimulus with the U.S. Federal Reserve taking the lead. We believe that global central banks will continue to follow. There is also the chance that deglobalization and trade wars increase consumer prices and interest rates in the long run.

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We are conscious of the fact that unintended disruptions often occur when the rate structure moves higher than expected. While the growth outlook is strong, we believe a continued focus on risk management is important as financial assets are exposed to shifting landscapes. The first quarter of 2018 was a reminder of financial asset volatility, with negative local currency returns across equity regions.

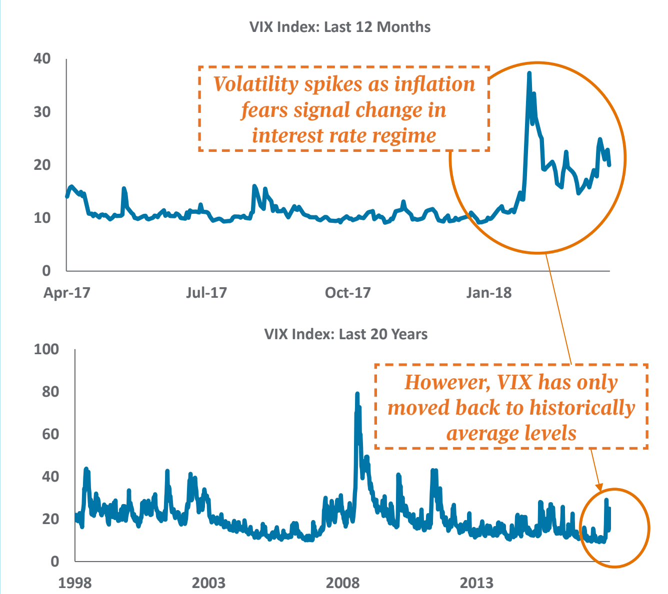
In the upcoming quarters, we believe investors should begin the process of fortifying their portfolios and reducing unstable longer-term risks. Our risk management focus within equity portfolios is to ensure stock specific factors dominate active returns in order to minimize shifting macro risks. We believe that portfolios constructed with companies that demonstrate business momentum from a diverse set of drivers will have a better opportunity to weather bouts of market volatility, regime shifts in the equity market, and changes in the business cycle. From a regional allocation perspective, we are biased to an equal overweight in the U.S. and international markets with neutral positioning in Canadian equities.

In multi-asset portfolios, the right sizing of risks equates to a trimmed equity overweight combined with cautious corporate bond, high yield and global credit exposures. We believe that equities are a better source of return as they provide an opportunity to participate in late cycle growth. Conversely, corporate bonds offer lower premiums and future return potential but are still exposed to market downturns, particularly as spreads are tight and corporate indebtedness rises. Recent years have witnessed a trend towards greater credit risk within fixed income programs in order to enhance yield or active returns.

Reducing this credit risk can be accomplished, while still achieving yield enhancement, by rotating into high-quality secured debt found within private debt and mortgage markets. From an interest rate risk perspective, we are positioning fixed income portfolios with a defensive tilt to protect against rising interest rates.

Our real estate and infrastructure views also reflect a bias for quality assets that are well suited for the later stages of an economic expansion. In our real asset portfolios, we have focused on investments with sustainable cash flows and high credit quality. For real estate, we have sought acquisitions where demand is supported by robust demographic trends and stable underlying fundamentals. We recommend vigilance for real estate strategies that employ high degrees of leverage, as this tends to increase equity market correlations at times when diversification is most needed. We believe that a global lens for infrastructure continues to provide flexibility to navigate sector and geographic positioning, particularly if global protectionist sentiment continues. While prices are high across asset classes, we believe the relative value of real assets is attractive compared to stocks and bonds.

Figure 2:
Volatility moves away from historically low levels



Source: Factset. 20-Yr VIX Index average is 20. March 31st 2018 VIX Index value is 20.

Multi-Asset Returns

Calendar Year					Ending March 31, 2018
2013	**2014**	**2015**	**2016**	**2017**	**3-Month**
Glo. Eq 35.2	Long Bonds 17.5	Glo. Eq 18.9	Cdn. Eq 21.1	EM Eq 28.3	EM Eq 4.4
Cdn. Eq 13.0	Glo. Eq 14.4	Infrastructure 11.5	Infrastructure 8.6	Infrastructure 17.6	Real Estate 2.2
Infrastructure 12.9	Infrastructure 10.6	Real Estate 7.8	EM Eq 7.3	Glo. Eq 14.4	Glo. Eq 1.6
Real Estate 10.6	Cdn. Eq 10.6	Mortgages 4.0	Real Estate 6.1	Cdn. Eq 9.1	Cash 0.3
EM Eq 3.9	Bonds 8.8	Long Bonds 3.8	Glo. Eq 3.8	Real Estate 7.2	Mortgages 0.3
Mortgages 1.3	Real Estate 7.0	Bonds 3.5	Long Bonds 2.5	Long Bonds 7.0	Bonds 0.1
Cash 1.0	EM Eq 6.6	EM Eq 2.0	Mortgages 1.8	Bonds 2.5	Long Bonds 0.0
Bonds -1.2	Mortgages 6.0	Cash 0.6	Bonds 1.7	Mortgages 0.9	Infrastructure -0.5
Long Bonds -6.2	Cash 0.9	Cdn. Eq -8.3	Cash 0.5	Cash 0.6	Cdn. Eq -4.5

Benchmarks

- S&P/TSX
- MSCI World (Net)[1]
- MSCI Emerging Markets (Net)

- Infrastructure[2]
- IPD All Property[3]
- Custom Mortgage Benchmark[4]

- FTSE TMX Cda 91 day T-bill
- FTSE TMX Cda Universe
- FTSE TMX Cda LT Overall

Source: FactSet, Preqin, Greystone. As at Mar 31, 2018.
Returns in Canadian dollars, excluding Infrastructure (U.S. dollars). Gross of investment management fees. May be subject to rounding. Past performance is not necessarily a guide to future results.
[1] MSCI, net of foreign dividend withholding taxes.
[2] Infrastructure returns are the Preqin Infrastructure Quarterly Index up to Q3 2017 and are Greystone Infrastructure Fund (Canada) LP returns thereafter.
[3] Real estate returns are the IPD All Property Index up to its most recent publication, Q4 2017 and are Greystone Real Estate Fund Inc. returns thereafter.
[4] Custom Mortgage Benchmark: FTSE TMX Cda Short Term Overall 60%, FTSE TMX Cda Mid Term Overall 40% + 0.5% per annum.

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We are a private company, majority-owned by our employees – over 90% of eligible employees are shareholders.[2]

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- Plus
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[1] As at Mar 31, 2018. [2] An eligible employee is defined as contributing one or more years of service to Greystone.