



CLIENT

JUNE 30, 2018

NEWSLETTER

Message from the Managing Director, Private Client

On the late June afternoon as I sit down to write this newsletter, I get a media alert that Federal Reserve Chairman Jerome Powell says the case for continued gradual rate hikes is strong, the job market is set to strengthen further and support wage growth, that the US economy is performing very well, and he sees financial stability vulnerabilities as moderate.*

This optimism comes against a severe backdrop of world trade protectionism and rising international economic tensions. Economic and political upheaval in Italy is top of mind. More locally, in Ontario we just elected a populist premier with little certainty about what his policies will look like!

While on the surface this appears to make for a confusing mix of politics, macroeconomics and optimism, it underscores the importance and comfort of professional money management as we navigate this confusing environment. Highstreet's disciplined approach continues to offer a calm harbour for our clients.

As we reach the mid-year mark of 2018, it is worth reflecting on Highstreet's outlook for the year. As the year began, the Highstreet team viewed the investment backdrop to be attractive as most countries were experiencing strong economic and earnings growth. The team viewed equities a better opportunity than fixed income; stocks would be supported by earnings growth while bonds would be impacted by higher interest rates. The Highstreet team has favoured global equity exposure and in particular US equities, however we were looking for an opportunity to decrease US equity exposure throughout 2018 in the Highstreet Balanced Fund. This was because of the building risk in the US market as the strength and length of the bull market were becoming extended compared to history.

The year began with one of the best starts to the year by US

equities (S&P 500 Index posted a 5.7% gain in US Dollar terms in January) fueled by tax cuts, record low unemployment, and the strength of business and consumer. However, these gains were erased by the end of the first quarter, beginning with inflation concerns weighing on the market, and the subsequent trade war inspired correction causing all global markets to struggle to gain traction until the end of May. Since then, equity markets have swayed back and forth between the still positive economic and earnings backdrop and the trade war rhetoric and its potential long-term damage to global economies. The US Federal Reserve has responded to US economic strength by raising interest rates twice in 2018, bringing the total number of rate hikes since 2015 to seven, with an eye toward one or two more hikes through the year. Although interest rates remain low compared to history, higher rates will eventually impact the economy and the stock market.

Against this backdrop, the Highstreet Balanced Fund maintains its equity/fixed income exposure at 60%/40%. Within equities, direct exposure to US equities through the Highstreet U.S. Equity Fund has been decreased while exposure to regions/countries outside the US with strong economic and market fundamentals as well as exposure to large cap, dividend paying stocks with defensive attributes has been increased through allocation to the Highstreet Global Equity Fund and the Highstreet Dividend Income Fund respectively. For more information about the changes in the target asset mix for the Highstreet Balanced Fund, please refer to the commentary section of the corresponding Quarterly Investment Review.

Currency movements have impacted portfolios over the last few years, and these currency swings have a greater effect on portfolio returns as we invest more globally. As a result, the investment team will from time to time look to hedge the currency exposure to smooth the overall returns. We will look



to hedge exposure when the Canadian dollar has the potential to appreciate, and leave the exposure unhedged when it has the potential to depreciate. In light of the weakness in the Canadian dollar versus the US dollar, the Highstreet Dividend Income, Highstreet U.S. Equity, and Highstreet Global Equity Funds have hedged 25% of the US dollar exposure.

At Highstreet, researchers and portfolio managers collaborate to develop a disciplined and repeatable investment process to provide our investors a compelling product offering. Through blending quantitative and fundamental investment styles, Highstreet’s investment team is well-equipped to navigate a wide variety of market conditions. As a result, the Highstreet Dividend Income Fund has received the Fundata FundGrade A rating through the quarter. These grades are awarded to funds that have had outstanding performance over a specific period of time. This is a testament to the strength of the investment team and process, and we remain squarely focused on delivering on our performance objectives for our clients.

Finally, I am pleased to advise that during the month of June our total Assets under Management reached more than \$6 billion, a mix of institutional and private client assets.

I appreciate your ongoing support for Highstreet and as always, thank you for your continued confidence in us.

Enjoy the rest of the summer.

Warm regards,
Michael Hodgson

* Bloomberg June 20, 2018

P.S. While writing to you I am pleased to advise we are now able to take on assets in kind. While our core service continues to be the provision of pooled funds, we have had enquiries from clients and potential clients asking if we could move individual stocks and bonds instead of simply transferring cash to us. We are now positioned to provide a segregated account service on an execution only basis so please ask your relationship manager for more details should you be interested.

Congratulations!



Abhishek Ashok, MA, MFE, CFA
Analyst

Since joining Highstreet after his MFE graduation, Abhishek has continually taken on more responsibility and expanded his role on the team. He seamlessly develops content for presentations and commentary, while also creating quantitative tools and highlighting opportunities to the investment team. As a recognition

of his contributions and taking on greater investment responsibilities, we are pleased to announce that Abhishek has been promoted to Analyst. In this role, he will continue to expand his investment responsibilities. Additionally, he has earned the right to use the CFA charter as of June 2018.

As always, we would love to hear from you. If you have any questions, concerns or comments do not hesitate to reach out to your relationship manager.

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Events and Sponsorship

June 16 Performance Host of The Music Man at Stratford Festival Theatre

June 18 Silver Sponsor, Hockey Canada Gala