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July 22, 2016
Economic Commentary

MARKET MUSINGS & DATA DECIPHERING

Weekly Buffet with Dave

A summary of my top insights from this week

IN THIS ISSUE

Buy bonds for price, stocks for yield

- The equity market has become a more effective vehicle in terms of delivering income than the bond market

Silly season

- The bull market in greed and complacency is back intact

Take the good with the bad

- The business cycle is not dead, just dormant; no burst, no bust

Housing data mixed despite positive underlying trends

- Homebuilding activity was better-than-expected to close out Q2, with starts rising 4.8% MoM in June to a four-month high of 1.189 million annualized units

Homebuilders still not getting started

- The National Association of Home Builders' housing market index showed sentiment among builders of single-family homes unexpectedly ticked down to 59 in July from the five month-high of 60 seen in June

Foreign investors can't get enough Canadian assets

- Despite the softening in the Canadian macro backdrop that we have seen since the start of the year, foreign investors continued to pour money into Canadian financial markets at a robust pace

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BUY BONDS FOR PRICE, STOCKS FOR YIELD

So the equity market has taken off again and the major averages still hitting new highs.

The S&P 500 is up +6½% year-to-date

In this last leg of the trade, the defensive rate-sensitives have seen a round of profit-taking but this has really not put much of a dent in the year-to-date price gains in the S&P 500 Telecom (+21%) and Utilities (+19%) sectors — comparing nicely to the +6½% advance for the S&P 500 so far for 2016.

There is no doubt that that the classic rate-sensitive segments of the stock market are trading expensively and there is some concern in corners of the market that when time comes for the big reflation trade, there will likely be a big correction coming in these areas of the equity space.

But the reflation trade is a very big if, in my view. I see this forecast based on a whole slate of assumptions, about China, about Japan, about the U.S., that I see being on some pretty shaky ground.

What we do know for certain is that we have been in a period of ultra-low rates now for seven years.

There is still no sign of escape velocity in the economy

And there is still no signs of escape velocity in the economy and that is underscored by the latest cuts the IMF and World Bank have made to their global growth views.

Inflation remains a forecast, not a reality, and strip out shelter from the U.S. CPI, and prices are actually deflating by 0.2% YoY. Core goods prices are falling. Wages are rising, but only moderately.

And we come out of Brexit and its fallout with tremendous uncertainty over the economic and financial outlook for Europe, which is every bit as large as the U.S. is when it comes to share of global GDP.

So there is gnawing feeling that we will be stuck in this uber-low rate backdrop for more years to come.

You don't even have to drum up the Great Depression — the Fed established a 2.5% ceiling on the long bond yield from 1942 to 1951. Eras like this can indeed last as long as a decade.

Let's talk about what we do know. I mean, I can talk about what I do not know — like the oil price, for example.

Will the Saudis take another stab at grabbing market share and drive prices lower again? Who knows?

Will there actually be a Brexit?

Will the EU come and rescue Italian banks?

Who will win the U.S. election, or the votes ahead in 2017 in French, Germany and the Netherlands?

Will we actually see Helicopter Money?

Can China reaccelerate despite its massive debt load?

Will Abe resort to more fiscal and monetary stimulus or will he finally embark on the third arrow of reforms?

But frankly, the confidence bands around any of these issues are far too wide. What we do know for a fact is two things: first, we know demographics; and second, we know about the central banks' intentions.

The confidence bands around any of these issues are far too wide

So here we are, and in 2016 one of the greatest ironies is that the first of the baby boomers have turned 70 and the median hit 60 years of age. This is the 80 million pig in a python has driven everything in the past six decades in North America from politics to economics to finance, and is the power base that controls most of the wealth in society.

The problem is that when these initial boomers hit 70, they then look at this horrific page of data which is the mortality table and what they see, at least the ones who don't smoke and have normal blood pressure, and they see the daunting math in front of them.

They have a better than 50/50 chance of making it to 90 (especially females)! How is that bad? That's because they haven't saved nearly enough for their "golden years" — notice I didn't say "retirement years" because most of them have to work — after having two bubbles burst seven years apart (Tech in 2001-02 and then real estate in 2008-09).

So even for the septuagenarians, now and in the future — and there will be an average of 1.5 million moving into this age cohort annually for the next 10 years — the necessity of saving is going to remain intense. And because they cannot afford to take another hit on their base capital, the emphasis on safe yield at a reasonable price is likely to intensify.

The necessity of saving is going to remain intense

I say this is ironic because just as the first of the boomers turn 70, this was the year that for the first time ever, roughly $13 trillion of global government bonds slipped into a negative yield. Another $14.5 trillion reside between 0% and 1%. So consider that over three-quarters of the world sovereign bond market trades at 1% or lower. Barely more than $2 trillion or 6% of outstandings provide a coupon better than 2%.

This is all the product of a world suffering from slow growth, deflationary pressure and the long arm of interventionist central banks (the Fed, ECB, BOE and BOJ combined have assets on their balance sheets equivalent to 35% of GDP!).

The average yield on the 10-year bond yield is just above 0.60% — so no income.

And even the "safety" is dubious now seeing as the number of AAA-rated sovereign credits in the past decade has been sliced from 15 to 10.

The number of AAA-rated sovereign credits in the past decade has been sliced from 15 to 10

So, just as the demographic demand for income reaches a new inflection point, that is the time that the central banks have taken so much duration and safety out of the domain of the private investment community that one-third of the global government bond market goes negative in yield.

And pundits wonder why the stock market keeps going up.

Through the collapse in oil prices, the Chinese-led devaluation fears, the Fed's threat to raise rates four more times (now a relic), Brexit, recurring terror attacks, now Turkey, and all the turmoil surrounding capital-constrained Italian banks, not to mention the circus in the U.S. otherwise known as the election campaign, and finally, a six-quarter earnings recession, and here we have the major equity averages reaching new highs.

Maybe it's because for these income-starved boomers, the equity market has become a more effective vehicle in terms of delivering income than the bond market.

The equity market has become a more effective vehicle in terms of delivering income than the bond market

Consider this: the S&P 500 delivers a 2.1% dividend yield while the 10-year U.S. Treasury note yield stands at 1.6%. The dividend yield on the TSX is 2.9%, very nearly triple the 1.1 yield on the 10-year Canada.

Did you know that over the past 60 years, the dividend yield exceeded the bond yield in both countries just 10% of the time? That prior to the onset of the credit collapse in 2007, this condition had never before existed?

Look at it this way. Over the past 12 months, less than 30% of the total return in the 10-year Treasury or Canada bond has come from the coupon. For the 30-year maturity, the income component accounted for barely more than 10% of the total return. The power of capital gains at low levels of interest rates — the total return, for example, with a 70 basis point decline in the long bond yield this year is 18%!

So if you are buying government bonds, expecting a decent return at the current puny level of yields, you are chasing the price. You are a speculator focussing on price, not yield.

If you are buying government bonds, expecting a decent return at the current puny level of yields, you are chasing the price

Now look at the stock market. I am sure that equity investors would love the capital appreciation when it comes, but the reality is that nearly half the total return in the S&P 500 has come from the reinvested dividend. That comparable in Canada is closer to 75%.

So folks entering into the equity market are doing so primarily, though into necessarily exclusively, for the comparatively superior income characteristics. If you are buying equities at current sky-high prices, you are chasing the yield. The mirror image of bonds.

Indeed, this is why the sectors with the most attractive yields are the same ones that have delivered 20%+ returns so far this year.

Now the S&P 500 utilities sector is very pricey with an 18.8x forward price-to-earnings (P/E) multiple, a two-standard deviation premium above its historical average. Normally this group trades at a 6% P/E discount to the overall market and now it is at a 1.2% premium. Too rich, according to many investors and warnings signs abound that sectors like this are in a bubble and ripe for a major correction.

I'm not so sure about that happening unless we get a big run up in bond yields, because the S&P 500 dividend yield in the utilities space at 3.25% is more than double the 1.6% yield on the 10-year T-note.

All else equal (which I know is never the case), the price appreciation in this sector that would end up equilibrating the dividend yield with the bond yield would be more than 100%. Yes, you heard that right.

For the TSX, a 4.1% dividend yield in Utilities is triple the 1.1% yield on the 10-year Canada bond, and if it was the price of this equity sector that did the lifting in terms of aligning these two yields, the price gain would be closer to 160%.

For the TSX, a 4.1% dividend yield in Utilities is triple the 1.1% yield on the 10-year Canada bond

Of course, these are not forecasts, as much as why it is that the arithmetic has been working for these stable yield-focused sectors and for so long.

Now I hear all the time of how the Telecom sector is just as dangerous as the Utilities space is, but here, the Telecom space trades at a sub-15x forward P/E multiple, which is actually a third of an standard deviation below the norm of 15.5x and for a sector that trades near the market multiple (just above, actually), it now trades at a near-20% P/E discount.

The dividend yield of 4.3% is far above the 1.6% yield in the 10-year part of the Treasury curve — so much so, yet again, that it would take a 170% surge in the price of this sector to align the yield with the 10-year note.

Yes, I know, that sounds ludicrous, but it is only math.

And a reminder that while bonds trade off of price, sectors like this trade off the yield and that is what is attracting the demand that in turn is driving the price.

The bottom line is, that even with competitive challenges in this industry, earning have held in just enough to keep valuations quite reasonable — at least relative to other parts of the market.

It is reasonable to say that the Canadian and U.S. Banks provide fairly compelling valuations though earnings visibility is certainly a constraint — they both trade at 11.5x forward P/E multiples.

Canadian and U.S. Banks provide fairly compelling valuations though earnings visibility is certainly a constraint

Again, they provide good yields, even in the U.S. where the yield has managed to rise to 2.3% — if this yield were to decline to the level of the 10-year note, again not assuming dividend cuts or a big bad bear bond market, the rally in US bank stocks would top 40%.

The Canadian bank backdrop is even more dramatic — a 4%+ dividend yield which is four times the 10-year Government of Canada note yield. Hang on to your hats, but a price move that would allow for a recalibration of TSX Banks' dividend yield to the 1.12% level of the 10-year GOC note yield, would require that the bank index surge 260%. Now stop rubbing your eyes.

I can take this analysis to the broad market — what would happen to the S&P 500 if the dividend yield were to once again just match the 10-year U.S. Treasury yield, and the intervention by global central banks ensure that bond yields stay where they are, so we hold rates constant, the answer is another 30% of upside.

What would happen to the S&P 500 if the dividend yield were to once again just match the 10-year U.S. Treasury yield?

Because the dividend yield-bond yield gap is even wider in Canada, the TSX would have 100% upside potential. Yes, again, you read that right.

Once again, I will revert to Janet Yellen's speech, delivered on March 29th, titled *The Outlook, Uncertainty and Monetary Policy*. Not only did she use the term "uncertainty" in her title, which is a big signal, but she deployed the word no fewer than 10 times in her sermon. In fact, in her last four public appearances, she has uttered the word 45 times!

I know history well and history has taught me that a central banker who is uncertain, not just any central banker but the head of the Fed, is a central banker who does nothing.

The Fed has already gone more than six months without raising rates after that December 2015 volley — shades of April 1997 — and again, history says that once the Fed has allowed this amount of time to lapse, even after but one hike, the next move is an easing, not a tightening.

If you can't make money on anything else I said in this missive, you can at least try and make some side-bets with that little factoid.

But it is one reason among many as to why I believe that if the dividend yield-bond yield gap ever mean reverts, as Bob Farrell's Rule #1 assures us will be the case, it will not be through a return to higher interest rates, at least any time soon.

SILLY SEASON

The bull market in greed and complacency is back intact:

The bull market in greed and complacency is back intact

1. The Chicago Board of Options Exchange Volatility Index (VIX) is now well south of 12, and at its lowest level since August 2015.
2. The CNN Money 'Fear and Greed Index', which is primarily but not exclusively correlated to volume in call and put options, just hit 90 (indicating the lowest levels of put buying in two years), certainly at an extreme level, so much so that the indicator is flashing "Extreme Greed"
3. The Market Vane Bullish Consensus Stock Index has traded all the way back up to 64% (as of July 15th), the high end of the cycle range, and matching the high for year-to-date 2016 — best times to buy is when this metric is closer to 40%.
4. The American Association of Individual Investor (AAII) Sentiment poll is up to 36.9% — it is up almost 20 percentage points since the end of May! The bear share is down to 24.4% from 29.4% at that time. A net 25 percentage point swing in eight weeks. Hey — that sort of manic move doesn't happen every day, you know.
5. The Investor's Intelligence poll showed the bull camp expanding further to 54.4% from 52.5% last week, and the bears are down to 23.3% from 24.7%. So net-net, the gap between the bulls and the bears at a remarkable 31,100 basis points is at its widest level since July 2015.

That is what I call cause for pause — stay defensively minded.

That is what I call cause for pause — stay defensively minded

TAKE THE GOOD WITH THE BAD

I realize that we have to take ultra-low discount rates into account, but those same discount rates are also *discounting* a world of precious little pricing power and very little economic growth.

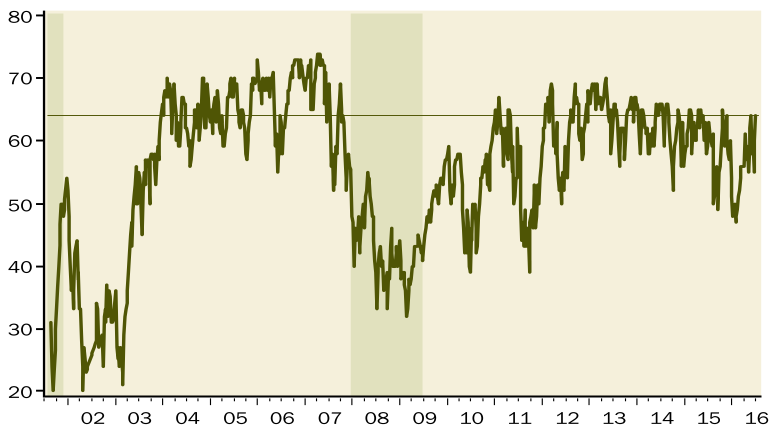
You can't have it both ways when it comes to interest rates.

All I can say is that when you back out the fair-value price-to-earnings multiple, which is closer to 17x than 20x, this market is pricing in a fanciful environment of 25% earnings-per-share growth in the coming year. History tells you this a one-in-10 event. The odds are not with you if you are playing this market from the long side.

The level of complacency is another factor to consider. Market Vane bullish sentiment at 64 is tied for the highest reading since November 6th of last year.

CHART 1: MARKET VANE BULLISH CONSENSUS INDEX

United States
(percent bullish)



Shaded regions represent period of U.S. recession
Source: Haver Analytics, Gluskin Sheff

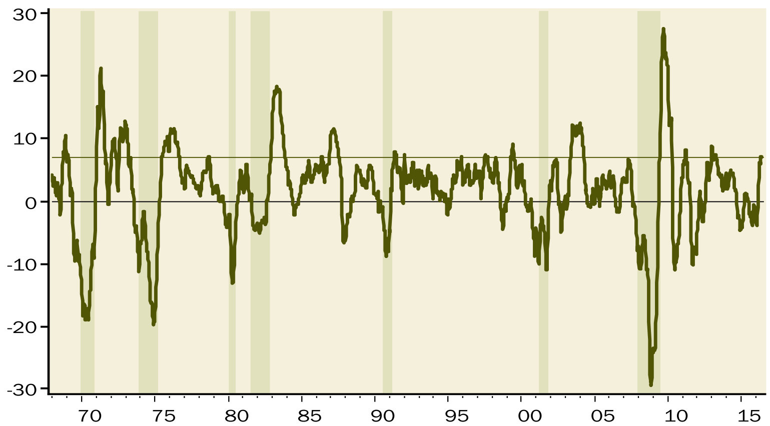
The American Association of Individual Investors (AAII) poll shows the bull share has jumped 15 percentage points since late June to 36.87%, the highest it has been in four months; the bear share is down more than 10 points over this time to 24.42%, a three-month low.

The AAII poll shows the bull share jumping

That said, the ECRI Weekly Leading index (specifically looking at the smoothed four-week moving average growth rate) at +6.9 points to very little in the way of recession risk in the coming year. In the past, even if this leading indicator rolls over from this point onwards, we likely wouldn't see a recession for another two years.

CHART 2: ECRI WEEKLY LEADING INDEX

United States: Smoothed Four-Week Moving Average Growth Rate
(percent)



Shaded regions represent period of U.S. recession
Source: Haver Analytics, Gluskin Sheff

The business cycle is not dead, just dormant. No burst, no bust.

The business cycle is not dead, just dormant

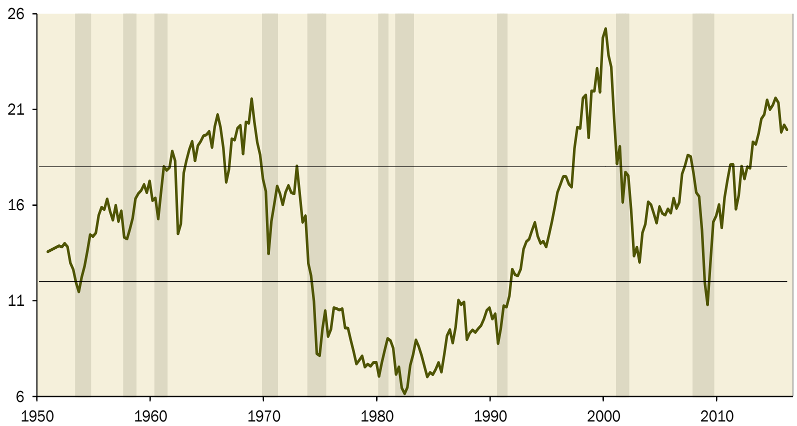
So this limits the odds of a fundamental bear market because these only happen in periods when the real economy is contracting which devastates profits and multiples and results in dissipating earnings visibility and investor confidence.

I should add that while it has become fashionable to say that this is the most detested bull market of all time, and as such from a contrarian standpoint is a constructive development, the reality is that the household sector stayed exposed enough that the share of total assets accounted for by equities is 20%, doubling from where it was in early 2009 and actually higher today than at the market peaks of 2007 and at the high end of the historical range.

The reality is that the household sector stayed exposed enough that the equity share of total assets is 20%

CHART 3: EQUITIES AS A SHARE OF TOTAL HOUSEHOLD ASSETS

United States
(percent)



Shaded regions represent period of U.S. recession
Source: Haver Analytics, Gluskin Sheff

HOUSING DATA MIXED DESPITE POSITIVE UNDERLYING TRENDS

Homebuilding activity was better-than-expected to close out Q2, with starts rising 4.8% MoM in June to a four-month high of 1.189 million annualized units.

Consensus was for 1.165 million annualized starts in the month, but the upside surprise was negated by downward revisions to both May (now 1.135 million versus the initially reported 1.165 million starts) and April (to 1.155 million from 1.167 million) that left the Q2 average below the 1.165 annualized unit level assumed by markets ahead of the report.

The upside surprise in housing starts was negated by downward revisions to both May and April

Notably, though, the 1.160 million annualized start average for the three months ended June is still up at a 2.9% annual rate versus Q1 — pointing to housing making a mild positive contribution to Q2 real GDP — and represents the best quarterly performance since Q4 2007.

CHART 4: HOUSING STARTS

United States
(millions, quarterly average)

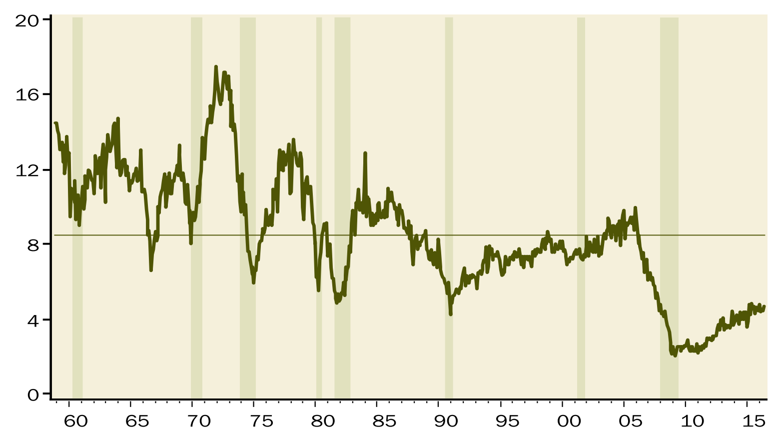
Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff

Starts are continuing their *very* gradual drift higher from recessionary lows. And there is plenty of scope for this trend to continue as homebuilding activity is still 48% below its pre-recession peak level while population-adjusted start rates remain 45% below their historically normal levels.

Population-adjusted start rates remain 45% below their historically normal levels

CHART 5: HOUSING STARTS PER CAPITA

United States
(starts per 1,000 people aged 16 and over)



Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff

In other words, this is one area of the economy that still offers plenty of upside potential seven years into the recovery — something that makes the Homebuilders a rate-sensitive group of the stock market that is actually attractive, especially given its domestic focus means that it has no sensitivity to the strong U.S. dollar nor to a Brexit-induced European slowdown.

CHART 6: HOUSING STARTS AND S&P 500 HOMEBUILDERS

United States
(housing starts: dark green line, left axis, millions)
(S&P 500 Homebuilders: light green line, right axis, index)

Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff

The Atlanta Fed's smoothed wage growth tracker hit a cycle-high of 3.6% in June

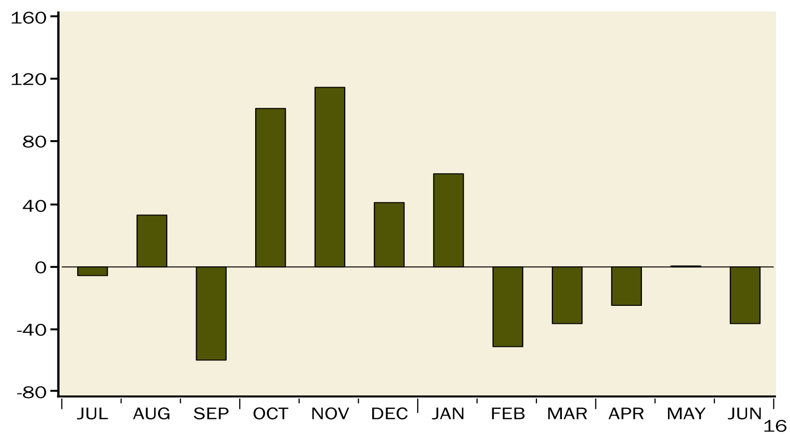
But while the underlying fundamentals that support housing demand are strengthening — there are signs that the tighter labour market conditions are finally providing some lift to wages with the Atlanta Fed's smoothed wage growth tracker hitting a cycle-high of 3.6% in June — and all indications suggest that a key factor constraining housing market activity is a lack of supply of homes available for sale, the fact of the matter than we are yet to see any indications that a material pickup in new home construction is in the offing.

Monday's release of the homebuilders' sentiment showed a deterioration in expectations for the coming six months.

This pullback in anticipated activity by builders was echoed in the building permits data which, despite posting the third consecutive monthly increase (+1.5% to 1.153 million units at an annual rate in June), have now undershot starts in three of the last four months — permit issuance has also declined now for two straight quarters, with Q2's 1.140 million annualized unit average representing the lowest tally since Q1 2015.

CHART 7: PERMIT ISSUANCE NOT KEEPING PACE WITH STARTS

United States: Building Permits Less Starts
(thousands)



Source: Haver Analytics, Gluskin Sheff

So, while the bigger picture on housing looks upbeat, it is not necessary going to be a straight line up, with the data suggesting that there is a potential slowing in the pace of new home construction in the near-term.

HOMEBUILDERS STILL NOT GETTING STARTED

The National Association of Home Builders' (NAHB) housing market index showed sentiment among builders of single-family homes unexpectedly ticked down to 59 in July from the five month-high of 60 seen in June (consensus was looking for a steady reading in the month).

The NAHB housing market index showed sentiment among builders unexpectedly ticked down to 59 in July

CHART 8: NAHB HOUSING MARKET INDEX

United States
(index)

Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff

This pullback in the headline index is disappointing, as is the fact that all three of the sub-components that make up the index faltered in the month as well — assessments of current sales conditions, expectations for the next six months and the views on prospective buyer traffic all largely reversed the gains seen in the previous month.

But at least some solace can be taken from the fact that at 59, the index remains above the 58 level that prevailed from February to May — granted this still points to a lack of improvement in homebuilders' assessment of residential real estate conditions and sentiment remains below the peak established in the October.

Further, the softening in sentiment was concentrated in just one geographic region — the NAHB's index declined in the South in July, but actually improved in the Northeast, Midwest and West, so the weakening is not particularly wide-spread (though the South is the largest of the regions).

The NAHB's index declined in the South in July, but actually improved in the Northeast, Midwest and West

This is just the third time in the survey's history in which the overall index has declined despite three regions increasing — the others were September 2013 (the Midwest was the sole decliner) and April 2011 (the South was the odd man out); single-family housing starts did decline in both of these prior months.

The bottom line is that there is little reason to anticipate that homebuilding will break out of the 1.0 million to 1.2 million annualized unit range that has been in place over the last year (consensus is looking for activity in June to sit near the middle of this range), so there will likely be no much-needed material pickup in the supply of available housing on the market over the near-term.

This means that the supply/demand imbalances have that been plaguing the residential real estate market and constraining activity (particularly at the lower-end of the pricing spectrum) are unlikely to see any reprieve over the coming months, putting added pressure on affordability conditions and limiting the ability of the key first-time homebuying cohort to become a bigger participant in the housing market.

FOREIGN INVESTORS CAN'T GET ENOUGH CANADIAN ASSETS

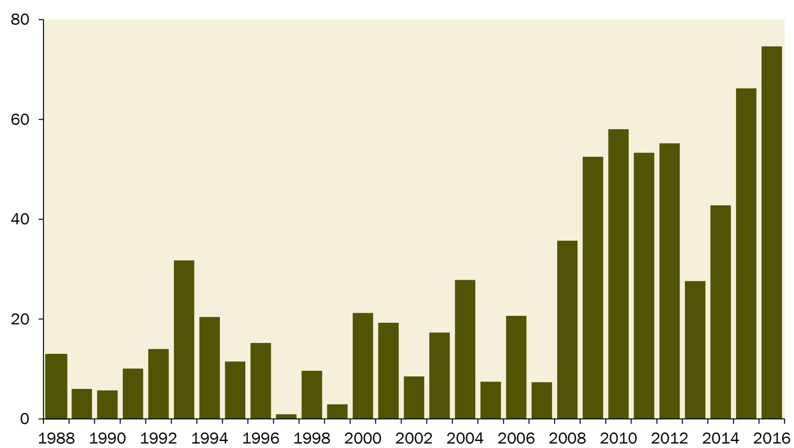
Foreign investors continued to pour money into Canadian financial markets at a robust pace

Despite the softening in the Canadian macro backdrop that we have seen since the start of the year, foreign investors continued to pour money into Canadian financial markets at a robust pace, with an additional $14.7 billion in assets from the Great White North added to the portfolios of non-residents in May.

Each of the five months so far in 2016 have seen foreign investment dollar inflows in excess of $10 billion, the first time we have seen a stretch like that on record — the cumulative $74.6 billion in net purchases of Canadian financial assets year-to-date is a record high.

CHART 9: NET FOREIGN ACQUISITION OF CANADIAN SECURITIES

Canada: Year-to-Date May
(billions of dollars)



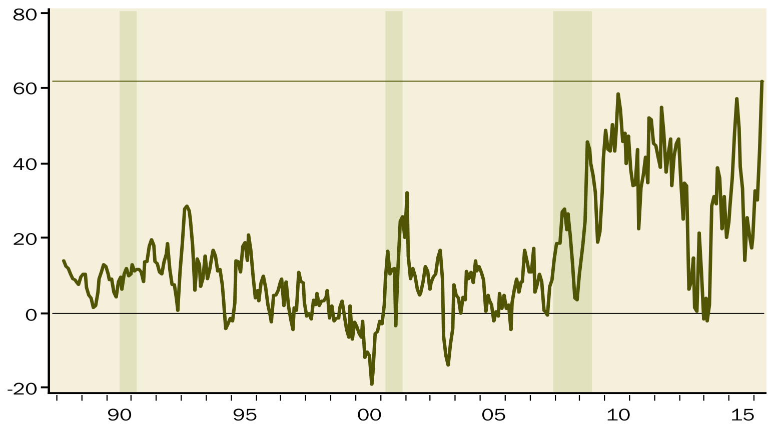
Source: Haver Analytics, Gluskin Sheff

The foreign buying of Canadian financial assets in May was largely concentrated in the fixed-income space

As has been the case over the last few years, the foreign buying of Canadian financial assets in May was largely concentrated in the fixed-income space with net purchases of debt securities totalling $13.9 billion — the total year-to-date net purchases worth $61.6 billion is a record high for a five-month period.

CHART 10: NET FOREIGN ACQUISITION OF CANADIAN DEBT SECURITIES

Canada
(billions of dollars, five-month rolling total)



Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff

Digging down a little deeper, the split in June international investors acquired a net of $8.5 billion in government debt while Canadian corporate bonds and paper saw their smallest investment inflow of the year at $5.4 billion — demand from corporate bonds remains strong (+$7.9 billion), but this was partially offset from non-resident investors reducing their holdings of short-term paper to the tune of $2.5 billion (Statistics Canada note that this divestment was specifically seen in foreign currency-denominated paper).

Year-to-date, foreign investors have increased their holdings of Canadian government debt by $21.6 billion (sixth biggest cumulative increase for the first five months of the year on record) while corporate debt holdings have increased by $40.0 billion (the second biggest inflow on record behind last year's $42.1 billion year-to-date May tally).

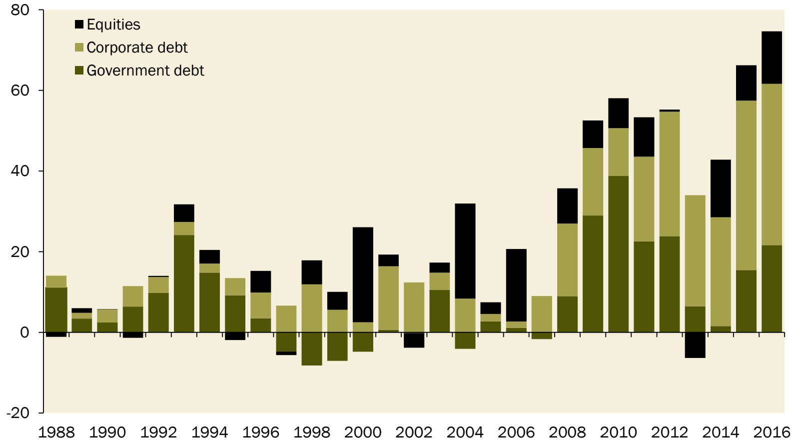
Year-to-date, foreign investors have increased their holdings of Canadian government debt by $21.6 billion

Investment in equities & investment fund share totaled $819 million in June — actual net purchases of Canadian stocks and fund shares for foreign portfolios totaled $1.9 billion, but this was offset by a $1.1 billion divestment resulting from cross-border merger & acquisition activities, which Statistics Canada notes mean that foreign portfolio investors "*rendered Canadian shares to foreign direct investors during the month*".

This is the smallest net investment in domestic equities since January, but the strong inflows to the Canadian stock market over the prior three months still mean that the $13.0 billion in net acquisition by foreign increases year-to-date is the fifth highest on record.

CHART 11: NET FOREIGN ACQUISITION BY TYPE OF SECURITY

Canada: Year-to-Date May
(billions of dollars)



Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff

So the bottom line is that foreign investor demand for Canadian financial assets remains very strong even in the face of the Alberta wildfires that wreaked havoc on the Energy sector in May.

Canadian financial markets continue to draw attention from foreign investors as a source of relatively cheap (thanks to the weakened loonie) exposure to the engine of global economic growth that is the domestic U.S. economy.

It also doesn't hurt that Canada's political backdrop represents a bastion of stability in an increasingly uncertain world, making it a desirable destination for foreign investors to safely park cash — something likely reflective of the investment in government debt hitting levels last seen in and around the financial crisis when Canada played an increasing role as a "safe haven".

It also doesn't hurt that Canada's political backdrop represents a bastion of stability in an increasingly uncertain world

Gluskin Sheff at a Glance

Gluskin Sheff + Associates Inc. is one of Canada's pre-eminent wealth management firms. Founded in 1984 and serving high net worth private clients and institutional investors, we are dedicated to meeting the needs of our clients by delivering strong risk-adjusted returns together with the highest level of personalized client service.

OVERVIEW

As of March 31, 2016, the Firm managed assets of $8.3 billion.

Gluskin Sheff is a publicly traded corporation on the Toronto Stock Exchange (symbol: GS) and remains 21% owned by its senior management and employees. We have public company accountability and governance with a private company commitment to innovation and service.

LEADING

Our team is an exemplary group of investment professionals deep in talent, ideas and experience with industry leaders in risk management and client service — all with the objective of providing strong risk-adjusted returns and the highest level of personalized client service.

INNOVATIVE

Throughout our history we have consistently pursued innovative approaches to wealth management for our clients. Today, we offer a diverse platform of investment strategies, including Canadian, U.S. and international equity strategies, alternative strategies and fixed income strategies.

PERSONAL

For Gluskin Sheff, delivering outstanding client service is as fundamental as delivering strong investment results. Our clients are unique, and so are their needs. This is why we offer customized investment plans to suit each client's specific objectives and risk profile.

Our success in developing lasting client relationships is founded on shared values, a thorough understanding of our clients' goals and a keen desire to earn their trust and confidence.

ALIGNED

Our investment interests are directly aligned with those of our clients, as Gluskin Sheff's management and employees are collectively among the largest clients of the Firm. Our clients are our partners, through performance-based fees that are earned only when pre-specified performance benchmarks for clients' investments are exceeded.

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$1 million invested in our flagship GS+A Premium Income Portfolio in 2001 (its inception date) would have grown to approximately $5.5 million[2] on June 30, 2016 versus $2.7 million for the S&P/TSX Total Return Index[3] over the same period.

For further information, please contact: research@gluskinsheff.com

Notes:

1. Past returns are not necessarily indicative of future performance. Rates of return are those of the composite of segregated Premium Income portfolios and are presented net of fees and expenses and assume reinvestment of all income. Portfolios with significant client restrictions which would potentially achieve returns that are not reflective of the manager's portfolio returns are excluded from the composite. Returns of the pooled fund versions of the GS+A Premium Income portfolio are not included in the composite.
2. Investment amounts are presented to reflect the actual return of the composite of segregated Premium Income portfolios and are presented net of fees and expenses.
3. The S&P/TSX Total Return Index calculation is based on the securities included in the S&P/TSX Composite and includes dividends and rights distributions. This index includes only Canadian securities.

Gluskin Sheff

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