Market Commentary

Second Quarter 2016

Portfolio Series and Portfolio Select Series

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Market performance

Stocks recovered during the second quarter. The Canadian stock market received a further boost from renewed interest in the commodity sectors. The price of crude oil (WTI) rallied 17% while gold bullion gained 7%. North American bond markets performed strongly as investors continued to hunt for positive yields in a world where approximately one-third of sovereign bonds (roughly $10 trillion worth) are producing negative yields.

British citizens voted for their country to leave the European Union (EU), causing an immediate reaction in the market. As often happens, the "sell first, think later" mindset kicked in on the first trading day after the vote. Stocks fell significantly regardless of geography, while sovereign bonds were bid up as it became less likely that central banks would hike interest rates. Since then, stock markets have recovered most of their losses but there remains the longer-term damage to the pound and questions about the U.K.'s long-term competitiveness.

Returns in % at June 30, 2016	3 mo	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	5.1	-0.2	8.3	4.2	4.9
S&P 500 Index (C$)	1.9	7.6	19.6	18.9	9.1
MSCI World Index (C$)	0.7	1.2	15.2	13.7	6.6
FTSE/TMX Canada Universe Bond Index	2.6	5.2	5.6	5.2	5.6

Source: Bloomberg, FTSE/TMX

Portfolio Series and Portfolio Select Series

There was much market volatility during the quarter, but by looking at just the change from the beginning of the quarter to the end, the results were rather boring. The big picture has not really changed and is quite clear: Equity valuations are on the high end but still within a normal range, corporate earnings are growing at a slow speed consistent with weak global economic growth, and interest rates are not rising as inflation and economic growth are both below normal.

In our portfolios, we have reduced the equity exposure consistently over the last 12 months, which reduces market capture but creates room for bargain hunting. We continue to hold underweight positions in the resource sectors and believe any price rally is not consistent with long-term economic projections and demand expectations for these sectors. We favour sovereign bonds that have a decent positive yield; as a result, we own long-duration government of Canada bonds and U.S. Treasuries. They produce income for the portfolios and act as a cushion against equity market volatility.

The one-year performance was generally positive for the income-centric and conservative portfolios, as they are invested more heavily for income and have less emphasis on growth. Growth strategies require years to play out and over five years, the results are attractive and outperformed income.

Returns in % at June 30, 2016	3 mo	1 yr	3 yr	5 yr	10 yr	Life
Portfolio Series Income Fund	2.3	3.1	6.2	5.9	5.3	5.3 (Dec. 97)
Portfolio Series Conservative Fund	2.0	0.1	6.3	5.5	4.4	5.1 (Dec. 97)
Portfolio Series Conservative Balanced Fund	2.0	-0.5	6.8	6.1	4.4	4.8 (Dec. 01)
Portfolio Series Balanced Fund	1.9	-1.4	7.0	6.2	4.3	6.8 (Nov. 88)
Portfolio Series Balanced Growth Fund	1.6	-2.3	7.4	6.5	4.2	4.5 (Dec. 01)
Portfolio Series Growth Fund	1.3	-3.1	7.8	6.9	4.1	4.2 (Dec. 01)
Portfolio Series Maximum Growth Fund	1.2	-4.1	8.6	7.3	3.9	3.8 (Dec. 01)
Select Income Managed Corporate Class	2.5	1.9	4.1	4.3	n/a	4.0 (Sept. 10)
Select 80i20e Managed Portfolio	2.1	0.6	4.8	4.9	n/a	3.8 (Nov. 06)
Select 70i30e Managed Portfolio	1.9	-0.2	5.1	5.2	n/a	3.7 (Nov. 06)
Select 60i40e Managed Portfolio	1.7	-1.0	5.3	5.5	n/a	3.6 (Nov. 06)
Select 50i50e Managed Portfolio	1.4	-1.6	5.7	5.8	n/a	3.5 (Nov. 06)
Select 40i60e Managed Portfolio	1.2	-2.1	6.1	6.2	n/a	3.5 (Nov. 06)
Select 30i70e Managed Portfolio	1.1	-2.6	6.5	6.4	n/a	3.4 (Nov. 06)
Select 20i80e Managed Portfolio	0.9	-2.9	7.0	6.9	n/a	3.4 (Nov. 06)
Select 100e Managed Portfolio	0.4	-4.1	7.7	7.5	n/a	3.1 (Nov. 06)

All fund returns are for Class A units/shares

Select Income Managed Corporate Class

We implemented a few asset mix changes at the beginning of this year as we saw investment opportunities changing for those who invest for a two to three-year investment horizon. The portfolio was repositioned with 1) lower equity weighting 2) a more conservative equity strategy 3) increased exposure to bonds, both government and corporate 4) longer bond duration and, more recently, 5) an increased exposure to the U.S.

dollar. These changes have led to lower volatility and a positive return for the six-month period. This positioning was also tested by the adverse market conditions during the quarter.

We continue to diversify this portfolio and recently added a dedicated global infrastructure strategy as a means to address point #2 above. Real assets such as infrastructure and commercial real estate typically have less correlation and lower downside volatility relative to traditional equities. Examples of infrastructure investments are utilities, railways, toll roads and airports. We believe that real assets will deliver better risk-adjusted returns than traditional equities for the investment horizon of this fund.

Outlook and positioning

We aim to bring more stability to an uncertain and volatile world, not vice versa. This is best accomplished through a multi-asset strategy that accesses a full set of asset classes and has the flexibility to adjust exposures as valuations and market conditions change. We are very sensitive to the risk we take and how much we get paid for doing so. As a result, compared to a year ago, we are holding less equity that is economically sensitive and owning more income-generating assets that include government and corporate bonds. However, our cautiousness could change quickly in response to improving global economies or valuations.