Harbour Canadian Dividend Fund
Second-quarter 2019 Commentary

Market Overview

- Both the Canadian and U.S. markets posted positive returns for the second quarter, resulting in strong year-to-date returns. There was a modest down draft during the quarter, as fears of escalating trade wars were somewhat offset by the belief that central banks would come to the rescue if economies were negatively impacted. Headlines from the G20 summit in June indicated that trade talks between the U.S. and China were taking a positive turn and an increase in U.S.-imposed tariffs would be delayed as a demonstration of good faith. The market rallied on the positive change in tone.

- We continue to view the fundamental economic picture as one of modest growth supported by strong employment. There is certainly increased economic noise as supply chains wrestle with the threat of tariffs by pre-buying goods that are expected to be impacted. This creates a dearth in demand in the months following the imposition of tariffs or when deadlines pass and tariffs are not imposed. The risks continue to be that companies are delaying investment until there is a full resolution of the trade dispute. In this context, we view the market as fairly valued. We are also watching inflation and productivity closely.

- Our concern is that the high debt levels of consumers, corporations and governments suggest a strong sensitivity to interest rates. If increasing inflation becomes evident, forcing central banks to act, the economy may be more fragile than many suspect. Productivity gains would be a positive offset, allowing economic growth to continue with modest inflation. For now, we appear to be in a "Goldilocks" state where the economy is not expanding or contracting by too much.

Performance Summary

- Over the second quarter of 2019, Class F of Harbour Canadian Dividend Fund (the "Fund") returned 3.8% while the Fund's benchmark, the S&P/TSX Composite Total Return Index returned 2.6% over the same period.

Portfolio Activity

- The largest contributors to returns during the quarter were Dollarama Inc. and Microsoft Corp. The largest detractors were Alphabet Inc. and Minto Apartment Real Estate Investment Trust. We continue to hold all four, though we have trimmed the Fund's position in Dollarama to manage the exposure.

- During the quarter we sold our positions in Northland Power Inc. and Humana Inc. We sold Northland as we believe the shares were fully valued. We sold U.S. health insurance company Humana because we think it has a high headline risk as the U.S. Democratic Party elects a new leader and the various candidates stake their positions on health care reimbursement.

- We purchased shares of Canadian Western Bank and Alphabet Inc., the parent company of Google, as we believe both are attractively valued given the growth prospects.

Outlook

- We continue to focus on companies with high returns on capital and solid growth prospects, such that there is opportunity to re-invest in growth to support current valuations. As always, we look for significant pricing dislocations where we can buy a good business significantly below our estimate of fair value. The latter opportunity has been rare in this market.

- Looking forward, we continue to see modest economic growth with somewhat higher risk of a market decline. However, we believe a decline will likely be met by a central bank response that continues to support the market.

- The Fund's portfolio is positioned defensively and we will maintain our discipline in taking profits on high valuations and move aggressively on compelling opportunities while watching for those factors that can disrupt the Goldilocks state.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year
Harbour Canadian Dividend Fund	12.7	5.8	7.5	3.6	8.4

Sources: Bloomberg Finance L.P., Harbour Advisors, as at June 30, 2019.

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