Market Commentary
Digital Roadshow

Summary of a presentation by Harbour Advisors
January 20, 2016

Stephen Jenkins, Senior Portfolio Manager

- We are currently experiencing the second corrective phase in the last six months. Corrections are a normal part of the market advancement process and they play an important role in removing excesses in the marketplace. Our last meaningful setback because of a correction was in 2011. Historically, this is a long time between market corrections and, in our view, the current correction has been due for some time now. We are making opportunistic purchases in our equity portfolio to take advantage of market volatility as a result of the correction.
- We do not believe that a recession is on the way as the signs that traditionally signal a recession are not present.
- Global issues are being priced into global equities, which are being driven by fear. The average U.S. stock has declined about 23%. The S&P 500 Index showed a smaller decline, however, this index has been propped up in recent times by the success of a narrow group of growing stocks with momentum backing. The Value Line Geometric Index, a broad-based, equal-weighted index of over 1,600 U.S. stocks, has fallen nearly 25% from its high in May 2015, with stock markets in Europe and Japan not far behind.
- It is important to maintain a rational stance during the market turbulence and not to let fear take over. We have taken advantage of marked down share prices by deploying cash toward some terrific opportunities.
- Value-based investing strategies have taken a back seat to growth strategies in recent years. The divergence between growth and value became evident in 2015 when quantitative easing policy and artificially low interest rates pushed the price of securities to significantly high levels. Growth stocks in particular were recording high multiples, making it hard for value investors to keep pace and find bargains.
- Value investing trumps growth by a considerable margin in the long term as data going back to 1927 shows large capitalization value stocks outperforming large capitalization growth stocks. However, there will be periods where value investing is out of favour, like the current environment. We believe that in the long term, value will outperform.
- Harbour Fund is a Canadian-focused fund. Its cash balance peaked around May 2015 at around 22%, although we spent some of that cash over the summer. The cash level is currently around 13%. Today's environment presents many opportunities to upgrade our holdings to companies that offer better value.

- Foreign content in Harbour Fund has increased over recent quarters to about 40%. We see opportunities in Europe, as its economy is generally a few years behind the United States. Europe has never really recovered to its 2007 peaks and many companies in the region are still under-earning their potential, unlike in the U.S. where the economy did recover. European holdings are relatively cheaper than U.S. holdings using valuation metrics. We are interested in a few select opportunities.
- The cash level in Harbour Global Equity Corporate Class peaked around 24% last spring and is currently around 10%. When valuations become more attractive, we want to deploy more of that cash and lower our cash balance. Harbour Global Equity Corporate Class trades at a discount to intrinsic value of 24%, and has a price-earnings multiple of 13.5x, which are attractive fundamentals for this fund.

Roger Mortimer, Senior Portfolio Manager

- The Harbour balanced funds are considered the "shallowest water in the pool," as they are the least threatening way to get exposure to equities.
- We have built portfolios with offsetting characteristics in Harbour Growth & Income Fund and Harbour Global Growth & Income Corporate Class. They are balanced funds, so when something goes up, something else must go down and it is natural that all holdings in the portfolio are not performing well at the same time.
- As value investors, we tend to measure our results by focusing on market capture. In other words, how the fund performs in rising markets compared to falling markets. We are more concerned with downside capture and capital preservation. How much our clients didn't earn is not the same as how much they lost.
- As of January 11, 2016, Harbour Growth & Income Fund is positioned with 62% equity, 30% bonds and 8% cash/other. The fund has limited commodity exposure, which has reduced volatility.
- Alphabet, Fairfax and General Electric are the top holdings in the fund. When we search for companies, we look for those with a predicable cash flow in different environments, secular growth, a conservative capital structure, active cost cutting and a focus on shareholders.
- Some notable holdings in Harbour Growth & Income Fund are:
    - **General Electric:** This company was our largest position in 2015. Since we first bought this stock at $25 in February 2014, we have earned a return of 56% in Canadian dollars. GE is a leading industrial company that makes jet engines, gas turbines, health care equipment and water infrastructure. The company has gone through substantial cultural and structural changes to become a high-quality business with a big self-help division, meaning that the company is actively trying to cut its costs.

- **Alphabet (formerly Google):** Alphabet is a growth holding that does not pay a dividend and has a conservative capitalization structure. The company is growing much faster than world around it and is increasing its focus on transparency and return of capital to shareholders.
- **Rogers:** We bought this wireless, broadband and cable company when its share price was at a 52-week low. The company has strong new management and an impressive new CEO and we have built a significant position at levels that are very attractive.

- Harbour Global Growth & Income Corporate Class gives investors the opportunity to conservatively invest in the global market. We think that in a volatile market like today's, Harbour Global Growth & Income Corporate Class provides a good opportunity to get equity exposure in a declining market. The fund is highly marketable and consistent with the way Harbour operates.

Portfolio Managers Phil D'Iorio and Aleksy Wojcik

- Habour Voyageur Corporate Class will celebrate its fifth anniversary in August. The fund has represented the best ideas of the analysts on the team and has served as a hunting ground for holdings in the larger Harbour funds. CCL, Alphabet, Michelin and Dollar Tree were strong performers in the fund during 2015.
- Canadian banks are becoming attractive and we already have a small exposure to RBC and CIBC.