

Market Commentary

Digital Roadshow 2017



Capital protection remains key

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- Harbour Fund and Harbour Global Equity Corporate Class have undergone significant change since Ryan began managing them nearly a year ago, with roughly 50% of the funds having turned over. There are 23 new names in Harbour Fund (out of a total of 45) and 19 new names in Harbour Global Equity Corporate Class (out of a total of 35.) Elements of our strategy include diversification, quality of management, asset quality and balance sheet quality. We take a more diversified approach when investing in the cyclical resource sector, and will pay a premium to get the high-quality attributes we're looking for. The current portfolio indicates that our process and team are yielding results.
- It is difficult to understate the impact of politics and central bank policy on the overall investing environment. We seem to be entering a new phase in which central banks are less important and the markets instead are trading on the expectation of fiscal policy. This happened in Canada with the election of Prime Minister Justin Trudeau, based on a series of stimulus promises. U.S. President Donald Trump is very much in this mold and represents the populism mindset. We want to anticipate potential events that could hurt our clients' portfolios and take steps to mitigate those risks.
- President Trump is clearly focused on the U.S., less so on the rest of the world, and has a protectionist bias. This has implications for America's largest trading partners, how we approach investing in Canada, foreign content and currency. The biggest uncertainty relates to geopolitical risk. We are therefore very focused on protecting our clients' capital.
- Over the last three years we have taken steps to generate more alpha from security selection with a stronger and more robust portfolio construction and risk management approach. Value is a very effective investing style over the longer term, over 40 years, but it also goes through periods where it's significantly out of favour. We have just endured one of those periods where growth trounced value for five or six years, but the value style has been outperforming growth for over a year now. Many investors could be under-allocated to value because of a recent bias for growth.

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Fourth Quarter 2016



- Stocks that added to the performance of the Harbour funds in 2016 include: Symantec, Johnson & Johnson, Morgan Stanley, Microsoft, Foot Locker and Corus Entertainment. We look for recognizable, predictable companies that generate cash flow and have under-levered balance sheets. Our decision to invest in Corus Entertainment was based on its price and what we felt was an excessive margin of safety. Its shares appreciated 30% and we made another 12% on the dividend.

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