Market Commentary
Fourth Quarter 2017

Harbour Growth & Income Fund
Harbour Global Growth & Income Corporate Class

"A surprisingly large percentage of U.S. income tax receipts are tied to a rise in U.S. stock prices. When the U.S. stock market stops rising … not falls, but just stops rising, that will put pressure on the receipt side of the U.S. fiscal picture, which no one is talking about."

–Alan Greenspan, May 2015

The world kept spinning in the final quarter of 2017. Global growth continued to improve, with the European Purchasing Managers' Index at the highest levels since the survey began in 1997, the U.S. economy at near full employment and China's growth coming in at better-than-expected levels. Financial markets reflected this strength and equity markets were up broadly in the quarter, with the S&P/TSX Composite Index gaining 4.4%, the MSCI World Index up 5.6% and the S&P 500 Index adding 6.6% (each expressed in local currency), creating very high annualized return bars for our conservatively invested funds. Bond yields trended higher, and were quite volatile, with the U.S. 10-year bond yield rising more than 20% between early September and late October as confidence in global growth grew. Some of the more speculative areas of the bond market, like high yield, fell in value during the quarter as fixed-income investors began to retreat from risk. Our conservative "investment grade only" bond positioning means that we didn't enjoy the superior return benefits of high yield when it was working, but we are sheltered from it on the downside. As we have stated previously, we look to make money in our equity securities and not lose it in our bond allocation.

Unsurprisingly in such buoyant conditions, the Harbour balanced funds faced some challenges during the quarter, but not catastrophically so, with Harbour Growth & Income Fund returning 3.2% and Harbour Global Growth & Income Corporate Class delivering 3.3%. For the full year, the domestic and global funds delivered 4.3% and 9.2% respectively. At Harbour, our clients expect us to protect their capital and grow it faster than the risk-free rate, and we consider this an acceptable return for the conservative structure of these funds.

The funds' equity portfolios performed effectively during the period and enjoyed positive contributions from long-held U.S. technology names Microsoft, Alphabet and Apple and from Japanese industrial robotics name Yaskawa. Our belief in the role that information and automation will play in improving manufacturing efficiency remains strong and we continue to be invested in many companies that address this theme. The concepts of machine learning and big data are

evolving very rapidly and we expect these ideas to become even more mainstream in the year ahead. As companies return to capital spending, we expect it to be focused first on managing existing asset bases for maximum utilization and profitability and then subsequently, perhaps, on adding new capacity.

Here are a few other things that we are thinking as we start 2018.

- The U.S. dollar is an important asset class. With the tax bill passed and the U.S. Federal Reserve signalling rising rates, it should be appreciating, but it isn't. Does that mean investors think that growth may be better elsewhere? The U.S. dollar and the U.S. bond market have been the great consensus themes of the last few years, but with growth recovering broadly – in all 36 OECD countries, a breadth not seen in decades – is it possible that better returns might lie outside the United States? If so, global investment capital will leave the U.S. and the dollar will weaken, easing financial conditions globally and further driving equity returns.

- The S&P GSCI Commodity Index is trading at its lowest level in 50 years. With global growth recovering, is it possible that we are on the cusp of a commodity investing boom comparable to the one last seen fifteen years ago after the dotcom bubble? If so, there are positive implications for the resource-rich Toronto Stock Exchange and likely also for the Canadian dollar.

- A similar dislocation exists in energy, where the oil price has recovered considerably off its lows, but the stocks have been left behind. We've not been fans of the sector and have been largely underrepresented since the fall of 2014, but it may be time to take a second look. Producers have discovered capital discipline, the richest U.S. shale targets have been high-graded over the last couple of years, and with the pace of technological change slowing, meaningful further cost compression is unlikely. Demand is solid as global growth resumes, and investors don't seem to be putting any weight on the possibility of geopolitical risk disrupting supply – yet a quick look at political events in Saudi Arabia, Iran, and Venezuela suggest that view may be optimistic.

- The rise of bitcoin and other digital currencies in 2017 is either suggestive of excessive global liquidity fuelling speculation, or a deep-seated distrust of governments globally, or both. If central banks start tightening, perhaps in 2018 we will see which driving factor has been more significant.

- Negative regulatory sentiment against America's biggest technology companies is growing, as evidenced by the backlash that Facebook faced over ads purchased by Russia during the U.S. elections. Can these giant "platforms" be both social enterprises and profit maximizers? They are treading a difficult tightrope, and we are keeping a close eye on the growing risks.

- And what will happen with politics? As "prosperity breaks out," will that quell the global forces of populism, or will protectionism and a win-at-my-neighbour's-expense mentality spread and challenge the global scale that has been so important to many companies?

We think equities will continue to work as growth improves and expect central bankers to be careful not to spoil the party. Bonds, carefully chosen and managed, can remain a source of stability in the portfolios. It will be an interesting year for certain. Our commitment to you, our clients, is to manage risk prudently to protect and grow your wealth over time. We are appreciative of your confidence.

Please visit our blog at http://blogs.ci.com/harbour to hear the latest views and commentary from each of the members of our team.

Roger Mortimer
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CI Global Investments Inc.

Class F Returns (in %) as at December 31, 2017	Year-to-date	1 year	3 year	5 year	10 year
Harbour Growth & Income Fund	4.3	4.3	4.1	6.6	4.0
Harbour Global Growth & Income Corporate Class	9.2	9.2	8.7	12.7	6.5

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