Market Commentary
Fourth Quarter 2017

Synergy Canadian Corporate Class

The fourth quarter offered further confirmation that global economic growth continues broadening and strengthening. For the first time in this cycle, it appears "many hands [can] make light work" and central banks in most developed economies are firmly signalling the need to normalize monetary policy, both through interest rates and the unwind of the massive asset purchase programs undertaken in respective regimes of quantitative easing (QE). Somewhat of an outlier, the European Central Bank has been reluctant to unwind its QE as assertively as the U.S., despite its outlook for GDP growth in the region being revised higher to 2.3% from 1.8% previously.

Despite our concerns on structural impediments in the economy, Canada has shown some resiliency, for its part. The Bank of Canada signalled it would adopt a somewhat "wait and see" approach to future interest rate actions, likely to assess any immediate impact of 2017's two rate hikes on mortgage and lending markets first. As the quarter drew to a close, odds of a rate hike at the Bank of Canada's March meeting improved, after declining through the fall.

Canadian equities (as measured by the S&P/TSX Composite Index) lagged the very strong performance of global peer benchmarks. The Canadian dollar weakened intra-quarter, but rallied into year-end for a negligible effect on peer relative returns for the full period. As the heavyweight sector, financials drove almost half the total return for the index, yet was fourth in line for absolute performance after health care, consumer staples and real estate. At a 13.44% return, CIBC more than doubled the average return for the remainder of Canada's "Big 5" banks. Nonetheless, given structural challenges in the Canadian economy, we remain underweight in financials.

For the quarter ended December 31, 2017, Synergy Canadian Corporate Class returned 4.0%. Our positioning in health care and energy added to performance. Top performing holdings were Orocobre and ResortTrust. After information technology, our positioning in financials detracted from performance and commensurately, the largest individual detractors were underweight/nil positions in CIBC and Bank of Montreal.

Broader participation in driving growth is a welcome development, and while the world is beginning to feel more "normal," we believe investors are conditioned to disbelieve what could unfold in a more typical late cycle environment. Namely, that the inflation impulses building are more likely to follow-through and that central banks will be intent on managing interest rates accordingly. The linkage between rate suppression (driven by QE) and volatility suppression is likely to cut both ways and we are paying particular attention to Europe, where the European

Central Bank’s reluctance to taper/end QE more assertively may spell a more disorderly exit when the time comes.

For what remains of this cycle, we remain constructive on equities, yet more so (and especially after the extremely benign risk environment of 2017), we continue to advocate agility and caution.

Class F Returns (in %) as at December 31, 2017	Year-to-date	1 year	3 year	5 year	10 year
Synergy Canadian Corporate Class	10.6	10.6	6.2	10.4	4.8

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