

Volatility remains elevated as investors reassess sustainability of the current economic expansion

WATCHING

Growth

- Global economic growth forecast 3.5% in 2019, down from an estimated 3.7% in 2018¹
- Negotiations in China-US trade dispute a key focus amidst rising rhetoric
- Canadian GDP growth expected to be more muted, at 1.9% in 2019¹
- U.S. economic growth is also expected to slow in 2019, to 2.6%¹

Inflation

- Inflation in Canada and the U.S. dipped in the quarter and is tracking at 1.7% and 2.2% year-over-year, respectively. U.S. inflation is above the 2.0% target while Canadian inflation is below the 1.9-2.1% target range¹

Interest Rates

- Canadian 10-year bond yield fell 0.46% to 1.96% in Q4. The U.S. 10-year bond yield fell by 0.38% to 2.68%¹
- Two-year rates in Canada and the U.S. also fell during the quarter. In Canada, short rates fell by 0.35%; U.S. short rates fell by 0.33%¹

Markets

- Q4 total return for the S&P/TSX Composite Index was -10.1%; The S&P 500 Index returned -13.5% in US\$ and -8.6% in CDN\$²
- Global equity markets corrected heavily during the quarter, mainly due to concerns that economic growth has peaked²
- North American bond yields fell on these growth concerns and the yield curve flattened²

Sectors

Canada

- Best Performing²
- Consumer Staples +5.7%
 - Communication Services +2.0%
- Worst Performing²
- Health Care -35.3%
 - Energy -17.3%

U.S.

- Best Performing³
- Utilities +1.4%
 - Real Estate -3.8%
- Worst Performing³
- Energy -23.8%
 - Industrials -17.3%

THINKING

Growth

- While economic growth will moderate in 2019, it's too early to call for a recession. In Canada, Alberta's planned oil production curtailment in early 2019 could weigh on near-term GDP growth
- U.S. employment picture remains solid. The U.S. Federal Reserve signaled a more dovish stance in December, in comments made by Chairman Powell

Inflation

- Canadian inflation remains under target, with a downside risk to inflation if oil prices remain under pressure

- Wage growth in the U.S. has yet to accelerate, so U.S. inflation pickup should remain slow

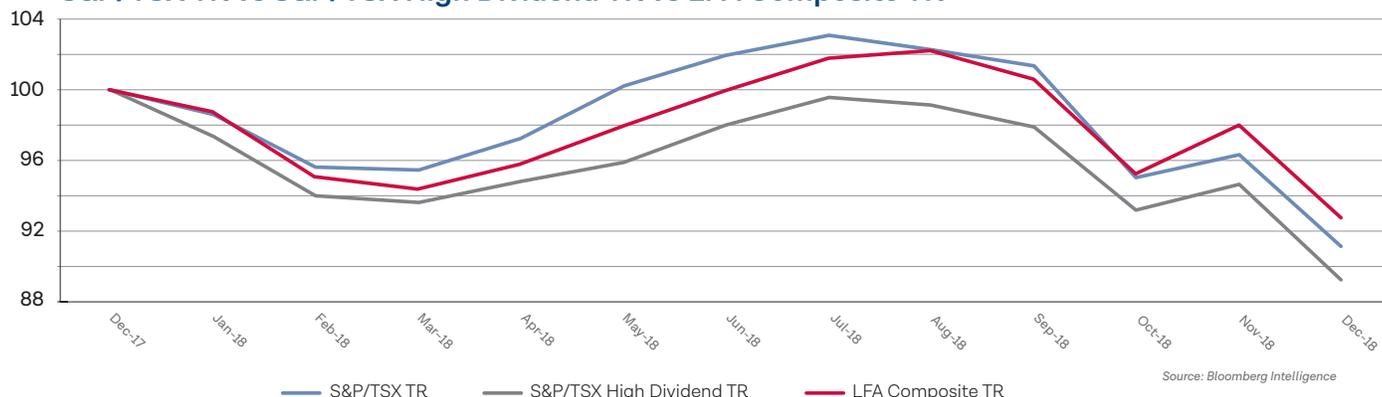
Interest Rates

- Bank of Canada did not raise rates at its October 25th meeting and is sounding more cautious with regards to the economic outlook. It's likely we will see one or two rate hikes in 2019, depending on economic data
- In the U.S., the expectation is currently for 2 hikes in 2019 and possibly 3, if we see a pickup in inflation

Markets

- We believe North American equity markets will remain volatile in the first half of 2019 as investors debate the concerns of global growth and watch for progress in China-U.S. trade negotiations
- If there is a resolution to the trade war and economic data stabilizes, this should set up a constructive environment for stocks in the second half of 2019
- A key asset to watch will be the trade weighted U.S. dollar. With the U.S. Federal Reserve sounding more dovish, any weakness in the U.S. dollar will be very supportive of stocks, in particular stocks in Canada and the emerging markets

S&P/TSX TR vs S&P/TSX High Dividend TR vs LFA Composite TR



Strong Dividend Growth Continues – over 76% of the companies increased dividends by a weighted average of 6.1%

DOING

Strategy

- Continue our transition to defensive stance while we watch for signs of stabilization in the economic data
- Look to reduce cash and deploy in stocks with high dividend growth prospects that have been sold off in the recent market correction

Fixed Income

JOV Leon Frazer Bond Fund

- Emphasis remains on governments and quality rated corporates
- To reduce volatility, the duration (interest rate sensitivity) remains shorter than that of the benchmark

JOV Leon Frazer Preferred Fund

- Emphasis remains on floating rate and rate reset issues, to mitigate the effect of rising interest rates. We have added to holdings in some rate reset issues to take advantage of a steep sell-off in Q4

Equities

- Gradually reduce weightings in economically sensitive sectors such as Consumer Discretionary, Energy and Industrials
- Increase weightings in more defensive sectors such as Financials, Telecommunications and Utilities
- Dividend growth continues in 2019
- Over 76% of the companies owned increased dividends by a weighted average of 6.1%⁴

¹ Bloomberg Intelligence; ² RBC Capital Markets; ³ Robert W. Baird & Co. Incorporated; ⁴ Leon Frazer & Associates, Canadian Dividend Fund

2018 Dividend Performance Summary (as at December 31, 2018)

Canadian Dividend Portfolio

Number of companies in the equity portfolio	26
Number of companies that declared an increased dividend	20
% of companies that declared an increased dividend	76.9%
Weighted average of dividend increases	6.1%
Consumer Price Index Increase (YoY*)	1.7%
Equity portfolio dividend yield**	4.3%
S&P/TSX dividend yield	3.4%

Income Stability Portfolio

Number of companies in the equity portfolio	23
Number of companies that declared an increased dividend	20
% of companies that declared an increased dividend	87.0%
Weighted average of dividend increases	7.7%
Consumer Price Index Increase (YoY*)	1.7%
Equity portfolio dividend yield***	3.8%
S&P/TSX dividend yield	3.4%

*Estimate

**The dividend yield is based on the Leon Frazer Canadian Dividend Fund using the target weight for cash

***The dividend yield is based on the Leon Frazer Income Stability Fund using the target weight for cash

Top 5 Dividend Growers

Manulife Financial	22.0%
Canadian Natural Resources	21.8%
Gildan Activewear	20.3%
Toronto Dominion Bank	11.7%
Bank of Montreal	11.1%

Top 5 Dividend Yielders

Vermilion Energy	9.6%
Freehold Royalties	7.6%
Russel Metals	7.1%
Enbridge	7.0%
Altgas	6.9%

A Closer Look: Canadian National (CN) Railway



Canadian National (CN) Railway Fact Sheet:

Trading Symbol:	CNR
Market Cap (Mil):	\$74,400
Dividend Yield:	1.8%
Shareholder Yield*:	4.3%
Dividend Growth YoY:	10.3%
Sector:	Industrial

*Dividend yield plus trailing twelve months share repurchases divided by the number of outstanding shares

Introduction

- CN Rail is engaged in the rail and transportation business
- Dividends increased every year since the 1995 IPO, CAGR of 16% over 22 years¹
- Freight revenues derived from seven commodity groups which represent a diversified and balanced portfolio of goods transported between a wide range of origins and destinations²
- Geographic revenue breakdown: 17% Canadian domestic traffic, 16% U.S. domestic traffic, 33% transborder traffic and 34% overseas traffic²

Strengths

- Second largest publicly traded North American railway
- CN's network of approximately 20,000 route-miles of track spans Canada and mid-America, uniquely connecting three coasts - the Atlantic, the Pacific and the Gulf of Mexico
- CN's extensive network connects to all Class I railroads, providing CN customers access to Canada, the U.S. and Mexico
- Solid financial policy framework to maintain a strong balance sheet and investment grade credit ratings
- Railway operating ratios and efficiency are best in North America⁴
- Best 6-year railway revenue per ton-miles growth versus peers³
- Signing contracts to move trapped oil from Alberta to the U.S.⁴

Future Growth Opportunities

- Potential expansion of the Prince Rupert Fairview Terminal
- Potential expansion of Global Container Terminals in Vancouver, BC
- Two new liquid propane export terminals near Prince Rupert to open by 2020

- Continues to improve capacity by increasing the miles of double track, new/expansion of sidings and expansion of railway yards
- Investments in conductors, locomotives, box and grain hopper cars

True backbone of the economy²

As at or for the year-ending December 31, 2017

Route miles	19,500
Value of goods handled	\$250B+
Capital investments	\$2.7B
Assets	\$37.6B
Employees	24,000

5-Year Financial Metrics³

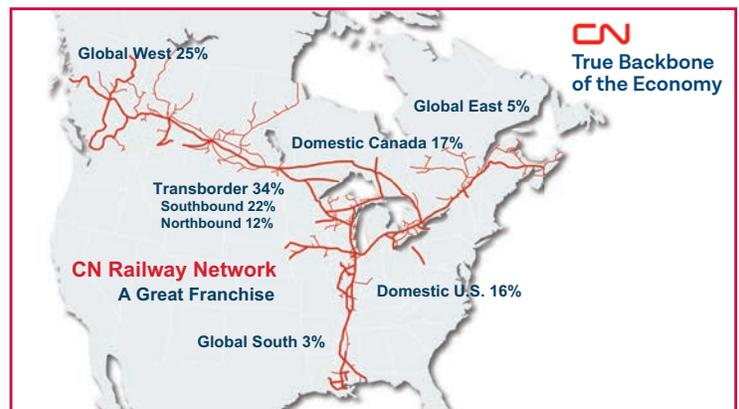
Revenue growth	5.6%
Adjusted EPS growth	12.2%
Free cash flow growth	10.8%
Dividend per share growth	17.1%

Diversified Revenue³

(Based on Q3 YTD 2018 revenue)

Intermodal	24%
Petroleum and Chemicals	18%
Grain and Fertilizers	16%
Forest Products	14%
Metals and Minerals	12%
Other	16%

¹ Bloomberg Intelligence; ² CN Rail - 2017 Annual Report; ³ CN Rail - Investor Presentation; ⁴ Press release - Cenovus, September 26, 2018 and CN Rail - Investor Presentation



Paying it Forward:

10th Annual City Carol Sing Draws a Record Crowd and Donation

Since Leon Frazer opened its doors almost 80 years ago, being a part of our community has always been important to us. That's why when we were approached in 2015 by one of our long-term clients to help sponsor the annual City Carol Sing, in collaboration with CityTV and the W. Garfield Weston Foundation, we were happy to be involved. Now in its 10th year, the City Carol Sing features some of Toronto's top singers in a Christmas concert to raise funds for the Churches on-the-Hill, a local food bank which supports individuals and families whose income is often insufficient to make ends meet.

THE LUNCHTIME CHAMBER MUSIC SERIES

The City Carol Sing is one in a series of musical events that is hosted by the Nine Sparrows Arts Foundation and its musical director, Eric Robertson. The Nine Sparrows Arts Foundation is a not-for-profit organization dedicated to bringing the best of inspirational arts programming to Toronto audiences. Lunchtime concerts are run every Tuesday from September to June, at the Yorkminster Park Baptist Church. Performers are advanced students from the Royal Conservatory Glenn Gould School and from the University of Toronto Faculty of Music where Robertson teaches. These Lunchtime Chamber Music community concerts are free, despite the exceptional talent. For those who can afford it, cash donations in support of local food banks are welcomed.

HIGHLIGHT OF THE CONCERT SERIES

The highlight of the concert series is the annual City Carol Sing. This variety show of Christmas music and readings features choirs, organ, brass, and special guests. Previous guests of honour have included the former Lieutenant Governor of Ontario, The Honourable David C. Onley, Colm Wilkinson,

Richard Margison, Isabel Bayrakdarian, Russell Braun, Fiona Reid, Cynthia Dale, Deborah Hay, R.H. Thompson, Alexis Gordon and Ted Dykstra, as well as various CityTV personalities. The concert is recorded for a one hour special that airs on CityTV throughout the holiday season. This year drew an audience of approximately 1,800 people, the largest to date, and provided the Churches on-the-Hill food bank with its largest single donation of the year.

WANT TO HELP?

You don't have to wait until the next holiday season to check out the talent of the Lunchtime Chamber Music performers. Visit the Yorkminster Park Baptist Church for a Tuesday lunchtime session. You can also make a donation directly to the Churches on-the-Hill food bank at www.cothfoodbank.ca.

Do you have a special cause to which you would like to bring more attention? I invite you to share yours by submitting a brief description of your personal philanthropic cause to Tess Karahotzitis at tkarahotzitis@leonfrazer.com. Each quarter we will highlight one "paying it forward" story, so you can share with the Leon Frazer community the good you are doing in yours.

Looking forward to hearing from you.

**Dona Eull-Schultz
President**

Staying Connected

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