

CAUTION: While the economic outlook remains constructive into 2019/2020, the economic expansion is 9 years old – the second longest in recent times

WATCHING

Growth

- Currently, the biggest economic concern is the state of global trade
- Consensus 2018 global growth forecast is 3.0% – 3.5%
- China and India are expected to grow at 6+%
- The forecast for the United States is closer to 3%
- Canada's estimated growth is near 2%

Inflation

- North American inflation rates are edging upwards due to higher input costs, strong employment growth and increasing wage pressures
- Consensus view is that inflation will exceed Central Banks' 2% target

Interest Rates

- Short-term interest rates in Canada and the United States are rising
- Yields on 10-year US Treasury bonds have moved from 2.4% to 2.7%
- 10-year Canadian government bonds have moved from 2.0% to 2.1%

Markets

- Equity market volatility returned
- Equity markets off to a poor start in Q1. The total return of the S&P/TSX Composite Index fell -4.5% and the total return of the S&P 500 Index returned -0.8 in US\$ and 1.7% in C\$.
- Bond benchmark returns were essentially flat in the quarter, with income earned offset by declining capital value

Sectors

Canada

- Best Performing
- Information Technology +10.2%
 - Real Estate +0.5%

Worst Performing

- Health Care -13.5%
- Energy -9.4%

U.S.

- Best Performing
- Information Technology +3.5%
 - Consumer Discretionary +3.1%

Worst Performing

- Telecommunications -7.5%
- Consumer Staples -7.1%

THINKING

Growth

- Trade worries are expected to continue throughout the year
- NAFTA negotiations appear to be picking up steam
- Global economic prospects remain quite positive, despite worries
- Rising interest rates and inflation will eventually impact economic growth negatively

Interest Rates

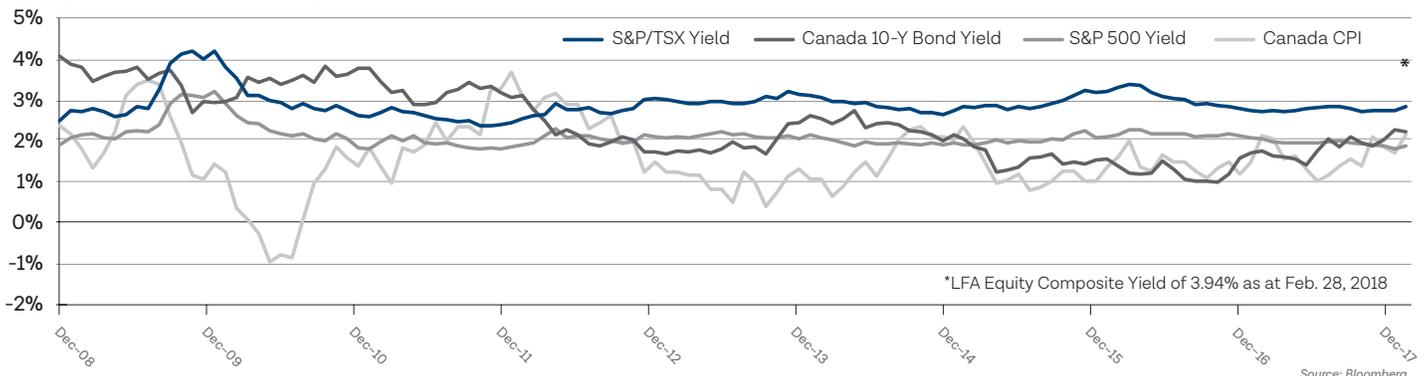
- Two additional rate increases by the US Federal Reserve are highly probable this year
- Another rate increase by the Bank of Canada is expected this year
- Canadian and US 10-year yields will continue to move up

Markets

- Equity markets typically peak 6 – 12 months prior to the economy rolling over

- Shorter-term: Valuations of defensive market sectors will be challenged by the effect of higher interest rates
- Longer-term: Defensive sectors will benefit from dividend support, continued modest dividend growth and a potential flight to quality
- Indicators to carefully monitor:
 - monetary conditions – will the US Federal Reserve raise rates too much?
 - consumer spending/debt levels
 - corporate earnings/debt levels

Dividend Yield vs Bond Yield vs CPI



Our portfolios delivered strong dividend growth in 2017. Almost 70% of the companies increased their dividends by a weighted average of 6.5%

DOING

Strategy

- Beginning to transition portfolios to a more defensive position
- Cash weighting will gradually increase by not re-investing income and through position trimming
- For clients with a shorter time horizon, fixed income allocation is being reviewed

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 Equity Fund

- Emphasis remains on floating rate and rate reset issues, to mitigate the effect of rising interest rates

Equities

- Gradually reduce weighting in economically sensitive sectors such as Consumer Discretionary, Energy and Industrials
- Increase our weighting in more defensive sectors such as Financials, Telecommunications and Utilities
- Dividend growth continues in 2018
 - Nearly 50% of the companies we own increased dividends by a weighted average of 4.0% (see below)

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

Canadian Dividend Portfolio

Number of companies in the equity portfolio	27
Number of companies that declared an increased dividend	13
% of companies that declared an increased dividend	48.1%
Weighted average of dividend increases	4.1%
Consumer Price Index Increase (YoY*)	2.2%
Equity portfolio dividend yield**	4.2%
S&P/TSX dividend yield	2.9%

Income Stability Portfolio

Number of companies in the equity portfolio	25
Number of companies that declared an increased dividend	13
% of companies that declared an increased dividend	52.0%
Weighted average of dividend increases	4.0%
Consumer Price Index Increase (YoY*)	2.2%
Equity portfolio dividend yield***	4.4%
S&P/TSX dividend yield	2.9%

Top 5 Dividend Growers

Canadian Natural Resources	21.8%
Gildan Activewear	20.3%
TD Bank	11.7%
TransCanada Corp	10.4%
Canadian National Railway	10.3%

Top 5 Dividend Yielders

Altagas	9.3%
Enbridge Inc	6.8%
Vermilion Energy	6.4%
Pembina Pipeline Corp	5.5%
BCE Inc	5.5%

*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



A Closer Look: Emera



Snapshot:

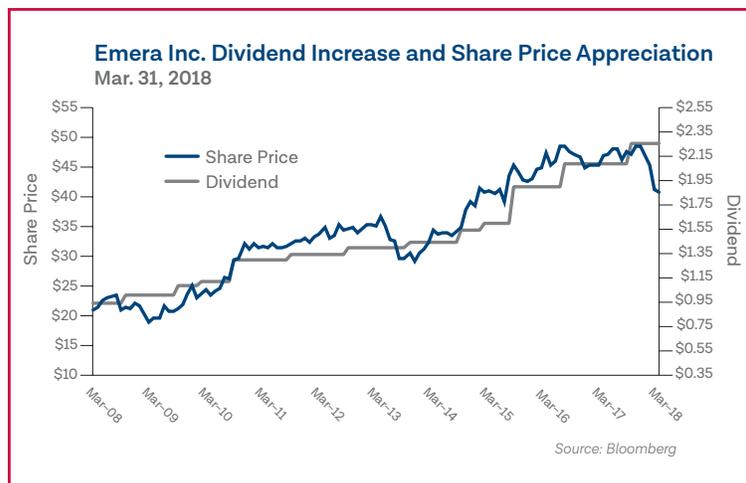
- Emera Inc. is an energy and services company headquartered in Halifax, Nova Scotia
- Although locally based, Emera's investments are geographically diversified throughout North America and in four Caribbean countries
- The company invests in electricity generation, transmission and distribution, gas transmission and distribution and utility energy services, with a focus on transformation from high carbon to low carbon energy sources
- With 75–85% of its earnings coming from rate-regulated businesses, Emera has a stable revenue stream which can benefit from rate increases
- The company's stock is currently yielding 5.5% in dividends and trades cheaper than its peers at about 15x 2018 expected earnings (compared to 16x)
- Emera has paid dividends to its stockholders for 26 consecutive years, increasing dividends in 23 of those years. Dividends increased by 8% in 2017 compared to the previous year. The company aims to maintain the same dividend growth per year through 2020

Emera Inc. Fact Sheet:

Trading Symbol:	EMA
Market Cap (Mil):	\$10,000
Dividend Yield:	5.5%
Dividend Growth YoY:	8.0%
Sector:	Utilities

The Maritime Link Project:

- The \$1.6 billion Maritime Link project is part of a larger strategy to address the growing demand for more renewable energy. It will enable the transmission of clean, renewable and reliable electricity from Newfoundland and Labrador to Nova Scotia and beyond
- As part of the deal, Emera will pay for and manage the Maritime Link. In exchange, Nova Scotia will receive 20% of the power generated at a fixed rate for 35 years
- For Nova Scotia, the Maritime Link will create a more diversified portfolio of energy options, reduce dependency on existing commercial-scale carbon-based generation facilities and help meet new government regulations that require 40% renewable energy by 2020
- For the island of Newfoundland, it will mean that, for the first time in its history, it is connected to the North American transmission system
- In December 2017, a first successful trial of the Maritime Link was achieved and entered service in January, enabling the transmission of electricity between the two provinces



<http://www.emeranl.com/en/home/themaritimelink/projectbenefits.aspx>
Source: Company website & Bloomberg as at March 31, 2018

Paying it Forward

Throughout our company's history, Leon Frazer has maintained a keen commitment to philanthropic endeavors. Giving back to the communities in which we work and live is an essential part of our firm's business philosophy. We have been proud to sponsor such initiatives as our Client Art Project, which, to date, has raised over \$60,000 on behalf of our talented clients. Stay tuned for more details on our upcoming Arts Night, highlighting even more of our artistic friends.

We recognize that many of you feel the same way we do, and are spending more of your time involved in causes of personal interest. As such, we would like to showcase the wonderful commitments of our clients and the good they are doing in their respective communities. Going forward, we will use this space to highlight some of the worthwhile causes in which our clients and employees are involved.

Do you have a story to share? A special cause to which you would like to bring more attention? We invite you to tell us more about your personal cause by submitting a brief description of your personal philanthropic cause to Tess Karahotzitis at tkarahotzitis@leonfrazer.com.

We will highlight one "paying it forward" story each quarter, so you can share with the Leon Frazer community the good you are doing in yours.

Encounters in the Fourth Dimension – Client Art Reception, 2017

Featured artist and Leon Frazer client, Blandford Gates, showcased his Mad Bird series alongside the photo lustre prints of his granddaughter, Leena Gates-Kass, who is in the fine arts program at York University. The sales for Mr. Gates' sculptures totaled \$10,500, making him one of our highest earning artists. All proceeds were donated to charities held dear by Mr. Gates: The CAMH Foundation, Sojourn House and St. Jude Community Homes.



Mad Bird Series
by Blandford Gates, B.Arch, OAA, FRAIC



Sculptures
by Blandford Gates, B.Arch, OAA, FRAIC



Veiled Lady
by Leena Gates-Kass

Staying Connected

Our Offices: Toronto
Calgary
Vancouver

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