Quarterly Portfolio Review
As at June 27, 2016

NELSON
PORTFOLIO MANAGEMENT CORP.

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Contents

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Disclosures: Douglas Nelson is the Portfolio Manager for Nelson Portfolio Management Corp. and is responsible for making all final decisions regarding client accounts and the NFC Tactical Asset Allocation Pool. Doug was the author of this report, but any reference to “our” or “we” represents the collective efforts and contributions of various members of the Nelson team. Every effort has been made to ensure the accuracy of its contents. Certain of the statements made may contain forward-looking statements, which involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Any opinions expressed in this newsletter are just that, and are not guarantees of any future performance or returns.

Announcements:

❶ **New Cost Base Disclosure:** As of December 31, 2015, you will see on your NBCN statements a "book value" column for each of your investment holdings in each of your investment accounts. The book value = your deposits – withdrawals + distributions paid. Note that your book value does not represent your net invested value because of how the distributions (interest and dividends) are included in this calculation. The book value is primarily used to determine the "cost base" of your investments for tax purposes. This means that your book value calculation is mostly irrelevant when it comes to your investments in an RRSP, TFSA, LIRA, LIF, RRIF or any other registered investment because the tax you pay related to these types of accounts is not specific to the individual investment. On your statement, with the vast majority of all of our client account situations, the book value will be the correct value for tax purposes. However, there are a handful of small exceptions that you should be aware of. Specifically, when looking through your NBCN statement you may see specific footnotes related to the book value of specific securities within your portfolio. If this security is part of your non-registered investment portfolio and you would like to see this figure changed to a more appropriate or more accurate figure, please be in touch with my office. The book value information contained in the reports I am sending to you, will be similar so please refer to the footnotes in your NBCN statements.

❷ **Modification To The NPMC Statements We Send To You:** I've added a new "book value" column to the statement I send to you each quarter. Next to this column you will see another column described as your "net invested value". The "book value" figure is your net invested value (ie: deposits minus withdrawals) plus any dividends that you have received over time. The difference between the book value and net invested value will be most pronounced with your NFC Tactical Asset Allocation Pool holding because in most client situations the dividend you receive from the pool is reinvested back into the pool. This happens on a quarterly basis. When this happens the unit value of the pool is adjusted downwards by the amount of dividend paid, while the number of units of the pool you own will increase. With this being said, the dollar and percent gain and loss calculations are also based on the net invested value. If you have any questions about this, please let me know.

❸ **Historical Market Commentaries:** All of our historical market commentaries can be found on our website at: http://nelsonfinancial.ca/portfolio-management-corp/historical-commentaries/

Announcements - continued:

❹ **Secure Quarterly Statements:** We are now sending to you your quarterly statements in a more secure manner. You will be receiving an email message from Doug Nelson Portfolio Manager, Nelson Portfolio Management Corp. Inside the body of the e-mail will be a link that you can select to download your June 30th, 2016 portfolio statement. Please note that this link will last for only for 14 days. If the 14 day period expires, you can contact Ian Wood at our office at 204-956-0519 or by e-mail at iwood@nelsonfinancial.ca and he will send a new statement to you at your convenience.

❺ **Discrepancies between the Nelson portfolio reports and the NBCN monthly statements:** We see that in some cases there are some small discrepancies between the total portfolio value seen on the Nelson statements and the NBCN monthly statements. In most situations these discrepancies are caused by the timing of when the NBCN statements are produced and when the data concerning the quarterly distribution for the NFC Tactical Asset Allocation Pool is provided to NBCN. This is a timing issue and not an error. Should you have any questions or concerns, or if you identify other discrepancies, please let us know immediately.

❻ **Paper vs. Secure E-Mail Link:** It is NPMC's preference to provide to you this quarterly portfolio package by e-mail. However, if you would like to receive this package in paper format, please let us know and we will accommodate your preference accordingly.

Important Disclosures:

- **Past Returns Do Not Guarantee Future Returns:** At the bottom of your personal portfolio reports you will see important disclosure information. In addition to this disclosure you should also know i) past performance does not predict or guarantee future performance, ii) your investments are managed by Nelson Portfolio Management Corp. as an actively managed portfolio, iii) your portfolio will fluctuate over time and iv) your portfolio and your portfolio returns are not guaranteed in any way.

- **Forward looking statements:** Certain of the statements made may contain forward-looking statements, which involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

- **Has Your Situation Changed Since We Last Met?** It is necessary for you to keep us up to date of any significant changes in your personal circumstances such as important changes in your income, career, marital status, change in residence address, change in e-mail address, retirement, receipt of inheritance or otherwise change in your net worth. These changes may impact the risk profile of your personal circumstances, which may in turn impact the risk profile of your portfolio.
  If anything comes to mind, please contact us immediately.

- **NFC Tactical Asset Allocation Pool Disclosure:** Nelson Portfolio Management Corp. (NPMC) is a related or connected issuer of the NFC Tactical Asset Allocation Pool. This means that the pool was established by NPMC for the benefit of NPMC clients. NPMC is paid a management fee for the day to day portfolio management responsibilities of the pool. The pool is not distributed through other advisors or institutions. This means that if you were to transfer your account away from NPMC, your shares of the NFC Tactical Asset Allocation Pool would need to be sold at that time. If the pool is held within a non-registered portfolio, some capital gains taxes may apply.
  To ensure other clients are not negatively impacted by this change, NPMC reserves the right, as per the terms of the portfolio management agreement, to transition your exit from the NFC Tactical Asset Allocation Pool over a maximum period of 90 days. Due to the diversity and liquidity of the NFC Tactical Asset Allocation Pool, we do not expect any transition out of the pool to take longer than a few days.

- **Other Questions or Concerns:** Should you have any other questions or concerns, please communicate them to Doug Nelson, President, Portfolio Manager of Nelson Portfolio Management Corp. Contact information is provided at the beginning of this report.

Market Commentary:

The following commentary represent the opinions and analysis of Doug Nelson, President, Portfolio Manager, Nelson Portfolio Management Corp. as at June 27, 2016. Market and index returns noted below are for the period ending June 24, 2016.

Market Statistics: Source: https://ca.finance.yahoo.com.

The bigger picture view:

In the April commentary I wrote: "The Toronto Stock Exchange (price index) peaked on September 4th, 2014 and reached a bottom on January 20th, 2016. The total market decline during this 16 month period was -24.18%. Dating back to 1950, the average market correction has been approximately -15%, lasting only 5 months (source: www.crestmontresearch.com). The good news is that this correction has been longer and deeper than average, which may suggest that the worst is behind us."

As time has gone on, it looks like January 20th will be the most recent low point in the market. Since January 20th, the Toronto Stock Exchange (TSX, price index) has gained in value by 17.3%. The year to date return for the TSX is +7.46%. The return since April 1, 2016 is +3.36% but the 12 month return (June 24, 2015 – June 24, 2016) is still negative: -6.19%.

Since January 20th, the Toronto Stock Exchange (TSX, price index) has gained in value by 17.3%.

Commentary - continued:

Chart 1: S&P TSX Index: 1 Year Price Chart With Trend Lines Ending June 24, 2016. Source: gold.globeinvestor.com.

The largest driver of this market growth have been the real estate (+13.92% year to date), energy (+14.8% year to date) and materials (+45.69%) sectors. By comparison, the financial sector is up year to date by only 3.45%. The sectors that had the greatest declines leading into January 20th were both energy and materials so perhaps its no surprise that they would have the greatest growth from this date. It is also important to note that these two sectors typically have their "positive seasonality" from February through to May / June each year. From an investing perspective, our largest sector weight is financials followed by real estate, pipelines and utilities. We have invested in oil, energy and materials, but at an underweight position relative to the TSX.

On the far right hand side of Chart 1 you will see the blue line dip downwards. This was caused by the British vote to exit the European Union. Over two days (Friday, June 24th and Monday, June 27th), the TSX declined by 3.3%, which is what you see here. This is the first time the TSX has broken through it short term trend-line (the red line), since the low of January 20th. Today we are watching to see whether i) the TSX remains above its current long term trend line (the yellow line), currently trending at the 13,400 level and ii) just how quickly the buyers will move back into the market, helping the TSX to move above its short term trend line (the red line).

Commentary - continued:

Looking at various markets and sectors in more detail, we see the following:

Table 1: Historical Returns for Winter 2016 (January 1 to March 31, 2016) vs. Spring 2016 (April 1, 2016 to June 24, 2016) vs. the last 12 months (June 24, 2015 to June 24, 2016). Market returns source: ca.finance.yahoo.com, changes to the price index. NFC Tactical Pool source: Croesus software. The industry standard rate of return disclosure of 3, 6, 9 and 12 months is illustrated on your client specific investment statement. The time periods selected for the tables in this report were chosen so as to illustrate recent changes in the markets and with different types of investments.

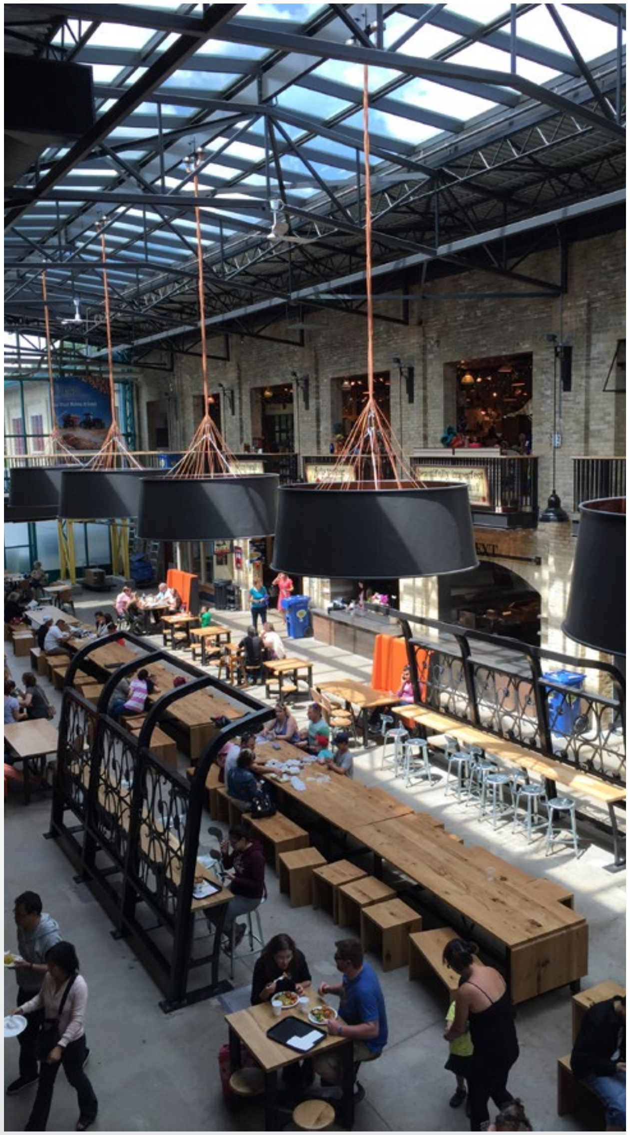
Start Date	**01-Jan-16**	**01-Ap-16**	**24-Jun-15**
End Date	**31-Mar-16**	**24-Mar-16**	**24-Jun-16**
Period	**Winter 2016**	**Spring 2016**	**Last 12 Months**
Defense:			
US Investment Grade Corporate Bonds (symbol: XIG):	3.65%	1.67%	5.14%
North American Preferred Shares (symbol: XPF):	-3.55%	0.64%	-7.75%
US High Yield Bonds (symbol: XHY):	0.65%	2.79%	-6.91%
Growth:			
Toronto Stock Exchange:	3.72%	3.36%	-6.19%
Canadian Financial Services Index (XFN):	2.27%	0.07%	-3.57%
Canadian Energy Index (XEG):	6.83%	9.75%	-11.82%
Canadian Materials Index (XMA):	19.98%	23.25%	14.00%
Canadian Real Estate Index (XRE):	8.71%	4.31%	2.17%
S&P 500 Index (US Stocks):	0.77%	-1.71%	-1.81%
US Health Care Index (ZUH):	-7.09%	-0.18%	-12.75%
US Banking Index (ZUB):	-15.26%	0.23%	-20.81%
North American Technology Index (IGM-N):	-0.03%	-3.58%	1.78%
Europe Asia (EFA):	-2.66%	-5.11%	-18.38%
Emerging Markets (CBQ):	2.04%	-4.50%	-20.87%
Gold (in US dollars):	15.95%	7.76%	11.94%
Canadian Dollar vs. the US Dollar:	6.89%	-0.50%	-4.68%
NFC Tactical Asset Allocation Pool (blended fees, cash basis):	0.15%	1.21%	-0.47%

Commentary - continued:

What types of investments are we considering today?

Today our primary concern is with the vote by the British people to reduce or eliminate their ties with the European Union (EU). At this time no one really knows what the implications of this exit really means, which creates uncertainty in the market. Because of this uncertainty, markets can be volatile. Some believe that this will start a global recession. Some believe that this will fan the flames of other anti-EU sentiment in other countries, which could lead to further disintegration of the EU. Some believe that the EU will not let Britain leave the EU on easy terms, thus potentially negatively impacting the British economy. Some believe that the British currency will see much further devaluation, thus making imports into Britain considerably more expensive and hurting their economy. Some believe that the significant global banking presence in London will likely weaken, seeing a shift to other major centres in Europe. The problem is that no one really knows what the implications of such a change will be. **And that's the problem.**

Today our primary concern is with the vote by the British people to reduce or eliminate their ties with the European Union.



Will capital flow from Britain, Europe and other regions around the world to the US, where the US is typically considered to be a "safe haven"? If so, will this push up the value of the US dollar and, in turn, push down the value of the Canadian dollar? Will we see the Canadian dollar shift back towards 70 cents US or even lower in the coming months or year? And if the US dollar rises, will this mean that the price of commodities (ie: oil) will also see a decline? Remember that since many commodities, like oil, is traded globally based on the value of the US dollar, when the dollar rises, to offset this rise, the price of the commodity can typically decline. The opposite can happen when the US dollar falls and the Canadian dollar rises: oil rises as well. This is exactly what we've seen over the past 6 months, as the Canadian dollar rose from 68 cents to 79 cents, and the price of oil has risen from $30 to $50 a barrel. And if we see the price of oil decline, to what extent will this negatively impact the Canadian economy and jobs in the oil and other related sectors?

Commentary - continued:

So what do we do as investors?

With all of these thoughts in mind, we have been actively exploring several key areas:

- **We began by asking questions such as the following:** How would our client portfolios, and the NFC Tactical Pool, perform in the weeks and months ahead if we did start to see a further slowdown in the economy? How would our portfolios perform if the US dollar rose in value and the Canadian dollar fell in value? How would our portfolios perform if commodity prices did fall? With these thoughts in mind, it would not appear that rising interest rates is a concern at this time, but changes in the asset mix of the NFC Tactical Pool could be made to take better advantage of these potential outcomes. Specifically, we have chosen to trigger the 14% capital gain earned on our position that is exposed to the price of oil. We have also chosen to increase our exposure to the US dollar from 5% to 10%. We increased our exposure to the US dollar so as to take advantage of a potential currency gain on this money. We don't even have to invest this money. Simply by moving money from the Canadian dollar to the US dollar, if the US dollar rises we may realize a 5% to 10% gain or more in the coming weeks or months. We continue to size up our options with regards to these questions, but these are the things we are thinking about at this time.

- **We then looked at the core equity investments that most or all of our clients hold.** Specifically, we looked at our core equity positions such as the Horizon's Seasonal Rotation ETF (HAC), BMO Low Volatility Canadian Equity ETF (ZLB), Horizon's Global Dividend ETF (HAZ) and the Ishares Global Low Volatility ETF (XMW). I am pleased to report that all of these ETF's performed very well on Friday immediately following the UK vote. On that Friday, the TSX declined by 1.69%, the S&P500 declined by 3.59% and the Europe / Asia index declined by 8.58%. By comparison HAC was +0.53%, ZLB was -0.65%, HAZ was -1.18% and XMW was +0.02%. All of these core holdings continue to do well and so at this time we see no reason to trim or sell any of these core positions. Also of note is that the Real Estate Investment Trust sector gained in value on Friday (XRE): +0.42%. This reminds us that whenever there is uncertainty, there are always areas that are making money even during market declines.

- **We also looked at how our defensive positions have performed during the market declines.** Did our defensive positions perform as expected? The answer is yes. All of the core bond holdings rose in value, producing a positive gain on the Friday following the vote. The exception to this is our investment in the high yield bond sector in the US (symbol: XHY). This ETF declined by 1.23%, approximately 1/3 of the overall US market decline. This type of investment will always be affected by changes in stock prices, but to see that it declined by only 1/3 of the overall US market is good, in our view. Our individual preferred share holdings declined on Friday as well, but not as much as the overall market. One exception to this is a Great West Life preferred share we own (GWO.PR.N) that rose in value by 1% on that day. Our conclusion: the defensive holdings did their job reasonably well.

Specifically, we have chosen to trigger the 14% capital gain earned on our position that is exposed to the price of oil.

Commentary - continued:

- **We also reviewed our direct exposure to the European market.** At this time we have 1.8% direct exposure to this geographic region. This weighting is not a concern to us at this time. However, we also see that most of the European indexes are trading at close to 15 year lows. This may also represent a buying opportunity. We have two ETF's that we own in the NFC Tactical Pool that have both outperformed the overall market quite significantly. Therefore, depending on the direction of the market over the next several weeks, we may choose to add to these positions.

- **We also spent time reviewing each of our individual stock holdings:** Most of these securities are still on their positive trend lines. This may not continue, but as of the time of writing this report, we do not see any reason to trigger any specific sells. However, we have identified some securities that have some strong gains that we'd like to protect. Depending on the market action over time, we may choose to sell half or all of these positions.

- **So what do we do as investors?** We believe it is important to identify what we see as both the risks and the opportunities. We see an opportunity in the potential rise in the US dollar and potentially falling interest rates. We see risks in the potential slowdown in the global economy and declines in the prices of commodities. To manage the risks we will continue to monitor each of our individual holdings to ensure that they remain on their trend lines. To take advantage of the opportunities we watch for emerging trends and invest in those trends in stages.

- **What can we expect going forward?** I think we can expect to see both good days and bad days in the market. The degree of volatility may be a little higher over the next few days and weeks until there is greater clarity as to the implications of this vote. The question always is: how will the market interpret new information as time goes on? My job is to pay attention to this information and make decisions that will ideally help us benefit from these emerging trends.

- **Do you need US dollars in the near future?** If you expect that you may need US dollars in the coming year, I do believe that now would be a good time to convert 10% to 20% of your cash flow needs from Canadian cash to US dollars.

If you have any further questions, about changes in your portfolio or changes in the NFC Tactical Asset Allocation Pool, please let me know.

NFC Tactical Asset Allocation Pool:

NFC Tactical Asset Allocation Pool: Returns:

- The pool has performed well over the past 12 months, relative to the market returns.
- The 12 month return for the pool was -0.47%. This is in a market environment where the Toronto Stock Exchange declined by -6.19%.
- In general, we strive to achieve 70% or more of the upside move in the market while protecting against 70% or more of a downside move in the market. Note: this is not a guarantee but is a general benchmark that we reflect on over time.
- With this being said a -0.47% return means that we protected against 92% of the decline over the past year. This is good, we've achieved our general goal.
- If we measure from September 2014 through to January 2016, the total return on the pool was -1% after fees vs. the TSX at -24%. This is good, we far exceeded our goal. If we protected against 70% of the 24% decline, the return on the pool would have been -7.2%. Instead the return for the pool for this period of time was -1%.
- The two year return for the pool, from June 24, 2014 to June 24, 2016 was +3.6% per year after fees. The TSX by comparison was -1.86% per year.
- The return since inception (September 2, 2013) for the pool is +6.70% vs. the TSX at +3.83%.
- What does this tell me? This tells me that the approach we are using to i) generate yield, ii) to buy new securities, iii) to sell or trim current positions and iv) to determine how much to invest into different areas at different times is working consistently well.

Table 2: NFC Tactical Pool returns vs. other major market indices:

Start Date	**01-Jan-16**	**01-Apr-16**	**24-Jun-15**
End Date	**31-Mar-16**	**24-Jun-16**	**24-Jun-16**
Period	**Winter 2016**	**Spring 2016**	**Last 12 Months**
Toronto Stock Exchange:	3.72%	3.36%	-6.19%
S&P 500 Index (US Stocks):	0.77%	-1.71%	-1.81%
Europe Asia (EFA):	-2.66%	-5.11%	-18.38%
NFC Tactical Asset Allocation Pool (blended fees, cash basis):	0.15%	1.21%	-0.47%

- **Disclosure:** Your returns will be similar to but not identical to the pool returns. For some clients their overall asset mix may be more conservative than the asset mix of the pool, or it may be more aggressive. The pool returns are net of fees based on total fees and expenses drawn from the pool. The fees you pay may be different that the average fee amount considered in the calculation of these returns.
- **Source:** NFC Tactical Asset Allocation Pool information is drawn from the Croesus software program, provided to NPMC through NBCN.

NFC Tactical Asset Allocation Pool - continued:

NFC Tactical Asset Allocation Pool: Asset Mix:

Table 3: NFC Tactical Asset Allocation Pool: Asset Mix for the period ending as displayed:
Source: Croesus software.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Defense	44.00%	48.00%	52.00%	55.00%	50.00%	53.00%	48.00%
Growth	56.00%	52.00%	48.00%	45.00%	50.00%	47.00%	52.00%
Canada	72.00%	74.00%	76.00%	81.00%	84.00%	82.00%	81.00%
US	23.00%	20.00%	18.00%	13.00%	10.00%	12.00%	12.00%
Global	5.00%	6.00%	6.00%	6.00%	6.00%	6.00%	7.00%

- During the rising market period of January 20th through to June 24th, 2016, we have continue to tilt the NFC Tactical Pool toward more growth oriented investments.
- At the end of March the pool was 53% defensive whereas by June 24, 2016, the pool was 48% defensive.

Market Outlook:

So what may happen in the near future?

- At this time it is difficult to tell what the shorter term trend may be.
- The uncertainty surrounding the British vote to exit the European Union will likely create greater market volatility and no clear trends.
- This may mean that an interest rate hike in the US could be further postponed, that we may see a rise in the US dollar and a fall in commodity prices.
- However, during these types of periods, our preferred approach is a consistent and methodical process to reviewing the current trends and managing the risks.

If you have any questions or concerns about your personal portfolio, please let me know. I would be happy to meet with you at any time.

All the best!

Doug

Our preferred approach is a consistent and methodical process to reviewing the current trends and managing the risks.

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