Quarterly Portfolio Review
As at June 30, 2015

NELSON
PORTFOLIO MANAGEMENT CORP.

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Contents

Nelson Portfolio Management Corp.

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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 Website: www.nelsonfinancial.ca.** The new Nelson Portfolio Management Corp. website is now up and running. This website is part of the overall redesign of the Nelson Financial Consultants website. The purpose of the redesign is to better distinguish between the activities of our portfolio management services and other services provided by Doug and his team. Give it a look and send us your comments! We always appreciate the feedback.

❷ **Secure Quarterly Statements:** We are now sending to you your quarterly statements in a more secure manner. This month you will receive an e-mail message from Ian Wood, Associate 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 30, 2015 portfolio statement. Please note that this link will last for only for 14 days. If the 14 day period expires, you can contact Lorraine at our office at 204-956-0519 or by e-mail at lgoldring@nelsonfinancial.ca and she will send a new statement to you at your convenience.

❸ **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.

❹ **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.

The new Nelson Portfolio Management Corp. website is now up and running. The purpose of the redesign is to better distinguish between the activities of our portfolio management services and other services provided by Doug and his team.

Important Disclosures:

- **Past Returns Do Not Guarantee Future Returns:** At the bottom of the Nelson 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.

- **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 24th, 2015.

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

- Over the past three months the stock market in Canada, and markets around the world, have continued to fluctuate.
- From April 1 through to June 30th, the Toronto Stock Exchange price index declined by 2.6%.
- The most recent peak on the Toronto Stock Exchange remains September 2nd, 2014. From September 2nd, 2014 through to June 24th, 2015 the TSX price index has declined by 4.3%.
- The one year return for the Toronto Stock Exchange price index (June 24, 2014 through to June 24th, 2015) is -0.1% (price index).
- When we break this down by sector, we see the following 12 month returns: The Canadian financial services sector (symbol: XFN) gained in value by +2.61%. The Canadian energy sector (symbol: XEG) declined in value by 34.4%. The Canadian materials sector (symbol: XMA) declined by 14.4%. Real estate (symbol: XRE) declined by 0.12%. North American preferred shares (symbol: XPF) declined by 5.51%. US Investment Grade Corporate bonds (symbol: XIG) decreased by 1.5%. Gold (the commodity, symbol: GLD) declined by approximately 11.33%.
- When looking at the US market over the past 12 months, we see that the S&P 500 index (the 500 largest companies in the US) increased by approximately 8.13%. Since September 2nd the US market has gained in value by 5.31% (vs. the TSX that declined by 4.3% for this same period). One of the leaders of the US market continues to be US health care stocks, which gained in value by 32% over the past year (symbol: ZUH).
- The rest of the world (symbol: EFA) representing Europe / Asia and the Far East declined by approximately 4.32% over the past 12 months. The emerging economies of Brazil, Russia, India and China (symbol: CBQ) also saw a decline of 7.24% over this same period of time.

Over the past three months the stock market in Canada, and markets around the world, have continued to fluctuate.

Commentary - continued:

- The value of the Canadian dollar has declined by approximately 13% (vs. the US dollar) over the past 12 months.

Looking at these figures in chart form, we see the following:

Table 1: Historical Return for Q1 2015, Q2 2015 and for the past 12 months: (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-15**	**01-Apr-15**	**24-Jun-14**
End Date	**31-Mar-15**	**24-Jun-15**	**24-Jun-15**
Period	**Q1 2015**	**Q2 2015**	**12 Months**
Defense:			
US Investment Grade Corporate Bonds (symbol: XIG):	1.62%	-5.37%	-1.48%
North American Preferred Shares (symbol: XPF):	-2.02%	-3.06%	-5.51%
Growth:			
Toronto Stock Exchange:	1.05%	0.03%	-0.10%
Canadian Financial Services Index (XFN):	-4.00%	2.51%	2.61%
Canadian Energy Index (XEG):	-2.05%	-2.3%	-34.40%
Canadian Materials Index (XMA):	1.65%	-3.69%	-14.40%
Canadian Real Estate Index (XRE):	4.83%	-5.69%	-0.12%
S&P 500 Index (US Stocks):	1.36%	2.37%	8.13%
US Health Care Index (ZUH):	9.14%	7.20%	32.96%
Europe Asia (EFA):	7.59%	3.51%	-4.32%
Emerging Markets (CBQ):	-1.54%	3.89%	-7.24%
Gold (in US dollars):	-0.29%	-2.60%	-11.33%
Canadian Dollar vs. the US Dollar:	-7.89%	2.97%	-12.92%
NFC Tactical Asset Allocation Pool (blended fees, cash basis):	4.65%	-0.91%	7.58%

Commentary - continued:

What does all of this mean?

- When you compare the difference in the returns for the first three months of the year (column 1, Q1 2015, January 1 to March 31) with the returns for the same investments over the past three months (column2, Q2 2015, April 1 to June 24th) you can see that in almost all situations the returns over the past three months have been lower. This is true for both growth oriented investments and defensive investments.
- You can also see that the returns over the past 12 months (see the right hand column above in Table 1) have either had low single digit returns or the returns have been mostly negative, in virtually every investment category.
- When the equity markets (ie: the stock market) have negative returns, we typically expect the defensive holdings in the portfolio to rise in value to offset some of these declines. Yet, over these past few months, we have also see our defensive holdings decline in value. This is similar to the pattern that we saw during the summer of 2013.
- At that time, market participants were being told to expect the US Federal Reserve to potentially begin to raise interest rates in the coming months. As it turned out, now two years later, interest rates have not yet begun to rise. However, the market is concerned that there is a very high probability that interest rates will increase modestly this fall. The question is: what impact will this have on investments.
- As a result of this uncertainty, many interest sensitive investments, such as bonds, preferred shares, real estate investment trusts, utilities and other dividend paying stocks have seen their values decline over the past several weeks. The question is whether this trend will continue.
- If we look back in history, interest rates were increased by the US Federal Reserve from 2002 through 2007. Yet, as interest rates rose during that time, many interest sensitive investments also increased in value. Specifically, i) the real estate index in Canada (symbol: XRE), increased in value by 18% between October 2002 and February 2007 and ii) the utilities sector (symbol: IDU), doubled in value in the 5.5 years between late 2002 and early 2008.

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Commentary - continued:

- Therefore, just because interest rates rise, it does not necessarily mean that other interest sensitive investments will continue to decline in value. Yet, this is what the market seems to feel needs to happen at this time. We saw this in 2013 and we are seeing a similar trend today. The market was wrong in 2013, because since September 2013 interest sensitive investments have increased in value quite significantly (as I have noted below in other market commentaries).

- So where does this leave us today? As we proceed through this type of market environment, decisions need to be made on an investment by investment basis. Since it is difficult to know if some of these trends will continue, we need to turn our attention back to each individual investment we own and make decisions based on the trading patterns and valuations of each specific security.

Commentary - continued:

What types of investments are we considering? Over the past several months we have been taking the following actions:

- Realizing some of currency gain on US dollar investments by converting US dollars back into Canadian dollars. The US dollar allocation within the NFC Tactical Pool has declined from approximately 22% down to 17% (in April) and is now down to our goal of 12%.
- When moving this money back into Canadian dollars, we have added US and global exchange traded fund products that give us the international exposure we desire, yet do so with a built in currency hedge. This means that we can benefit from these international investments, without being negatively impacted if the Canadian dollar rises in value.
- We have continued to make investments into the Frontenac Mortgage Investment Corp. I feel that this type of investment can provide minimum volatility, a strong yield, and less risk in a rising interest rate environment.
- We have continued to look for bonds that, when held to maturity, give us a good interest rate and / or yield to maturity of 3% or more. We have added an individual bond from Precision Drilling (stock symbol: PD), to both the NFC Tactical Pool as well as some individual client accounts, that matures in 4 years and provides a yield to maturity of 6% per year.

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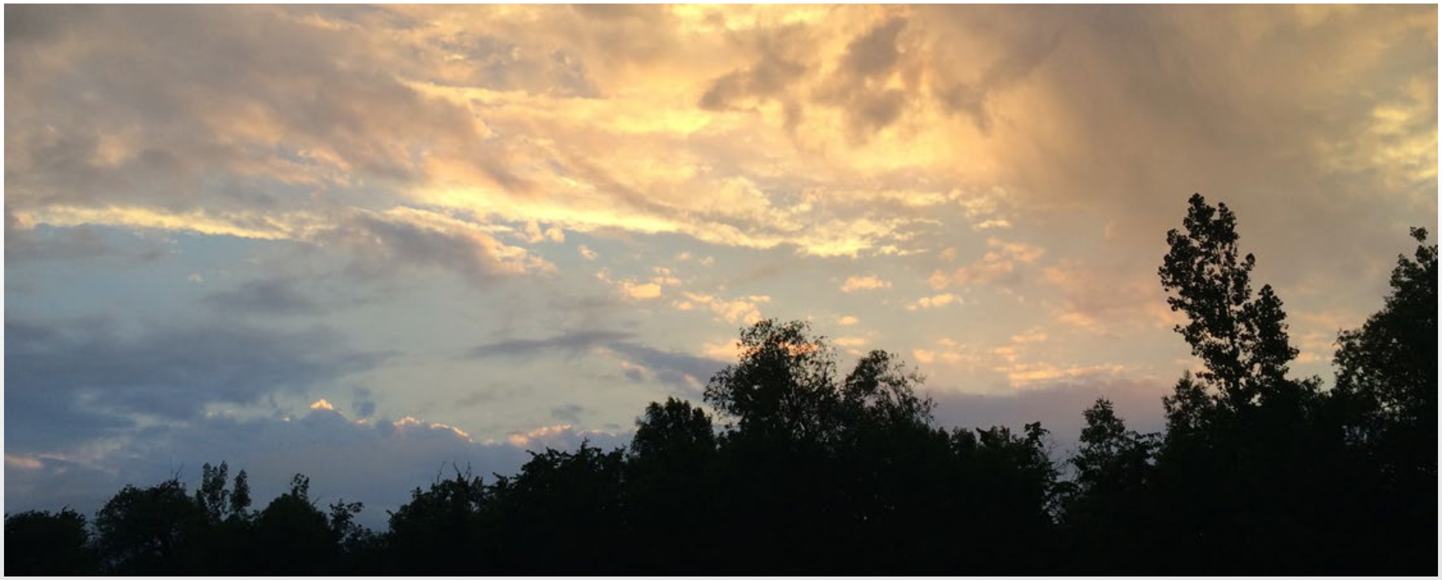
Commentary - continued:

Summary:

- As we approach the summer we continue to be wary of a more significant market correction.
- As I mentioned in April, since the US market has not had a reasonable correction for over 6 years now, since the higher US dollar will hurt the profits of global US companies and since global demand for energy continues to remain modest, we do feel that there is an increased chance of a market correction this summer.
- We continue to feel that the downside risk to the US market is approximately 25%.
- Therefore, our approach today is to hold a little more cash, to simplify our client portfolios for more timely rebalancing, to update our stop loss levels and to be selective and cautious for any new investments.

As we approach the summer we continue to be wary of a more significant market correction.



NFC Tactical Asset Allocation Pool:

NFC Tactical Asset Allocation Pool: Returns:

- The pool has performed well for both the year to date as well as the past 12 months, relative to the market returns.

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

Start Date	01-Jan-15	01-Apr-15	24-Jun-14
End Date	**31-Mar-15**	**24-Jun-15**	**24-Jun-15**
Period	**Q1 2015**	**Q2 2015**	**12 Months**
Toronto Stock Exchange:	1.05%	0.03%	-0.10%
S&P 500 Index (US Stocks):	1.36%	2.37%	8.13%
Europe Asia (EFA):	7.59%	3.51%	-4.32%
NFC Tactical Asset Allocation Pool (blended fees, cash basis):	4.65%	-0.91%	7.58%

- **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.

- Based on the audited financial statements for the NFC Tactical Asset Allocation Pool, the total gross yield (interest, dividends, capital gains, before expenses) for 2014 exceeded 5%.

- Source: NFC Tactical Asset Allocation Pool information is drawn from the Croesus software program, provided to NPMC through NBCN.

NFC Tactical Asset Allocation Pool: Asset Mix:

Table 3: NFC Asset Mix: December 31, 2014 vs. March 31, 2015 vs. June 24, 2015: Source: Croesus software.

	Dec-31	Mar-31	Jun-24
Defense	44.00%	48.00%	52.00%
Growth	56.00%	52.00%	48.00%
Canada	72.00%	74.00%	76.00%
US	23.00%	20.00%	18.00%
Global	5.00%	6.00%	6.00%

- The asset mix of the NFC Tactical Pool has shifted by approximately 18% (ie: an 8% change in defensive holdings, from a 44% weight to a 52% weight, is an 18% change in the value allocated to defense). Overall, the defensive weight has increased from 44% to 48% (in April) to 52% in June. The US component has declined while both the Canadian and global exposure has increased.

Market Outlook:

So what may happen in the near future?

- In my last report to you (dated December 31, 2014 and March 30th, 2015), I stated that I felt that we could see further market declines. I continue to have this view. We may be seeing the beginning stages of these declines as per the data you see in Table 1. We continue to have a cautious perspective today.
- In my last report to you, I stated that the European / Asian markets have corrected more significantly that other markets and that these markets may have the greatest upside opportunity. It is my view that we have seen some of this take place with the year to date gains we see in the European / Asian index (see Table 1).
- In our last report I mentioned that we may begin to move US dollars back into Canada. We have done this and will continue to consider this strategy over the coming months.
- 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

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