



# The Annual Review

2016

## The Year in Review:

### Competitive results in a difficult environment



The portfolio of our typical client (50% fixed income and 50% equities) increased 4.30% in 2016, before management fees. While the gross return of the portfolio does not compare to previous years, it does clearly distinguish itself from comparable indices.

Following a significant equity market correction at the beginning of the year (the portfolio of our typical client was almost 8% lower on February 11<sup>th</sup>), the rest of the year saw an impressive rebound and this despite Brexit and a certain Mr. Trump!

In 2016, our fixed income securities posted a return of 1.03% while our equity holdings posted 6.72%.

Our fixed income securities fared relatively well from 2013 to 2015. However, it was only during the last quarter of 2016 that our patience in favouring very short term fixed income securities was finally rewarded. Indeed, Canadian five-year and ten-year interest rates rose some 50 and 75 basis points respectively and during this period, causing the value of bonds to fall significantly.

The equity holdings in our portfolios posted a return of 6.7% against 2.4% for the Morgan Stanley World Index measured in Canadian dollars. In particular, our Canadian stocks increased 40.1% in 2016 versus 17.5% for the Canadian TSX/SPX Index. Unlike what has happened in the last few

years, Canadian investments have outperformed others in 2016. Not only has the overall Canadian market rebounded following several years of hardship (mainly due to the energetic comeback of resource shares), but a stronger Canadian dollar has rendered foreign investments less profitable. In 2016, the vigour of the Canadian dollar has reduced the return of foreign investments by 2.9%, while its drop in 2015 had enhanced the return of foreign investments by 18.5% .

Over the last three years (2014-2016), the Morgan Stanley World Index has posted an annualized return of only 1.8%. Combined with interest rates of lower than 1%, it goes without saying that the environment has not been conducive to high returns.

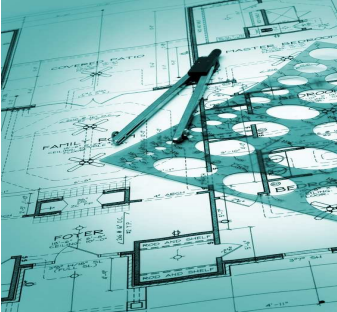
In the following pages, we present a retrospective of 2016, but we also look back at 19 years (1998-2016) of very competitive portfolio management. We are proud of our record in 2016 and over the longer period.

Dalpémilette thanks you for your trust and wishes you all the best in 2017.

## Contents

- 2 Current Portfolio Structure
- 3 The CRM2 Rules
- 4 Year 2016 in Review
- 10 Basic Information

## Current Portfolio Structure



« Over the last four years, 80% of the portfolio return of our typical client ( 50% fixed income and 50% equities) results from equity holdings. »

The portfolio of our typical client currently contains approximately 46% in fixed income and 54% in equities compared to a target of 50%/50%.

Four years ago, we encouraged our clients to review their portfolio's asset allocation, stressing that in our opinion fixed income securities would probably not produce the returns obtained over the last ten years and that equities, for their part, would probably be responsible for most of the returns within balanced portfolios over the next ten years or so.

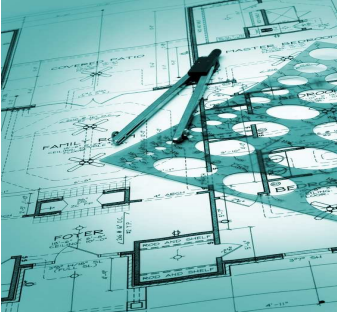
Over the last four years (2013-2016), the average weight of equities in our portfolio has exceeded the 50% target for our typical client. This decision proved to be excellent as the return on equities has been nearly three times the return on fixed income. The return on equity holdings represented almost 80% of the portfolio return of our typical client portfolio.

Following an overweight period, we have reduced the weight of equities over the last few months to return to our target of 50%. We would rather be a bit more cautious over the next few quarters as sources of volatility will no doubt surface and interesting opportunities may present themselves.

As for the geographic distribution of our stocks, the weight of Canada is historically very low, representing 27% of our stocks compared to an average of 52% over the last decade. This decision has cost us in 2016, but not over the last five years.

Asset Mix as of December 31, 2016			
<b>Fixed Income Securities</b>			<b>46%</b>
<b>Equity</b>			
<b>Canada</b>	<b>Financial Services</b>	<b>63%</b>	}
	<b>Others</b>	<b>37%</b>	
			<b>15%</b>
<b>Global</b>			<b>13%</b>
<b>USA</b>			<b>8%</b>
<b>Europe</b>			<b>8%</b>
<b>China</b>			<b>3%</b>
<b>Emerging Countries/Japan</b>			<b>7%</b>
			<b>54%</b>
			<b>100%</b>

## The CRM2 Rules



*« As of January 2017, two new reports will be prepared for our clients in accordance with CRM2 rules. »*

The CRM2 (the second round of changes under the Client Relationship Model) introduces new rules prepared by the Canadian Securities Administrators to help Canadians better understand their investments and the related costs. Some requirements are already in effect. Beginning January 2017 (the last phase of the CRM2) two new annual reports will be introduced: (1) annual fees related to their investments and (2) the performance of their investments.

Our clients will not notice much of a difference compared to what is being done already. Our business sector has not always shown such transparency. However, DalpéMilette's clients have known the cost of our services for a long time, both in percentage and in dollars, as it is indicated on the monthly account statement and in an annual report. They also receive a quarterly portfolio performance statement with commentaries. DalpéMilette has always strived to uphold the highest standards of integrity and transparency and to adopt best practices for the management of our clients' wealth.

Furthermore, the following clarifications are worth noting. First, the annual fees and compensation report will indicate the amount received by Richardson GMP for the provision of service to our clients. Please note that only a portion of this amount is paid as compensation to DalpéMilette.

But above all, the new performance report requires further explanation. The investment performance report will indicate your personal rate of return. This rate is based on the deposits and withdrawals of funds, on the dividends and interests generated by your investments and applied to your account, as well as on the change in value of the securities held in your account. Since withdrawals, deposits and portfolio holdings vary from one investor to the next, each could obtain a different personal rate of return.

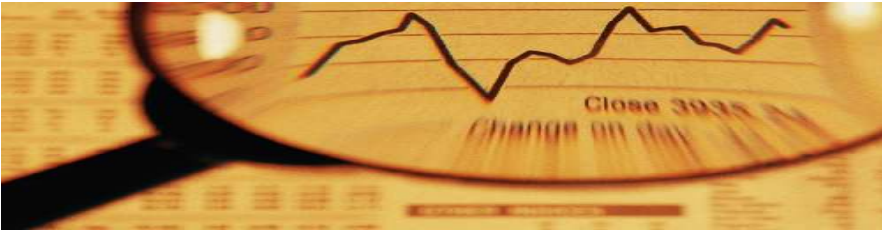
Benchmark indices can help us understand the return on an account over a given period, but they do not represent an appropriate point of comparison for your personal rate of return (often referred to as internal rate of return). Indeed, the benchmark does not take into account when deposits or withdrawals were made.

This explains why most calculations of the returns obtained by portfolio or investment fund managers are done using the time-weighted rate of return method. This method enables managers to be compared with each other and with respect to relevant indices. It excludes from the calculation of the return the impact of the investor's decisions, for example when an additional sum is deposited just before a significant market rebound. This method is the one used in our quarterly performance statements (which our clients will continue to receive) and measures solely the impact of our portfolio decisions, not those taken by the client. When no deposit or withdrawal is made during a period, the two calculation methods give the same result. However, if an investor deposits a substantial amount during the period and if the markets increase significantly after the deposit, the personal rate of return will be higher than the time-weighted rate of return.

Consequently, it is likely that the annual report on personal return will indicate a rate which is different than the one mentioned on the quarterly performance statements. You will now know why.

Do not hesitate to contact us for further explanations. Our Info DalpéMilette of January 2017 will have some detailed articles on the calculation of the return.

## Feature Article: 2016 in Review



« 2016 has been a very satisfactory year in a difficult global financial context. »

Portfolios entrusted to our management have experienced a very satisfactory year in 2016 considering the context. The equity portion of our typical client's portfolio experienced an increase in value of 6.7% in 2016, after a cumulative increase of +112% in the seven years from 2009 (the year following the 2008 crisis) to 2015.

Remember that the portfolio of our typical client is usually composed on average of 50% in fixed income securities and 50% in equities.

Do not hesitate to communicate with us to obtain an analysis of the return on investment for your portfolio in 2016.

Our typical client obtained a return before management fees of 4.30% in 2016, as illustrated in the table below. This performance was achieved with a portfolio structure composed on average

of 43% in fixed income securities and 57% in equities, an allocation considered overweight in equities. The fixed income securities portion (including cash) produced a return of 1.0%, while the equity portion obtained a return of 6.7%.

### Return on investment analysis for our typical client in 2016

Portfolio Structure	Average weight in 2016	Return by Asset Class	Weighted Return
<b><u>Fixed income securities</u></b>	<b>42.5%</b>	<b>1.0%</b>	<b>0.43%</b>
<b><u>Equity securities</u></b>			
3. Canada	26.8%	40.1%	
4. Global	21.0%	-7.9%	
5. USA	16.5%	12.6%	
6. International	<u>35.7%</u>	<u>-4.0%</u>	
	<b>57.5%</b>	<b>6.7%</b>	<b><u>3.86%</u></b>
			<b>4.30%</b>
<b>Less: management fees</b>			<b><u>1.25%</u></b>
			<b>3.05%</b>



## Feature Article: 2016 in Review (cont'd)



« *The performance of our Canadian stocks in 2016 was +40.1% as opposed to +21.1% for the TSX/SPX index.* »

(iv) the performance of our international stocks, excluding those in the United States, was -4.0% in 2016 due to weak performance of stock markets this year and the strength of the Canadian dollar;

(v) the Canadian stock market has increased by 17.5% in 2016 (21.1% including dividends), its best year against other world stock markets in a long while. The relative strength of the resource sector explains this good result, after being a drag on the market over the past few years. The financial sector also performed well in 2016.

Despite the underweight position of resource stocks in our portfolios, our performance in 2016 was nevertheless one of our best in years with our Canadian equities posting a return of 40.1%.



Securities in the financial sector represent approximately 60% of the Canadian stocks in our portfolio. Collectively, they have generated a return of 31.1%.

In our letter at the end of 2015, we said:

*'It is likely that our sole resource stock, Teck Resources, bounces back eventually, market enthusiasm for this sector being extremely low.'*

Well, 2016 was the year! It provided a gain of 337% to our typical client.

Even Bombardier has helped the cause with +45.1% in 2016.

	
<p><b>The maximum RRSP contribution limit for 2016 (deadline March 1, 2017) is \$25,370; \$26,010 for 2017.</b></p>	<p><b>You will receive your 2016 income tax slips between mid-January and mid-April 2017. Do not prepare your income tax returns too early.</b></p>

## Feature Article: 2016 in Review (cont'd)



« An amount of \$100,000 invested by our typical client in 1998 was worth \$273,600 at the end of 2016, 19 years later. This represents a compound annual return of 5.3%. »

We have been calculating the typical return (return of our typical client portfolio) since 1998. These results are presented below for each of the past 19 years.

Since 1998, the average annual return of our typical client has been 5.9%. The typical portfolio entrusted to our management progressed at a compound annual rate of 5.3% over the past 19 years. These returns are calculated net of any expenses. An amount of \$100,000 invested at the beginning of 1998 is worth \$273,600 today. The chart below presents the annual change in the portfolio since 1998.



Balanced Portfolio		
	Performance	Cumulative Value
	net of management fees of 1.25%	simulated growth of \$1,000 as at 1-01-1998
1998	11,4%	\$1 114
1999	14,6%	\$1 276
2000	5,7%	\$1 348
2001	1,7%	\$1 370
2002	-9,4%	\$1 242
2003	13,6%	\$1 410
2004	8,2%	\$1 525
2005	13,3%	\$1 727
2006	12,1%	\$1 935
2007	9,3%	\$2 114
2008	-20,3%	\$1 686
2009	26,3%	\$2 129
2010	8,1%	\$2 301
2011	-7,5%	\$2 129
2012	3,9%	\$2 212
2013	7,3%	\$2 372
2014	7,8%	\$2 556
2015	3,9%	\$2 655
2016	3,1%	\$2 736
<b>Cumulative Return</b>	<b>173,6%</b>	
<b>Average Return</b>	<b>5,92%</b>	

Typical client: profile: 50% fixed income / 50% equities

Compounded Annual Return Balanced Portfolio			
<b>1998-2016</b>	<b>2009-2016</b>	<b>2014-2016</b>	<b>2016</b>
<b>19 years</b>	<b>8 years</b>	<b>3 years</b>	<b>1 year</b>
<b>5,27%</b>	<b>6,24%</b>	<b>4,87%</b>	<b>3,05%</b>

## Feature Article: 2016 in Review (cont'd)



« Our comparative performance positions us favourably relative to equivalent market indices. »

The results of our typical client portfolio are presented below for different period of the last 19 years and are compared with those obtained by equivalent market indices.

We have shown, in particular, the performance of our equity holdings. From 1998 to 2016 (19 years), our equity holdings have produced a compounded annual return of 8.7% before management fees, against 4.9% for the MSCI All Country World index.

Over 19 years, our Canadian stocks have produced a compounded annual return of 10.4% against 6.9% for the Canadian TSX/SPX stock market index. Over the last 19 years, our Canadian stocks have fared better than the Canadian index 13 times, or 68% of the years.

It is often difficult at first to realize the long term difference in the value of accumulated capital, based on the spread in annual returns. For example, is \$100,000 invested for 30 years at 5% worth much more than at 4%? Only a financial calculation can answer this question: \$100,000 at 5% over 30 years represents a value of \$432,200 compared to \$324,300 at 4%, a favourable differ-

ence of \$107,900 or 33%.

It is well known that most managers cannot achieve the results of comparable indices. An investor who, by chance, would have obtained, with the equity holdings in her or his portfolio, a return equal to the comparable MSCI All Country World index in each of the last 19 years would have obtained a cumulative gain of 148% or, in other words, \$100 invested would have grown to \$248. Over the same period, our typical client has seen the equity portion of his portfolio grow from \$100 to \$488, a cumulative gain of 388%, a considerable difference with respect to the comparable index.

### Return Per Asset Class Years 1998 to 2016 DalpéMilette

(all returns before management fees)

#### Return per Asset Class

	Compounded Return					
	18 years	10 years	8 years	3 years	1 year	
<b>Fixed Income Securities (1)</b>	3,9%	2,9%	2,9%	3,3%	1,0%	
<b>Equities</b>	8,7%	4,8%	10,7%	8,1%	6,7%	
↳ <b>Equities Canada</b>	10,4%	5,7%	12,5%	9,5%	40,1%	
↳ <b>Equities International</b>	5,0%	4,7%	9,6%	8,3%	-2,9%	
	TSX/SPX	6,9%	4,7%	10,1%	7,1%	21,1%
	MSCI All Country	4,9%	4,7%	11,1%	10,1%	2,4%

(1) Bonds and liquidities. The strategies used do not lend themselves to a comparable index.

## Feature Article: 2016 in Review (cont'd)



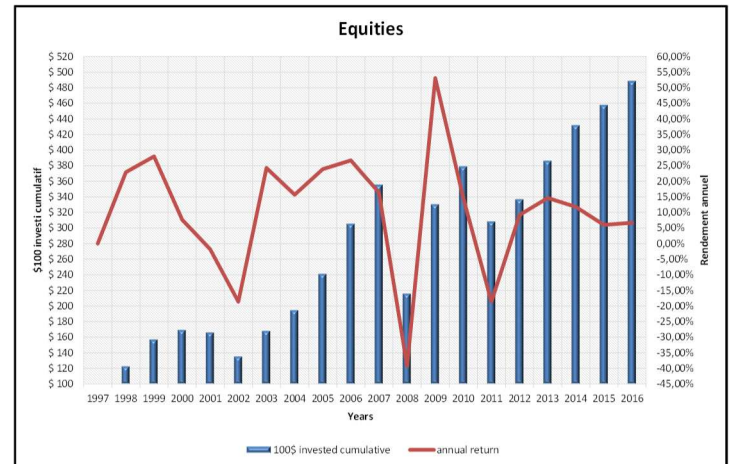
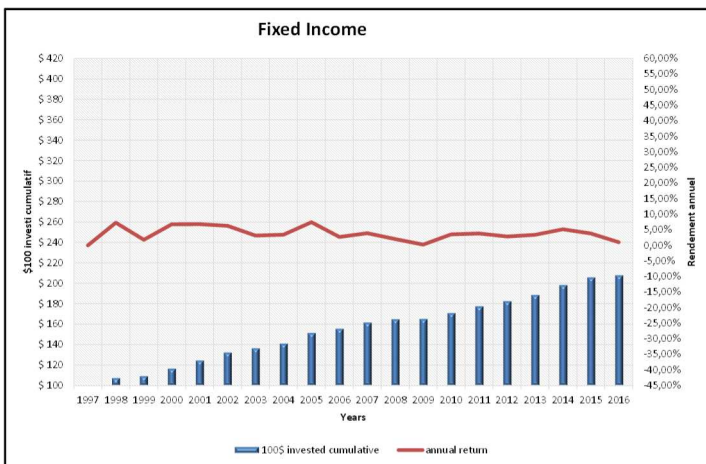
« Our typical client has been well compensated over 19 years for the volatility on the equities portion of his portfolio. »

The following graphs below indicate the annual return (red line) and the accumulated value of \$100 invested at the start of 1998 (blue columns), for the fixed income and equities portion of our typical client's portfolio. Both graphs use the same scale to make them more easily comparable.

On the left, we see that the return of fixed income securities has been quite stable in the last 19 years, and that the progression has been regular over time. \$100 invested at the beginning of 1998 has grown to \$208 at the end of 2016.

As for equities, shown in the chart on the right, both the annual return and the evolution of \$100 has been much more volatile. On the other hand, \$100 invested at the start of 1998 was worth \$489 at the end of 2016.

The bottom line, as we remind our clients regularly, is that the volatility of the return on equities is indeed not always easy to live with, but it represents the cost to bear to generate a substantially better long term capital appreciation.



## Information

DalpéMilette's mission is to be the primary financial advisor for its clients. Within the framework of a courteous, attentive, professional and personalized service, the service offering is based on an experienced team, endowed with high calibre analytical skills as well as the necessary tools to provide its clients with exceptional financial services. A well-balanced, dynamic and systematic approach in addition to competitive management fees exempt of any potential conflict of interest characterize its portfolio management activities.



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## Info DalpéMilette

For our clients who wish to obtain more information about financial markets as well as the views and thoughts which direct our portfolio management decisions, our Info DalpéMilette meets these requirements. It is sent on a daily basis by e-mail to our clients who wish to be kept abreast of their portfolios and the many issues which affect them. Please do not hesitate to contact us should you be interested in receiving it.

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