Commentary

Economic growth continued at a modest pace in developed and emerging markets during the period. Higher interest rates in the U.S. were supported by very low unemployment figures and strong job creation, as well as high consumer and business confidence. That said, there was some heightened uncertainty among U.S. business leaders regarding the administration’s ability to deliver on its promises of tax cuts and profit repatriation measures, given the difficulty the administration is facing in trying to move forward with health care reform. Global equity market volatility was relatively low, but there was a marked change in sentiment in fixed-income markets in both North America and Europe. Toward the end of June, in addition to another modest interest rate increase, the U.S. Federal Reserve Board (the Fed) signalled its desire to raise interest rates again and reduce its monetary stimulus measures. The European Central Bank voiced similar intentions, causing negative interest rates in some regions of the eurozone to move into positive territory.

Two significant contributions to the Fund’s performance in the first half of 2017 came from its holdings in Shopify Inc. and Apple Inc. Shopify’s share price has doubled thus far in 2017; the company has continued to post impressive results that have largely stemmed from sales growth, rising subscriber numbers and increased revenue per subscriber. Apple’s share price advanced, largely in response to record iPhone and watch shipments, growing service contribution and year-over-year margin improvements.

Two significant detractions from the Fund’s performance over the period were made by its positions in Canadian Natural Resources Ltd. and Suncor Energy Inc. Shares of both companies were negatively affected by the weaker price of oil. That said, with oil prices falling, both companies were able to make acquisitions earlier in 2017. Suncor Energy Inc. bought Canadian Oil Sands Ltd., while Canadian Natural Resources Ltd. increased its stake in the Athabasca Oil Sands Project. We believe Canadian Natural Resources and Suncor Energy are leading players in their industries, with quality assets, strong management teams and balance sheets that can help them successfully navigate through periods of oil price weakness.

During the period, we reintroduced positions in Canadian Natural Resources and Lululemon Inc. on attractive valuations. We added to holdings of Airbus Group and Wells Fargo & Co. in response to price weakness. Positions in Devon Energy Corp. and Magna International Inc. were eliminated, based on their risk-return metrics, while the Fund’s position in Stericycle Inc. was sold because of a change in the company’s strategy.

In our view, the likelihood of an imminent recession is not high, because employment is strong, consumer and business confidence is high, and overall central banks’ tightening policies have been modest. Central bank interest rate moves will be data driven and made with full knowledge of the impact that increased debt carrying costs will have on consumer and government spending. Accordingly, central banks are unlikely to move too quickly with regard to interest rates for fear of choking off an already slow-growing economic expansion. We believe stock selection will continue to be key in driving Fund performance.
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