INVESTMENT COMMENTARY THIRD QUARTER 2015

The Year of Living Divergently

The important and increasing divergence in economic prospects, monetary policy, interest rates and investing environment in various regions around the world remains the dominant global theme in 2015—and the most meaningful force at play in the markets—despite being overshadowed in the third quarter by media headlines hyping the much-anticipated U.S. Federal Reserve short-term interest rate lift-off from zero...to still very low.

Strong Versus Struggling

In general, developed economies are in good shape, led by steady mid-cycle expansions in the United States and Europe, both beneficiaries of lower commodity prices and cheaper imports. The U.S. economy appears to be re-gaining speed after a slow start to the year. Second-quarter GDP growth was revised notably higher in August to an annualized rate of 3.9% from 3.7% on the back of strong consumption and business spending.

Measures of more recent activity suggest U.S. growth has been stalwart in the face of the slowdown in China—where policymakers are struggling to stabilize an economy reorienting from export-driven growth to a more balanced growth model powered in large part by internal demand and consumption spending—and the emerging markets. Europe and Japan's economies continue to improve, if haltingly, thanks in part to central bank stimulus. Leading economic indicators (LEIs) for 70% of the world's developed markets are positive on a six month basis to September 30, 2015. The exceptions are Canada and Australia, both of which are experiencing growth recessions due to their reliance on commodity exports. These have been impacted by declining demand from China and weakening price trends due to U.S. dollar strength and oversupply. The International Monetary Fund (IMF) has downgraded its forecast for the Canadian economy by half a percentage point to 1.0% this year—the weakest pace of growth in Canada in more than 20 years.

VIDEO COMMENTARY
Video versions of our commentaries are available on our website. Visit the Newsroom at **www.genuscap.com** and click on the video menu option to view.

The factors causing pain to Canada and Australia have also caused commodity-dependent countries such as Brazil and Russia to fall into recession, while many other emerging market economies are experiencing late-cycle or recessionary pressures. Only one-third of emerging market LEIs are positive on a six-month basis. Global economic growth is likely to remain sluggish against this backdrop as positive trends in the major developed economies offset deteriorating growth conditions in many of the emerging markets. While there have been major downward revisions to 2015 and 2016 growth estimates in countries such as Russia, Brazil and Mexico, on balance, it is what happens in the U.S., China, the Eurozone, and Japan that matters most for the global economy because these economies account for about two-thirds of all global economic activity.

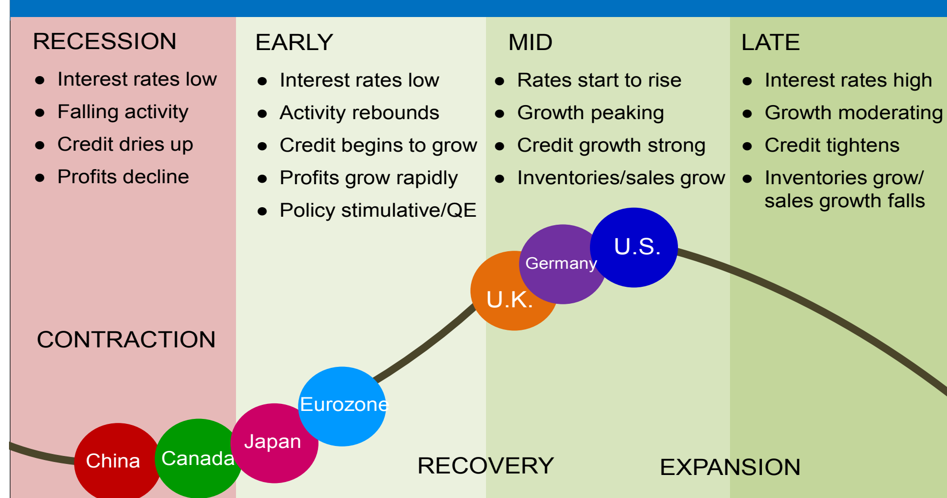
China Continues to Cool

Even as China's economy continues to slow from its blistering double-digit pace of growth of 2010, it still leads the major developed countries in terms of percentage growth. Although China's economic growth has been slowing for the past five years, the recent pace of the slowdown, coupled with August's stock market plunge, captured the market's attention as fears of a "hard landing" (real GDP in the 4-5% range) persisted. China is, however, expected to report GDP growth of 6.8% this year (with wages rising at about 10%) and 6.0-6.5% growth in 2016 and 2017—not exactly a picture of economic disaster. China is also in the fortunate position of having far more room than most governments to provide stimulus, both monetary and fiscal. Its one-year lending rate is around 4.5%, allowing room for easing, and its required bank reserve rate is among the highest in the world. Its budget is also running a surplus, so there is ample ammunition to fight slowing demand—and there are signs the government is beginning to use it.

Eurozone Gaining Traction

Economic indicators from Europe have generally been positive, with recent business and consumer surveys providing reassurance about the euro area's growth momentum in the face of the Chinese slowdown. It is notable that European growth is now being driven by a recovery in pent-up domestic demand and less by net trade. This quarter was the ninth consecutive quarter of positive growth. Eurozone GDP growth prospects have been revised higher to 1.5% for 2015, up from 0.9% earlier this year, and rock bottom last year, and accelerating to 1.7% in 2016 and 2017. Actions by the ECB to enact quantitative easing earlier this year helped heal Europe's fractured banking system and contributed to its positive growth prospects. Meanwhile, on the other side of the world, the Bank of Japan is in a "wait and see" mode after enacting QE in early 2013 and increasing the size of the QE program in late 2014. It has promised to do more if growth falters or deflation persists. GDP estimates for Japan in 2015 stand at 0.7% while estimates for 2016 have moved down from 1.5% since mid-year to 1.2%. Given the drop in growth prospects in recent months, some additional QE from the BOJ seems likely.

Exhibit 1 U.S. Upswing Leading Divergent Global Economic Growth

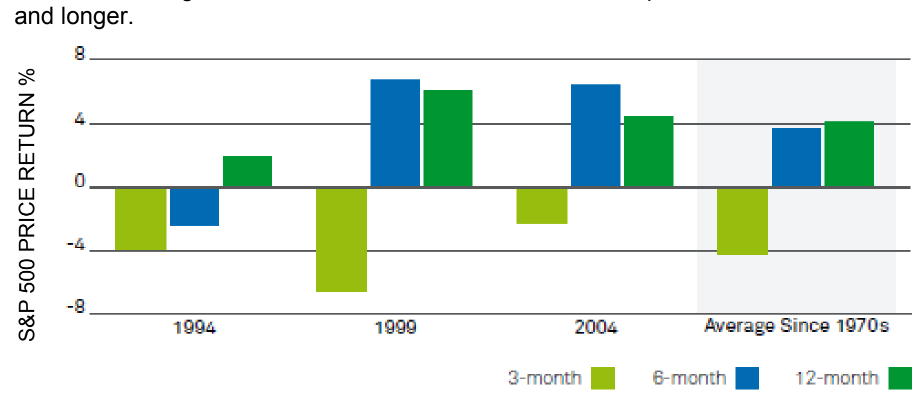


The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological linear progression among the phases of the business cycle, and there have been cycles where an economy has skipped a phase or retraced an earlier one (for example, Canada). A "growth recession" is a significant decline in activity relative to a country's long-term economic potential (e.g.: China)

Source: Thomson DataStream, IMF, Genus—September 30, 2015

Exhibit 2 Rate Hikes Don't Imply End to Long-Term Performance

Following an initial change in the Federal Funds target rate, data shows that stocks returns were negative and volatile after three months but improved after six months and longer.



S&P 500 Price Return % after the start of a tightening cycle.

Source: Bloomberg, Thomson DataStream, Genus—September 30, 2015

Lower For Even Longer

The U.S. Federal Reserve ending its zero interest rate policy is one of the most highly anticipated and debated central bank decisions since the 2008 financial crisis. Concerns about global financial market turbulence contributed to the Fed's decision to delay raising rates in September. Extremely low U.S. inflation and improving labour-market conditions were part of the story, but Fed Chair Janet Yellen also highlighted concerns about the economic slowdown in China and other emerging markets, as well as the disinflationary influence of further appreciation in the U.S. dollar. Given the deflationary forces in the world today, the Fed has the leeway to wait longer as the risk of being behind in fighting inflation is much less than the risk of being too early—and torpedoing economic expansion. Eventually, the Fed would like to return rates to more normal levels to give itself an additional weapon in case of another economic slowdown, but a couple of months is unlikely to make any difference. The Fed also obviously wants to avoid surprising the market, as it did in the "taper tantrum" in 2013, which is why Ms. Yellen said after the Fed's September 17 meeting that the U.S. central bank still intends to raise rates before the end of this year. Time will tell if that is the case.

Rate Hikes and Markets

The Fed delay has contributed to market jitters in recent months. As the market has seen, anticipation of rate hikes can make things volatile for a while. Once the hike hits, though, the impact is not as dramatic. Data shows that stock returns (Exhibit 2) were negative and volatile after three months, but improved after six months and longer. /Page 2▶

Genus Retirement Plan Analysis

Retirement tends to be the part of life that most people look toward after their working days are through. However, the face of retirement is changing. People are living longer and enjoying healthier and more active retirement years. This can make planning for a financially secure retirement more challenging.

We're here to help and are pleased to provide our complimentary Retirement Plan Analysis to individuals and families without any cost or obligation. Simply call your Portfolio Manager (below) for more information or to make the necessary arrangements.

This customized consultation and report will show you how well you're positioned for the future. Together, we'll consider your desired lifestyle, family assets, income sources, investment approach, inflation, taxes and family legacy, and then explore ways to improve the outlook for your income and wealth.

PORTFOLIO MANAGERS




Leslie G. Cliff OC CFA	Mary Lou Miles CFA TEP	Margaret Lanthier BA CIF	Sue-May Talbot CIM
T 604 605 4602	T 604 605 4628	T 604 605 4606	T 604 605 4603

Genus Pooled Fund Performance

Returns are shown Gross of Fees — Compound Annual Returns

As at September 30, 2015	3 months	1 year	3 years	5 years	10 years
BALANCED FUND	-1.5	4.6	10.2	7.9	4.8
EQUITIES					
Canadian Alpha[1]	-4.9	-6.4	5.8	3.4	3.6
Dividend Equity	0.0	6.4	14.7	10.9	
Global Alpha[2]	-6.7	8.5	19.1	16.1	6.3
CanGlobe Equity	-3.1	5.0	14.6	9.9	
Emerging Markets	-11.2	-4.6	4.1		
FIXED INCOME					
Government Bond	0.4	4.7			
Short-Term Corporate Bond	0.0	3.0	2.8	3.1	3.9
Strategic Bond	0.3	5.2	4.8	5.8	
Commercial Mortgage	0.7	3.8	4.1		
FOSSIL FREE					
Fossil Free Dividend Equity[3]	-1.3	10.7			
Fossil Free CanGlobe Equity [4]	-4.1	9.1			
Fossil Free Corporate Bond	0.5	5.7			
Fossil Free Impact Equity	2.9	16.3			
INDEX RETURNS	3 months	1 year	3 years	5 years	10 years
S&P/TSX Composite	-7.9	-8.4	5.7	4.5	4.8
S&P 500 Index (C$)	0.5	19.2	24.6	19.6	8.4
MSCI Emerging Mkt (C$)	-11.7	-2.8	5.4	2.1	6.1
MSCI World Index (C$)	-1.6	14.5	21.0	14.9	6.8
DEX Universe Bond Index	0.1	5.3	3.4	4.5	5.0

Past performance is no guarantee of future results.

1 **Mandate change:** Genus U.S. Equity mandate changed to Global Equity (Sept 14, 2012) and Global Alpha (June 30, 2014).
2 **Mandate change:** Genus Canadian Equity changed to Canadian Alpha on June 30, 2014.
3 **Mandate change:** Biosphere Canadian Equity (100%TSX) changed to Biosphere Dividend Equity (40% TSX, 30% S&P 500, 30% MSCI EAFE) as at April 1, 2013. Name change to Fossil Free Dividend Equity on March 31, 2015.
4 **Mandate change:** Biosphere Global Equity (50% S&P 500 / 50% MSCI EAFE) changed to Biosphere CanGlobe Equity (40% TSX, 30% S&P 500, 30% MSCI EAFE). Name change to Fossil Free CanGlobe Equity on March 31, 2015.

From Page 1 ► The performance of the S&P 500 during rate cycles going back to the 1970s reveals a clear pattern that serves as a rough guide for equity markets: The start of a tightening cycle typically causes some rise in volatility, but rarely a bear market. Regardless of the period, three-month returns following the start of a steady tightening period were on average negative and more volatile. However, six or 12 months out, markets rebounded and produced positive, albeit subpar returns. Once 500 days had past, average returns over the past six cycles have been in the 14% range. Fixed income also has been volatile as the market anticipates a rate hike, and the pattern is somewhat similar to what equities experience. The principal difference is that the impact happens faster in bonds than stocks when central banks change course in policy. Obviously, it is hard to predict the market's reaction to tightening, but if history is any guide, this time around should be no different to earlier gradual tightening regimes. The bottom line is that the gradual normalization in U.S. monetary policy is likely to herald more volatility, not a catastrophe for the financial markets.

Looking Ahead: We continue to hold a constructive view on global economic growth, which is being bolstered by low inflation and supportive central bank monetary policies in most regions. From an asset mix perspective, we are underweight equities (versus the benchmark) in our Balanced portfolios, while keeping cash and bonds in hand to provide a cushion should a difficult environment unfold. We started gradually reducing our exposure to equities in May 2015 based on our DynaMix Asset Allocation Signals. Overall, we continue to favour equities versus bonds in our Balanced portfolios (see table, right) with a strong focus on market segments that offer good value and potential downside protection. We continue to emphasize blue-chip defensive dividend payers (Exhibit 3) and select global growth stocks. We have, however, reduced our exposure to Canadian stocks (energy, oil and metal) and also reduced our exposure to emerging market equities because of their weaker prospects at this time. This may change in coming months if prospects improve. Our allocation to fixed income continues to favour shorter-term investment grade corporate issues and select commercial mortgages at the expense of government issues. Our bond portfolios are structured to pare bond (interest rate) risk by remaining anchored in shorter and intermediate durations, where the impact of rising interest rates is limited. □

Exhibit 3 Featured Genus Dividend Equity Fund Holdings

Region	Stock	Sector	Genus Grade	Yield
Canada	Cominar REIT	Financials	A	8.36%
	TD Bank	Financials	A	3.87%
	Emera	Utilities	B	3.67%
	Husky Energy	Energy	B	5.03%
U.S.	Procter & Gamble	Consumer Staples	B	3.46%
	Merck & Co	Health Care	A	3.05%
	Conocophillips	Energy	C	5.88%
	Darden Restaurants	Consumer Discretionary	A	2.98%
EAFE	GlaxoSmithKline	Health Care	B	5.73%
	TeliaSonera	Telecom	B	5.72%
	HSBC Holdings	Financials	B	5.48%
[Europe, Australia, Far East]	SwedBank	Financials	A	5.61%

Volatile quarter for markets

Global equities declined in the third quarter amid worries about the economic slowdown in China and the implications for global growth. Emerging market equities (-11.7% in Canadian dollar terms) under-performed the developed markets.

The S&P/TSX Composite returned -7.9% for the quarter, its worst quarterly performance since the third quarter of 2011 (-12.0%). Of the 253 stocks in the TSX Composite during the quarter, only 59 (23%) finished the quarter in positive territory. Materials, Energy and Health Care all posted losses in excess of 15%. Valeant Pharmaceuticals had the biggest negative impact on the index in the quarter after having the biggest positive impact on the index in both the first and second quarters. Valeant is now down more than 30% from its all-time high set earlier this year.

In the U.S., the S&P 500 fell 6.4% in U.S. dollar terms. Amid the "risk off" environment, the equity market's bond proxies performed well, notably Utilities, which was the only sector to rise. The resource sectors continued to weaken while Healthcare's strong run came to an abrupt halt after Democratic Party presidential hopeful Hillary Clinton attacked pharmaceutical pricing.

Eurozone equities registered negative returns as worries over global growth weighed on investor appetite. The auto sector in particular came under severe pressure, due in part to expectations that a slowing Chinese economy would see reduced demand, but more so by revelations that VW misled regulators on emissions from its diesel vehicles. The MSCI Europe Index was down 7.3% for the quarter. □

Genus Balanced Fund Asset Allocation

(As at September 30, 2015)

Asset Class	Percent of Market Value
Government Bond	3.4%
Strategic Bond	21.0%
Commercial Mortgage	12.2%
Total Fixed Income	**36.5%**
Canadian Alpha	**2.0%**
Canadian Equity	*1.9%*
Cash	*0.1%*
Dividend Equity	**24.1%**
Canadian Equity	*8.6%*
U.S. Equity	*9.3%*
International Equity	*4.0%*
Cash	*2.2%*
CanGlobe Equity	**26.5%**
Canadian Equity	*9.1%*
U.S. Equity	*10.4%*
International Equity	*5.9%*
Cash	*1.0%*
Global Alpha	**5.4%**
Canadian Equity	*0.1%*
U.S. Equity	*3.2%*
International Equity	*1.7%*
Cash	*0.5%*
Emerging Markets	**1.8%**
Total Equity	**56.1%**
Cash	**7.4%**
Total Portfolio	**100.0%**
Portfolio Equity Exposure	
Total Canadian Equity	35.1%
Total U.S. Equity	40.9%
Total International Equity	20.7%
Total Emerging Markets	3.3%
Total Equity	**100.0%**