HAHN INVESTMENT STEWARDS

GLOBAL WEALTH PERSPECTIVES

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Executive Perspective

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Welcome to the Summer Edition of the Global Wealth Perspectives. This quarter we are changing things up a bit.

Tyler Mordy, President of HAHN Investment, presents an interesting view of China in the Global Insight column. Just what is China's agenda? Will it be rejuvenated to resume its glorious existence and influence of past centuries? Few Westerners are up-to-speed with the momentous changes in China. And they should be: When it comes to discussing the key geopolitical outlook for the world these days, two countries are mentioned in the same breath — America, and yes, China.

Also, this quarter, we also change-up the focus of the popular Client Perspective found on page 3. To date, we have profiled interesting clients and their perspectives. In this issue we instead profile a dynamic financial advisor, Doug Dahmer. It has always been HAHN's perspective that financial planners play an essential and complementary role to that of portfolio management. In the future, we plan to profile other financial advisors as well as clients.

Finally, on page 4, you will find the Portfolio Update which summarizes our current market views and global investment strategies.

We appreciate your patronage and hope that you will find the content of this publication informative. We welcome any feedback that you may have.

Sincerely, Mark Arthur, C.E.O.

What's New at HAHN

Our firm continues to expand. We thank our clients and financial professionals for their continuing support. We welcome several new employees.

HAHN professionals often speak at investment conferences and are frequently quoted in the media. To view links to these interviews, as well as our firm's articles and publications, please visit our website.

We are pleased to announce that HAHN will be launching an ETF version of the Special Opportunities Focus portfolio this Summer; and plans to launch enhancements to its portfolios, particularly its small account solutions.

Last Quarter's Highlights

- Following an extraordinarily strong first quarter, investment returns reversed modestly over the past quarter. Year-to-date performance remains strong.
- Overall, financial market volatility has heightened around the globe, as anticipated. There have been numerous causes: Uncertainty surrounding the prospect of another bail-out of Greece and its continuing membership in the euro; an over-due but violent correction in Chinese equity markets; as well as future monetary policies in the U.S.
- Early in the new quarter, market participants are again optimistic the Greece situation, as well as China's equity market correction, are resolved at least for the foreseeable future. Volatility to the upside has followed.
- To date, financial market returns in Canada have been very modest. Year-to-date, the Canadian stock market (S&P/TSX Composite) has returned 0.91%; the bond market (FTSE TMX Canada Universe Bond Index) 2.37%. For 6- and 12-month periods, bonds have outperformed stocks in Canada.
- International investment exposure, however, boosted portfolio returns, mainly due to the weakness in the Canadian dollar but also better opportunities. The Canadian dollar has fallen 7.1% against the U.S. dollar year-to date. Broad global diversification has proven beneficial.
- The world economies continue to be marked by disinflationary trends, active currency competition and continued aggressive monetary policies on the part of most of the world's major central banks.
- Commodities have generally remained under pressure. Also, gold bullion prices have continued to behave poorly, even during apparent crisis periods.

HAHN GLOBAL INSIGHT

China: Taking the Long View

Tyler Mordy, President & co-CIO
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A central question for investors today is the outlook for China. As the country's importance has increased in the global economy, so has its impact on client portfolios. Getting China "right" has become increasingly crucial. Yet, wide-ranging perspectives are generating confusion, adding a new dimension of risk to the "China factor" on a still-fragile world.

Two main opposing views frame the debate. The first is that the era of China's blockbuster growth is over. In the past decade, the country built its economy through massive infrastructure and export promotion, becoming the world's largest trading nation and second largest economy. From 2002 to 2011 China grew at an average GDP rate of 11%. That is an enormous number. Unsurprisingly, many commodity-oriented countries and sectors profited handsomely during that period.

But growth is now dramatically slowing to under 7%. Further moderation is likely ahead. Debt also continues to rise and a necessary deleveraging phase will only contribute to even more tepid growth. Under this view, the boom times are over and related investments will suffer.

The above is the dominant market view. However, that perspective very likely represents both a failure to think outside the Western box and to read Beijing's policy signals. Looking past the cyclical outlook, several positives emerge.

Consider that much of China's slowdown has been coordinated by policy. Many starry-eyed China watchers predicted GDP growth of 10% plus indefinitely. But there are limits to linear thinking. While trends can stay in place for some time, lines often bend, or even break and gallop off in unexpected directions.

China's new path is driven by broad recognition that the growth model of the last 30 years is neither balanced nor sustainable. The new model must rebalance away from export and investment-led production toward private consumption. "Made in China" and Western consumerism can no longer be intimately linked. This is a necessary shift if China is to avoid the so-called middle income trap, which ensnares most emerging economies that are dependent on cheap labour for growth.

GDP per head in China is now approaching $10,000. To move beyond this level, productivity must dramatically improve. That requires a litany of change—reduced corruption, middle class rights and an improved operating environment for the private sector. A campaign against corruption has already begun in earnest.

A critical next step is to establish a robust social safety net and thereby reduce fear-driven high household savings rates. This will lead to a virtuous cycle of consumption, job growth and, ultimately, higher real wages and corporate profits.

Turning to the debt issue, no one disputes that China must deleverage. Debt has grown rapidly, especially in the corporate sector since the global financial crisis. However, the path of debt reduction is now the central question. Most are superimposing recent deleveraging experiences—the Asian crisis in the late 1990s or the eurozone's austerity drive since 2008—onto China. Neither of these scenarios is likely.

At under 10% of GDP, China has very low foreign debt. Most debt creation is financed by China's massive domestic savings. A loss of confidence by its foreign creditors would not suddenly force China into a downturn similar to the previous Asian crisis, which China essentially sat out.

A prolonged austerity-driven path is just as unlikely. The market's main concern is overinvestment in housing in underpopulated cities and worthless public works projects. But these excesses are the result of targeted policy-driven efforts to steady growth. There is little risk that policymakers will suddenly turn and tighten credit.

"Made in China" and Western consumerism can no longer be intimately linked.

Even more important than the above is China's strategic objective of increasing its global significance as a financial power (in addition to having major economic and trade influence). A better financial system is crucial if China wants to move away from the rapid industrialization phase where the aim was to build up as much infrastructure as possible to a higher quality growth phase with a focus on maximizing the return on investing.

Two outward thrusts are noteworthy here. One is the "Belt and Road" Initiative; an infrastructure program with the goal of creating China-financed transport links across Central Asia to Europe via a "Silk Road Economic Belt", and across Southeast Asia to the Middle East and Africa via a "Maritime Silk Road."

If executed correctly, the new infrastructure would greatly enlarge the economic ecosystem within which China operates, creating investment and trade opportunities far beyond the initial infrastructure projects. Efficient transport and communications infrastructure effectively lowers the cost of moving goods, people and ideas around. Economic activity is boosted and smaller countries become clients of the central power that built it.

The second longer-running initiative is the promotion of the Chinese renminbi as a major global currency. Clearly, if China is to become a serious financial power, it must have stable and open capital markets. A strong renminbi is key here, not least to finance its trade and outward investments in its own currency. This is already happening. The renminbi has stealthily been one of the world's strongest currencies in the last decade and now accounts for about 35% of China's total trade (a tripling from 3 years ago). The next stage is to achieve "reserve currency" status. The first milestone will be inclusion in the International Monetary Fund's Special Drawing Rights basket — perhaps as early as November 2015.

Looking ahead, there is much work if China is to fulfill these ambitions. Financial reform and opening China's capital account will be a volatile process. Cyclical headwinds are indeed present. And, prophecies of doom will continue to plague China.

Yet, despite a large gap in values between an authoritarian state and capitalist democracies, China has proven extraordinarily resilient. There is evidence of widespread improvement — less corruption, reduced debt and shrinking overcapacity in heavy industry.

Investors have incredible difficulty making the leap that the paradigm is changing. Views of the future tend to rely heavily on the recent past. Yet, change is indeed afoot. In the coming decade, the world will have to reckon with China not as a rapidly growing export nation, but as a burgeoning geopolitical and financial power. The practical challenge will be to identify a broader range of both Chinese and non-Chinese assets that will be re-rated due to China's global objectives. Our Investment Committee will be closely tracking these trends and positioning client portfolios accordingly.

FINANCIAL PROFESSIONAL PERSPECTIVE

Interview: Doug Dahmer

A year ago we introduced a new feature in Global Wealth Perspectives where we featured you; our loyal clients. In this issue, we thought we'd turn the tables and feature an independent financial professional that some of our clients are dealing with.

Doug Dahmer is a Retirement Income Planning Strategist and the founder of Emeritus Financial Strategies in Burlington, Ontario. He is a Certified Financial Planner who is also insurance licensed. We asked him the following questions:

What was your upbringing like?

There were four kids in the family and my Dad was a Vice Principal; while my mother stayed home to raise us. We didn't have a lot of money but we were very content. I remember family holidays were always these epic camping trips. Now I have a wife and three kids of my own aged 31, 29, and 25.

What informed your financial attitudes?

Between age nine and sixteen my brother and I had the largest Globe and Mail paper route in the Kitchener/Waterloo area. It was hard work; especially collecting the money. But I learned the value of a dollar. It takes a lot of discipline to run a paper route that large. After seven years, it was time to give it up.

Tell us a little about your career trajectory.

I did my undergrad in business at Wilfrid Laurier and then later got my MBA at York University. As such, I've always had a keen interest in business. But I've really had two distinct careers: beginning in packaged goods; then, as a strategic business planner for Quaker Oats, Campbell's Soup and Ralston Purina for a combined period of ten years. Then I moved into a VP of sales position for a national hotel chain. Over these years, I gained a strong appreciation for the value of planning and the disciplines that it requires.

When did you become a financial advisor?

It's really an accident of history that I got into financial services. A friend of mine who was also my financial planner kept telling me that I would be good at it. He allowed me to shadow him for a week and I enjoyed the experience. I've been a financial planner for twenty-one years now. Essentially, I've applied some of the business discipline I learned in my first career to personal financial planning. The last six years have been focused exclusively on the concept of retirement income planning because many advisors weren't really focusing on this important segment of people's life-cycle. They still aren't. Many don't recognize that effective planning for the drawdown phase is much more difficult than planning for the accumulation phase.

How did you come to be associated with HAHN?

Because I had a particular focus on retirement income strategies, I was looking for a specific approach to money management that would deliver lower variability during the drawdown phase of life. It was very difficult to find HAHN and for a while it felt like they were my little secret. I was impressed by their investment performance but first I followed them for some time to ensure that they weren't just lucky and that they had a process which

"When you've retired and time is no longer your friend, you can't afford big surprises."

was repeatable. HAHN has a disciplined process that puts risk management at the forefront of their business model. That is attractive because I spend most of my time creating greater certainty for clients. When you've retired and time is no longer your friend, you can't afford big surprises. Essentially, I create greater clarity around the hard choices that people have to make so that they feel greater confidence about those outcomes.

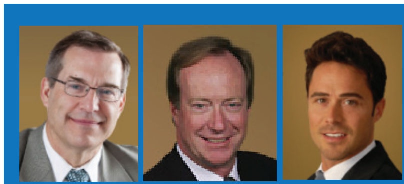
What do you do to relax?

I'm an avid sailor. It started when I was a kid in shop classes in highschool. I had to select a project so I ended up building my first sailboat. I own a 32 foot boat now which we're sailing most weekends. In winter, we charter sailing vessels in the Caribbean, the Greek Islands and French Polynesia. I've also been curling for the past ten years as part of a team so there's plenty of opportunity for release.

Notable Quotes

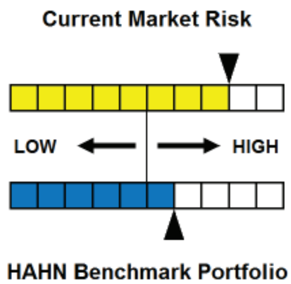
THE HABIT OF SAVING IS ITSELF AN EDUCATION; IT FOSTERS EVERY VIRTUE, TEACHES SELF-DENIAL, CULTIVATES THE SENSE OF ORDER, TRAINS TO FORETHOUGHT, AND SO BROADENS THE MIND.

–T.T. MUNGER



HAHN Investment Committee

Wilfred Hahn (Chairman & co-CIO), Mark Arthur (CEO) & Tyler Mordy (President & co-CIO)



Current Portfolio Strategy

Responding to a shifting outlook, a number of modest strategy changes to portfolios have been implemented this quarter. There are three main catalysts.

Firstly, overall financial market volatility has risen and is expected to remain elevated. Some of the contributing causes are growing policy divergences amongst the world's major central banks (these even drawing the ire of the International Monetary Fund), slowing corporate earnings growth, and deteriorating capital-market liquidity. We, therefore, want to increase portfolio shock absorption.

Secondly, another ideal opportunity has emerged to buy "income." Generally, bond markets (and most anything interest-rate sensitive), have faltered over recent months as longer-term interest rates have risen. This was not surprising. Bond markets (certainly so in Europe, where interest rates fell to negative levels) simply got ahead of themselves and were overdue for a pull back.

Developed nations continue to be hobbled with low economic growth; and this despite long-running declines in interest rates and activist monetary policies. This outlook is not likely to change for some time. A lack of growth drivers, as well as structural dampeners i.e. aging populations, continuing high-indebtedness, widening imbalances in wealth distribution etc. are expected to continue constraining overall economic growth.

Interest rates, therefore, will remain low in the developed world, and in fact, may yet reach new lows over the next several years. That said, this trend is increasingly subject to volatile set-backs from time to time. This previously occurred in 2013, and then was eventually followed by new lows in interest rates.

A third impetus for recent investment policy shifts are developments concerning China and the "emerging" financial world. In effect, a new potent and parallel orb — one that is unaligned with the West — is emerging at the instigation of China. It is committed to regaining its historical dominance which lasted some 18 decades into the mid-1800s.

Crucially, China has been building alliances with key Asian countries (significantly India) as well as Russia and others. Large nations such as Brazil also stand to be beneficiaries of a major push for mutually-beneficial infrastructure projects. These initiatives will promote economic growth. Global investors are far behind in recognizing China's growing global impact and financial size.

The following sections highlight some additional investment themes and strategies:

Income, Income, Income: A major investment theme that we frequently extoll is a response to a "global income crisis". This remains an enduring theme though subject to short-term credit market cycles. An aging populace will continue to want to buy yield and income. As such, all of our portfolios have cash yields above their benchmarks.

New Yield Enhancements: We have added back high-yielding U.S. mortgage REITS; and also have augmented exposure to higher-yielding equities (also in emerging markets) and equity sectors.

Balanced Portfolios Emphasized. Since 2012, bond and stock markets have offset each other's short-term volatility. A balanced portfolio of equities and bonds has outperformed many other asset types even while contributing better overall portfolio performance stability. We anticipate that this dynamic will continue. As such, we remain near benchmark for asset mix.

Minor Asset Mix Shifts. Notwithstanding the above, in view of a somewhat more cautious outlook, cash levels in core portfolios have been raised, though modestly. Current holdings are slightly less than 4.0%. Also, overall, a modest shift was made back to longer-dated bonds (higher duration).

Increasing Emerging Markets — Selectivity Continues. We have newly added an investment in Hong Kong-listed China equities. A position in China A-shares is retained as is a diversified investment in fast-growing frontier markets as part of portfolio allocations to opportunity investments. Positions in India and Vietnam also continue to be held.

Opportunity Investments Increased. We employ opportunity investments — a number of these referred to above — that are defined as asset-types that can provide diversification; superior growth opportunities; and are aligned with larger "Super Trends." These now represent 22.5% of balanced and aggressive portfolios, up from 18.75% previously.

Currencies Unhedged. Following the major exchange rate movements of this past year, there is little compelling reason to hedge assets held in the major foreign currencies (with the possible exception of Japan). The Canadian dollar for the foreseeable future is expected to remain range-bound vs. the U.S. dollar.

The objective of our ETF Managed Portfolio strategies outlined here is to achieve stable, positive returns over the long-term without assuming excessive risk. We believe that the best approach in today's atypical investment climate is to build portfolios that are globally diversified across many asset types, informed by a concerted focus upon a variety of traditional and non-traditional risk factors.

Quarter 3, 2015 — Investment Stance

Net Asset Mix	Versus Benchmark: Under	Versus Benchmark: Neutral	Versus Benchmark: Over	Change from previous quarter
Cash		■		↑ Increased
Total Equity		■		● Unchanged
Total Fixed Income		■		● Unchanged
Opportunity			■	↑ Increased
CDN Investments				
Bonds		■		↑ Increased
Stocks		■		● Unchanged
US Investments				
Bonds			■	↑ Increased
Stocks	■			● Unchanged
INTL Investments				
Bonds	■			↓ Decreased
Stocks			■	● Unchanged

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