FORSTRONG
GLOBAL

G L O B A L T H I N K I N G

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EXECUTIVE PERSPECTIVE

Mark Arthur, CEO
marthur@forstrong.com

Welcome to the Fall Edition of *Forstrong Global Thinking*. As you may sense, it has to date been a busy year of progress and change. Not only have we introduced new portfolio solutions, we have changed our name. As of August 24 this year, HAHN Investment Stewards & Company became Forstrong Global Asset Management. We are gratified. The name change signifies a new growth phase for our company as well as better reflecting our global focus: A forward-looking team … strong together … through all four seasons … Forstrong. We are glad to report that the transition has gone smoothly. Please contact us if you have any questions.

Turning to global asset management, we also note major transitions taking place. Global trends and investment themes have been changing, this signifying a new economic and monetary era for the world. New thinking is therefore required. In the Global Insight column, Tyler Mordy, President & CIO, presents a perspective on emerging and frontier markets. Many investors assume that these represent a homogeneous group of countries, painting them with the same brush. Tyler presents a very different perspective.

In the popular Client Perspective found on page 3, we profile client Brent Wardrop. You will find his experiences and views to be interesting.

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

We hope that you will find the content of this publication informative. We welcome any feedback that you may have and thank you for your continuing trust.

Sincerely, Mark Arthur, CEO

What's New at Forstrong

We have changed our company name to Forstrong Global Asset Management Inc. as of August 24, 2015 (previously HAHN Investment Stewards & Company Inc.).

Forstrong 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 at www.forstrong.com.

Last Quarter's Highlights

- Global financial markets have been subject to tempests and volatility so far this year, beginning with an upside spurt in the first quarter. Since, financial markets globally have been under tension as the U.S. Federal Reserve was contemplating its first interest rate hike in 9 years.

- Other developments that added to heightened volatility was another bail-out of Greece, a violent correction in Chinese equity markets, as well as lower GDP growth expectations globally … and particularly so for China.

- Significant stock market declines were experienced during the past quarter virtually around the world, including Canada. Canadian equities (S&P/TSX Index) returned a negative 7.0% year-to-date. Bond markets generally were stable, generating modest positive returns year-to-date.

- The portfolios of Canadian domiciled investors with international investment exposure, however, fared much better. This was mainly attributable to the weakness in the Canadian dollar (CAD) which fell 13.1% against the U.S. dollar year-to date. Broad global diversification has proven very beneficial for our portfolios this year.

- To illustrate this currency effect, U.S. equities (S&P500 index) returned 9.0% year-to-date in CAD terms, though suffering a loss of 5.2% in USD terms; U.S. bonds (Barclay's U.S. Aggregate) returned 16.3% in CAD as compared to 1.1% in USD terms. International equity markets (MSCI EAFE) returned 9.0% in CAD, versus minus 5.3% in USD terms.

- The world economies continue to be marked by tepid growth, disinflationary trends, active currency competition and continued aggressive monetary policies on the part of most of the world's major central banks.

GLOBAL INSIGHT

Emerging Markets: Don't Believe the Gloomy Hype

Tyler Mordy, President & CIO
tmordy@forstrong.com

Emerging markets — deflating, despised, discounted — are the subject at hand. Even a casual browse through today's financial media highlights a seeming shortage of magazine covers that are not announcing the coming collapse of China and its now enlarged economic ecosystem. Pessimism has become a universally approved view (much like optimism on almost anything else).

To be sure, this treatment is far removed from the red carpet on which emerging markets trod during China's roaring bull years. But is the pessimism warranted?

The following is a departure from the voluminous stacks of negative commentary. Enough exists. Our interest lies in the strong consensus that has surfaced in the investment community. Whenever a deeply unified one appears, it's always useful to question what could be missing from the analysis. As the old saying goes, "When everyone is thinking the same, no one is thinking at all."

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Skipping to the bottom line, our actionable takeaway for client portfolios is that some emerging markets (EM) have a very bright future, although new country leadership underway. This conclusion rests on two foundations — one of the fundamental variety and another of the behavioral kind.

EM Thinking, Fast and Slow

Starting with the fundamentals, three issues are widely misunderstood.

First, revulsion toward China. The consensus has spun a narrative that policy has finally pivoted to pursuing a weak domestic currency (i.e. the renminbi), providing evidence of an imminent hard-landing scenario. While growth is slowing and should not be trivialized, the more important story is China's solid progress on the road to rebalancing — namely, a shift away from manufacturing and construction activity toward consumers and services. Urban hiring trends are still growing at a robust clip and services expanded by 8.5% in the first half of 2015 — hardly statistics associated with economic recessions.

The above is encouraging. And, exactly what well-intentioned Western economists urged EMs to do: rebalance economies away from cheap exports to a more self-sustaining middle class. While Beijing can be criticized for a poorly communicated agenda, their longer running ambitions shouldn't be understated — internationalize the currency, modernize the financial system, address excesses in debt markets and transform state-owned enterprises — all couched in a nationalistic revival of the "China dream".

This transition will be bumpy but investors should not lose sight of the longer running game. Over the next several years China will see slower but higher quality growth — thanks to reduced capital waste (less inefficient infrastructure spending, less corruption, less unproductive debt). This is enormously positive for asset prices.

Second, forecasts of a widespread EM crisis are also off the mark. Here, the commentary has focused on slowing growth and high debt, with extravagant comparisons to the 1997-98 Asian crisis. Yes, exports are slowing. But this is concentrated in the commodity exporters (declining by almost 40% in July on year-on-year terms).

And, the outlook is actually improving for a number of countries. It's important to recognize that EMs already had a large slowdown between 2010 – 2012. Since then, currencies have weakened (boosting competitiveness), commodities have fallen (raising consumption) and policy has turned stimulative (lowering the cost of capital). These benefits always show up with a lag. Why should this time be different?

All of which brings us to the third point: the impact of Fed policy on EM asset prices. Most investors continue to assume that the Fed is eager to raise interest rates before inflation accelerates (because monetary policy works with long and variable lags). Such pre-emptive tightening is a fair description of policymaking pre-2008. But in the post-crisis world, the assumption that any central bank can raise interest rates before inflation surfaces in a meaningful way is simply misguided. How do we know this? Because central bankers have repeatedly said that policy normalization will only occur once higher inflation is firmly embedded in consumer and business expectations. This is a long way off.

Why is this important for EM asset prices? If our "lower for longer" interest rate view remains correct, then any EM selloffs caused by expectations of US monetary tightening will prove unjustified. As long as the Fed and other central bankers are determined to remain behind the curve of rising inflation, these panics present buying opportunities — as they have since 2009.

Investors Behaving Badly

Turning to the behavioral arguments, some scene setting is required. Unflatteringly, physicists rightfully smirk at the pretensions of Wall Street's quants. The history of their decision-making systems — to put the most charitable spin on it — haven't always accounted for all variables (notably the human component).

But, in the matter of investor behavior, financial analysts have discovered an actual law of nature: investing is the only business where, when things go on sale, everyone runs out of the store (to paraphrase Warren Buffett).

What is the data telling us today? Our firm tracks a variety of fund flow and opinion surveys — a kind of investor voyeurism, providing a statistical snapshot of both professional and public portfolio positioning.

While EM assets are marked down and deeply in the bargain bin, investors are indeed vacating the store. This is confirmed in a variety of investor channels and positioning. In the retail world, EM mutual fund outflows totaled a net $30 billion over the last 3 weeks.[1] This was only matched in 2008 and 2011, and were followed by significant rallies. Who's left to put in the marginal sell order?

In the institutional universe, fund managers are similarly sour. EM "underweight" positions are at a record net 34 percent and "aggressive" underweights just hit an all-time high (a few managers had the temerity to be "equal weight").[2] Contrarians take note.

No Country for Old Views

Much EM analysis misses the important nuances between countries and regions. As leadership rotates away from commodity exporters, outlooks can be especially confusing. Old assumptions melt away. In their place, new perspectives take hold. These shifts always heighten volatility.

As the EM story transitions, favor domestic-focused, reform-minded, commodity-importing countries. Most of these are found in Asian nations — countries like India, the Philippines and, yes, China. Conversely, those economies that have been complacent about a slowing of China's rapid industrialization era are likely to continue faltering. But investors should not lose sight of the positive fundamentals in many developing nations. Client portfolios have been positioned to profit from significant country re-ratings.

[1] Data from Lipper in US dollars for the week ending September 10, 2015.
[2] BofA Merrill Lynch Fund Manager Survey. September 15, 2015.

CLIENT PERSPECTIVE

Interview: Brent Wardrop

Brent is the founder and Creative Director of Toronto based advertising and communications company Elemental®. They service the needs of a diverse group of clients in the consumer packaged goods, financial services, not-for-profit, retail and health and pharmaceuticals categories and count Forstrong Global Asset Management Inc. among their clients.

Tell us a little about your background

I was born in a Northern Ontario mining town and raised primarily in Saskatchewan. I went to university to be a teacher, but left early to pursue a music career in L.A. as I had secured a US recording contract. In 1987 I came back to Canada, moving to Toronto, when I signed a new recording contract as a solo-artist. When your life is music you tend to travel a lot so you effectively become a global citizen.

Why did you become an advertising executive?

Like many things in life, my path to advertising was a little bit of an accident of history. I had been producing all of the promotional material for my music career and when my last recording contract was not renewed, a friend who worked at a large multinational asked me to do some work for his company. The work performed well because my approach has always been to cut down on the superfluous fluff and let the client's voice come through. That's why I named my company "Elemental". Business grew organically from there as I started picking up new clients. I found that I enjoyed advertising as it allowed me to continue exercising the creative muscle.

How were your views about money formed?

My parents were really bad with money so I learned nothing from them. When I was younger I never gave money the respect it deserves. Money only started to become important to me was when my business started to grow and I really had to manage cash flows, coming to understand that money is an enabler to opportunity. I became much more attentive to money management and realized that I needed the same discipline in my personal financial life. I've also come to the realization that it's an important life skill that I do not possess and don't have the time to master. That's why I've chosen to delegate complex tasks to professionals who I know I can trust to look after my interests, and approach my investments with an objective view. As I've gotten older I've become more choosey with who I assign that responsibility, choosing to deal with specialists over generalists. I am now very hands off with my investments.

Why did you entrust your investments to Forstrong Global?

About a year ago Forstrong (formerly HAHN) were looking for a new direction for their client communications and we were approached. Coincidently, my financial planner of the past fifteen years was recommending this new investment process to me involving ETFs and he was a big supporter of the company. It worked well because while they were interviewing us for their communications needs, I was interviewing them for my investment needs. As I have always fancied myself a bit of a global citizen because there are not many countries on this planet that I haven't been to, I was particularly drawn to their global balanced ETF approach. I own a fair amount of property and a business in Canada, so Forstrong's global approach was an ideal offset.

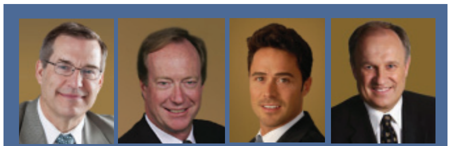
"That's why I've chosen to delegate complex tasks to professionals who I know I can trust to look after my interests, and approach my investments with an objective view."

Notable Quotes

WHY GLOBAL THINKING:

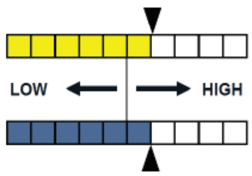
"THE TALLEST BUILDING IN THE WORLD IS NOW IN DUBAI, THE BIGGEST FACTORY IN THE WORLD IS IN CHINA, THE LARGEST OIL REFINERY IS IN INDIA, THE LARGEST INVESTMENT FUND IN THE WORLD IS IN ABU DHABI, THE LARGEST FERRIS WHEEL IN THE WORLD IS IN SINGAPORE."

-FAREED ZAKARIA



Forstrong Investment Committee
Wilfred Hahn (Global Strategic Advisor & CCO)
Mark Arthur (CEO)
Tyler Mordy (President & CIO)
Ken Hawkins (Research Manager)

Current Market Risk



Forstrong Benchmark Portfolio

Current Portfolio Strategy

The world of financial assets has moved into a "see-saw" phase. Not only has overall volatility risen as we had expected, the various factors that have contributed to fairly robust investment returns over the past 6 to 7 years have fractured somewhat.

Growing policy divergences amongst the world's major central banks, slowing corporate earnings growth, slumping oil prices, as well as extreme concerns with the slowing economic growth rate of China have been some of the contributing factors unsettling investors recently. That said, our perspectives at this time are quite different from the prevailing concerns of the consensus.

It is not often that crowds are correct in their market expectations. For example, we note that investment sentiment with respect to China, emerging markets and financial markets in general is nearly as extreme as during the darkest days of the Global Financial Crisis of 6 to 7 years ago.

Opportunities are to be found amongst such unsettled conditions, especially given the "see-saw" environment that we anticipate. We maintain that risk, when bought cheaply, will lead to higher returns. Presently, risk in some asset sectors is at near bargain-basement levels.

What do we see differently? Firstly, falling energy costs are generally positive for economic growth, not negative. No economic recession in North America has ever been triggered by an oil price slump.

Secondly, investors' memories of crashing financial markets in 2008-2009 are still quite fresh. We, too, recognize the many developments that pose economic and financial challenges over the long-term. However, central banks have become much more responsive and less constrained philosophically with their actions and interventions. They are not nearly as complacent as they were 7 years ago. While it is true that they cannot produce any real wealth, for the time being, they do have available some powerful policy options. This should not be overlooked.

Thirdly, fears of slumping emerging economies and markets are not reasonable. For example, no distinction is being made between commodity-producing and commodity-importing countries. The former are suffering; the latter are benefitting; both being tarred by the same brush. Also, economic growth, particularly in various Asian countries, is still at rates well above that of the developing world. That, coupled with very low valuations, makes a compelling case.

All of the above factors suggest that a "see-saw" environment will prevail for some time. Different opportunities will "see" in and "saw" out at varying times. An active approach is ideal for just such an environment. In response, we highlight some of our main investment themes and strategies:

Asset Mix Shift Favoring Equities. Cash levels in core portfolios are slightly lower at 3.0% (down from 4.0% previously.) Significantly, we are also shifting towards equities modestly and reducing bond holdings and durations. Bonds have sharply outperformed in recent months as equity markets have generally slumped.

The following metrics being quoted apply to our Moderate Core portfolio and are indicative of the scale of change. Excluding the assets in the Opportunity Section of the portfolio, equities were increased to 4.3% above weight. Overall bonds have been reduced to 3.4% below benchmark.

Shifts in Regional Preferences. Allocations to Canadian equities were increased at the expense of U.S. stocks in response to improving valuations. We remain overweight in European, Japanese and selected emerging markets (India, Poland and Frontier markets.)

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 ageing populace will continue to want to buy yield and income. As such, all of our portfolios have cash yields above their benchmarks.

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 are now broadened to approximately 20 holdings and now represent 25% of our balanced and aggressive portfolios (up from 22.5% previously).

Currencies Unhedged. There is still little compelling reason to hedge assets held in the major foreign currencies (with the possible exception of Japan). We expect the European economy to accelerate and increase its trade surplus, this contributing to a rising euro. The Canadian dollar, though now much cheaper, is expected to remain in a narrow trading range 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 4, 2015 — Investment Stance

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

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