

Morningstar Moderate Portfolio

Fund Commentary

Global markets, as measured by the MSCI World Index, experienced more pronounced volatility during 2018 than in recent years, most notably in the last quarter of the year. In Canada, the S&P/TSX Capped Composite Index declined 10.1% over the quarter, and it ended the year down 8.9%. Sagging domestic oil prices contributed to the Canadian decline, which was part of a much broader global drop. The Bank of Canada hiked rates by 0.25% during the quarter, their third increase of the year and the yield curve continued to flatten.

U.S. equities were weighed down at the end of the year as the Federal Reserve hiked interest rates twice in the quarter, but also signalled just two rate increases in 2019 instead of the three previously forecast. With Democrats taking the house the political gridlock could cause further uncertainty going forward.

Foreign equities, as measured by the MSCI EAFE Index, fared marginally better than the U.S. and Canadian markets, but the ongoing sagas of a no-deal Brexit and slowing global economic growth weighed on equities.

Emerging Markets continued their struggles from the first three quarters of the year, as the MSCI Emerging Markets Index declined by a further 2.2% in Q4, dampened by continued trade disputes between the U.S. and China.

The defensive positioning of our portfolios in the program were founded on our belief that equity markets were generally overvalued, particularly the U.S. market. Our response was to overweight fixed income instruments, particularly short-term bonds and cash, a positive for the funds even though the absolute numbers may not make it feel like that. The unavoidable reality of being positioned defensively is that corrections in market valuations are not painless and require patience and conviction. Our conviction that valuation-driven investing works over the long term has not changed. This contrarian approach requires that we, as Warren Buffett famously said, are fearful when others are greedy, and greedy when others are fearful. In

our view, it is important to emphasize that we believe the patience and steadfastness in difficult times such as these will be rewarded with long-term outperformance.

Our positioning will never be perfect, of course, and we always reassess when things go wrong. In our last commentary, we discussed the underperformance of our Emerging Markets manager Invesco, and we remain confident in their ability to add value for investors over the long term. For the first time this quarter, we removed an active manager from the program as outlined in our November reallocation memo. Renaissance Floating Rate Income, subadvised by Ares, is a high-quality strategy that simply at this time does not fit in with our asset allocation outlook and as such its removal is no reflection of our conviction in the manager. Similarly, our early returns of targeted exposures to U.K. equities, U.S. Health Care and Consumer Staples and North American Energy & Infrastructure ETFs have underperformed in the short term, but we think that only increases their long-term attractiveness.

The Morningstar Moderate Portfolio underperformed its benchmark¹ during the quarter.

Positive Contributors

Overall, the Fund's positioning of being underweight equities in favour of cash and fixed-income was of benefit to the portfolio.

In domestic equities, Mackenzie Ivy's defensive nature paid off as the fund added value relative to the S&P/TSX. From an asset allocation perspective, within equities our underweight to domestic stocks added value as they underperformed the global equity market.

Our underweight to U.S. equities benefited the portfolio slightly, as the asset class underperformed the MSCI ACWI ex-Canada slightly. U.K. equities, through exposure to the MSCI U.K. ETF, contributed to returns as they declined less than the broad benchmark. Active manager CI Black Creek's international mandate outperformed the MSCI EAFE for the quarter.

¹The Morningstar Moderate Portfolio's benchmark comprises 43% FTSE TMX Canada Universe Bond Index, 12% FTSE World Government Bond Index in Canadian dollars, 12% S&P/TSX Composite Index, 28% MSCI

All Country World Index ex Canada IMI Index in Canadian dollars and 5% FTSE TMX 91 Day T-Bill Index.

The information contained herein is subject to important disclosures and disclaimers contained in the Disclosure Statement on the last page of this document. This document is not complete without such Disclosure Statement.



Morningstar Moderate Portfolio

Performance Detractors

In global bonds, our underweight to the asset class detracted value over the quarter, as did manager selection as PIMCO Monthly Income mandate underperformed the Citi WGBI Index.

Within equities, the Fund's higher than benchmark allocation to Emerging Markets, as well as manager selection in the asset class was a detractor from performance.

Oakmark International underperformed the MSCI EAFE during the quarter while Capital Group's global equity mandate underperformed the MSCI World Index.

We continue to invest with a long-term time horizon, with an emphasis on valuations. We remain confident in the managers and ETFs selected for the portfolio and believe that over the long haul they can add value for investors in the program.

Valuation Driven Asset Allocation Positioning:

- Added specific sector exposure within U.S. equities (Consumer Staples, Health Care)
- Added North American energy & infrastructure exposure
- Removed floating rate bond exposure
- Maintained lower equity exposure in favour of slightly higher cash and short-term bonds
- Targeting a 1-year duration underweight for domestic fixed-income
- Maintained lower weight in Canadian equities and U.S. equities and overweight in international, U.K. and emerging market equities

Morningstar Moderate Portfolio

FOR DISTRIBUTION TO INVESTORS BY REGISTERED DEALERS ONLY.

Bridgehouse Asset Managers® is a trade name of Brandes Investment Partners & Co. (Bridgehouse). Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. (Brandes LP), which is an affiliate of Bridgehouse. Bridgehouse is the manager of the Bridgehouse Funds and has hired Brandes LP, Lazard Asset Management (Canada), Inc. (Lazard), Morningstar Associates Inc. (Morningstar) and Sionna Investment Managers Inc. (Sionna) as portfolio sub-advisors (collectively, the “portfolio sub-advisors”) in respect of the Bridgehouse Funds. The foregoing reflects the thoughts, opinions and investment strategies of Bridgehouse and/or the portfolio sub-advisors and is subject to change at their discretion, based on changing market dynamics or other considerations. Bridgehouse and the portfolio sub-advisors have taken reasonable steps to provide accurate and current data. The data has been gathered from sources believed to be reliable, however Bridgehouse and/or the portfolio sub-advisors are not responsible for any errors or omissions contained herein. Indices are unmanaged and cannot be directly invested into. Securities mentioned herein are not to be construed as a recommendation to buy or sell. Past performance is not a reliable indicator of future results. This material has been provided by Bridgehouse and is for informational purposes only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and is not to be construed as a recommendation to buy or sell. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This report may contain forward-looking statements about the economy, and markets; their future performance, strategies or prospects. Units and shares of the Bridgehouse Funds are available through registered dealers only and are not available through Bridgehouse.

The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” “forecast,” “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. You are cautioned to not place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. Before making any investment decisions, you are encouraged consider these and other factors carefully. Where applicable, please note that MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

Published February 5, 2019

