MWG Portfolios: Portfolio Weighting Changes February 2018

Our portfolio actions for the month of February were as follows:

Action:	**Global Equity Growth Fund:**	**Income Growth Fund:**
Bought:		CHE_u.TO
Increased:		CPX.TO
Reduced		DR.TO CJRb.TO
Sold:		SPB.TO

February Market Commentary

The “much anticipated” correction finally occurred in early February, with markets suffering some of their worst daily losses since 2008 and a peak-to-trough decline of 10.1% in just 9 trading days. The impact on our portfolios was short-lived as equity markets regained strength in the back half of the month. A key pillar of our bullish market stance rests in earnings growth, and to date, Q4/2017 earnings have not disappointed. According to Scotiabank, 58% of companies have reported better than expected EPS globally, including an astonishing 75% in the United States, followed closely by Germany and France. Global profit growth looks to be strong in 2018 and 2019, forecast at 14% and 10%, respectively.

Bottom-Up Consensus EPS Growth

	FY 2017*	FY 2018	FY 2019
MSCI AC World	18%	14%	10%
MSCI DM	17%	14%	9%
MSCI EM	26%	14%	11%
MSCI DM Europe	28%	9%	8%
MSCI DM Pacific	24%	6%	7%
MSCI LatAm	8%	18%	14%
MSCI EM Asia	31%	13%	11%
S&P 500	11%	19%	10%
TSX (C$)	27%	9%	11%

*Only Q4 2017 left to report to finalize grow th numbers

Source: Scotiabank GBM Portfolio Strategy, Bloomberg, Thomson Financial.

To provide some perspective on February markets, even amidst the worst of the pullback, markets only fell to the levels of November 2017. Following the steady 27% rise since the election of the Trump Administration, a 10% correction should not be viewed as unreasonable. At MWG, we do not attempt to time markets but stick to our strategy of investing for the long term. There were grumblings of a necessary pullback as early as Spring 2017. Had an Investor pulled their funds out on May 31,2017 and purchased at the very bottom of the February 2018 sell off, they would still be paying a 5% premium on the market. As seasoned investors know, buying at the bottom is impossible to do consistently without the benefit of hindsight.

Rising U.S. short-term interest rates were the catalyst for the pullback. Yields on the 10-year Treasury Bond have risen from a low of 2.05% on Sept. 8, 2017 to a recent high of 2.92% on Feb. 22, 2018, causing massive losses for bond investors. While higher rates, on the surface, are bad for stocks due to the higher discount rate applied to the value of future cash flows, they reflect stronger economies and thus stronger future earnings and cash flow, offsetting discount rate concerns. We believe markets will continue to be choppy until investors find a comfortable balance between higher rates and growth. In the end, we believe economic growth and the accompanying rise in earnings will prevail and remain steadfast in our longer-term view that equity markets will continue to rise.

Canada: Canadian markets finished down 3.0% in February and are now off 4.4% for the year on a total return basis. Earnings season has been generally in line in terms of beats globally, but we note that Canada is expected to generate lower earnings growth in 2018 than the rest of the world (see table above). This view is supported by a Statistics Canada report on March 1, 2018 that revealed that Canada experienced a 26% drop in foreign direct investment in 2017 despite a strong property market and a recovery in global oil prices. One constant bright spot in Canada is the country's healthy banking sector. The big six banks all recently reported earnings, with EPS beats across the board ranging from 3-12% and four of the six raising their dividends.

United States: U.S. markets ended a volatile month with the S&P 500 falling 3.7% and NASDAQ falling 1.2% (both are on a total return basis). As we have witnessed in previous selloffs, high flying growth stocks initially led the sell-off but subsequently rallied back strongly, with fresh highs made by companies that reported strong Q4/2017 results (e.g., Amazon and Netflix). We continue to like the U.S. market and evaluate new opportunities to invest in its growth potential.

Global Equity Growth Fund:
The Fund's NAV increased by 0.56% in February, strongly aided by a falling Canadian dollar (down 4% to US$0.78), as 80% of the Fund is weighted in U.S. dollar-based equities. Year-to-date, the Fund's NAV has appreciated 3.94%. We stood firm through the volatility, adding to existing positions on weakness. Our purchases were mainly focused on the health care sector as we continue to see strong value in our holdings as the population ages in the Western world and middle classes sprout in emerging economies.

Income Growth Fund:
The Fund's NAV per unit declined 2.08% for the month. The portfolio is currently yielding 6.5%, with a 79% weighting in Canada. We continue to focus on increasing the yield of the portfolio by purchasing high-quality equities with very strong income components and equities in which we believe the market is mispricing the risk of a dividend cut. During the month, we sold our 4.0% holding in Superior Plus Corp (SPB.TO) at $12.66 for a small gain off our $11.92 cost base and bought a 3.0% weight in Chemtrade Logistics Income Fund (CHE_u.TO) at $16.60. SPB was trading stronger on a better outlook for its propane businesses, while CHE_U, an income fund with very sound financial fundamentals, is selling at a 12-month low on some short-term issues, including the closing of recently-acquired Canexus' head office., This trade leads to a nice pickup in yield, with CHE-U yielding 7.2% versus SPB at 5.7%. We also increased our weighting in Capital Power (CPX.TO) from 3.0 to 5.0% at $23.80 and reduced our weightings in Medical Facilities (MD.TO) to 4.0% at $15.12 and Corus Entertainment (CJRb.TO) on stock weakness to 3.0%, but with no trade.

As always, we appreciate your referrals so if you know someone that can benefit from our services, please do not hesitate to give us a call.