The Tortoise and the hare

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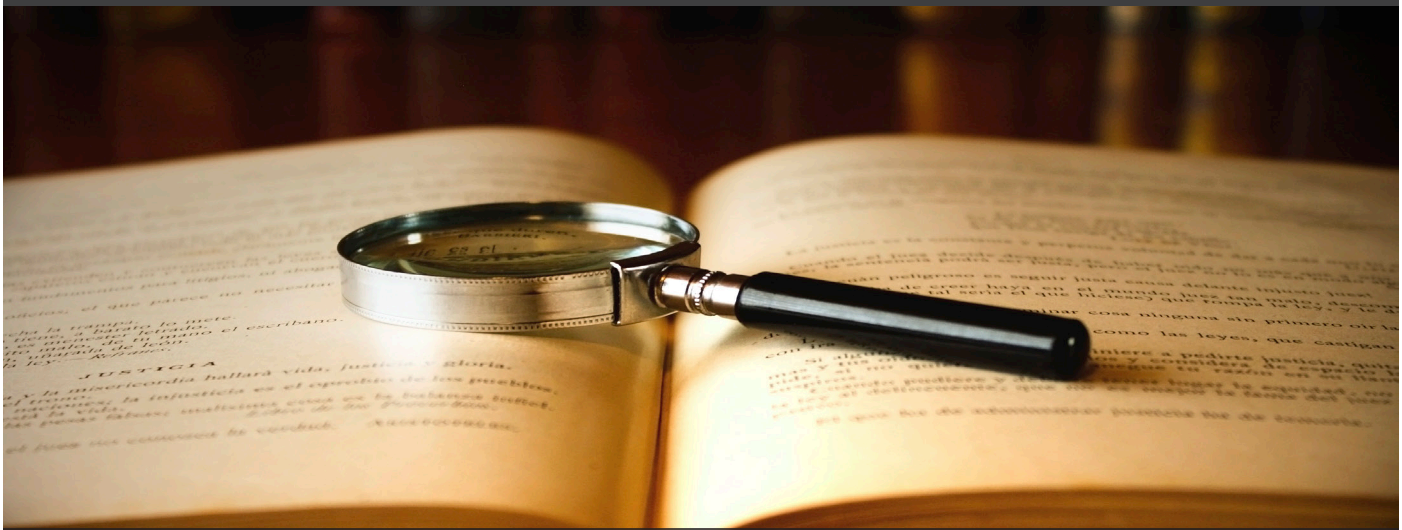

A Philosophy Based on Decades of Evidence

One of the most influential people in the field of finance is Eugene Fama, a professor at the University of Chicago and Nobel laureate in Economic Sciences. He and other academics have devoted their careers to understanding what drives investment returns.

Their aim is to identify what information in prices explains differences in returns. Fama and his long-standing collaborator, Ken French, are known and respected for providing evidence that shares can offer better long-term returns than bonds and that differences in stock returns can be explained by a company's size, relative price, profitability and how much it reinvests.

Of his life-long research Fama says, "I've been at this 55 years, including my time as a student. During that period, we have come up with maybe five different factors that seem to be pretty robust. That's one a decade."

It is around the work of Fama, French and other researchers that we base our investment philosophy and process. That pace of discovery is a reflection of the diligence of their research and the quality of its output.

Why is this particularly relevant now?

Having fallen some 10 per cent between the beginning of the year and mid-February, many markets around the world had recovered their losses by the end of March[1]. There was a lot of noise in the papers about the downward slide, but very little about the equally dramatic recovery. This uneven reporting can be unsettling for investors who lack a firm discipline.

Our discipline is a direct result of having a strong philosophy based on robust empirical research. We understand that markets can reward patient long-term investors, and that short-term movements do little to explain long-term trends. We believe we understand where returns come from and we take comfort in this knowledge when markets are noisy, as they have been so far in 2016.

Past performance is not an indicator of future results.

References

1.Source: MSCI data © MSCI 2016, all rights reserved.

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Neither asset allocation nor diversification assures a profit or protects against a loss in declining financial markets. Currency fluctuations may increase or decrease the returns of any investment.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

The prices of real assets (for example, precious metals) tend to fluctuate widely and unpredictably, and have historically experienced periods of flat or declining prices. Prices are affected by global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations.

REITs investing risks are similar to those associated with direct investments in real estate: lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

The indices are unmanaged, are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include expenses, fees or sales charges, which would lower performance.

International investing entails greater risk, as well as greater potential rewards compared to investing in your local stock market. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

Investing in smaller companies involves risks not associated with more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Interest on municipal bonds is generally exempt from US federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax exemption applies if securities are issued within one's state of residence; if applicable, local exemption applies for issues within one's city of residence.

The initial interest rate on an inflation-linked security may be lower than that of a fixed rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur.

Changes in exchange rates may have an adverse effect on the value, price or income of foreign currency denominated securities.

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