FIRST ASSET CAMBRIDGE CORE CANADIAN EQUITY ETF
MANAGER COMMENTARY
Fourth Quarter 2016
TSX: FCE

Equity markets slumped as the quarter began, as uncertainty set in ahead of the U.S. election. The surprise over Donald Trump's unexpected victory and the renewal of the Republican congressional majorities ignited a rally that lasted through the end of the year. The prospects for pro-business policy measures from the incoming administration provided the catalyst necessary to drive up global interest rates, as well as energy and equity prices. However, the election result was only part of the reason for the rebound, as markets were also buoyed by signs of improvement in economic indicators in the Eurozone, as well as in the United States and Canada.

Interest rates moved dramatically higher during the period, gaining roughly 80 and 70 basis points in the United States and Canada, respectively. The price of crude oil rose 16% amid the prospects for greater economic activity and promised production cuts by OPEC. Natural-gas and base-metal prices also recovered during the quarter, while gold prices fell 12% due to higher real interest rates (which include the impact of inflation).

The increase in optimism caused bond prices to fall significantly during the quarter, driving the Canadian bond index down 4.6%, while pushing up the S&P/TSX Composite TR Index 4.5% as shares of financial, energy and industrial stocks surged. Aside from health care, which was dragged down by Valeant Pharmaceuticals International, the weaker sectors were those most sensitive to rising interest rates. Shares of gold miners fell 16%, and the consumer staples, telecommunications, utilities and real estate sectors all finished lower.

The key driver of absolute return was stock picking, driven by the disciplined Cambridge research process. Positions in food retail in Canada (Loblaws and Weston), as well as, industrial stocks such as Finning, Stantec and Transforce contributed positively to performance.

On the other hand, an overweight in materials (specifically precious metals) and energy, were the biggest detractors of performance.

Manager Outlook

While the Republican election victory has continued to fuel developed equity markets, it remains to be seen whether the Trump administration's planned implementation of tax cuts and infrastructure spending ultimately will boost investment fundamentals in the coming months. Interest rates could rise due to these pro-growth initiatives, as well as the improving global economy, rising inflation expectations and the unwinding of very dovish central bank policies.

The Canadian market's exposure to economically sensitive sectors depends on improvement in global growth. Improved oil and commodity prices, accompanied by higher interest rates, should benefit the domestic market's significant over-exposure to the energy, materials and financials sectors.

Given the considerable political and macroeconomic uncertainty, market participants remain keenly focused on developments in these areas. As bottom-up fundamental investors, we welcome any opportunities that are created by market participants' excess focus on top-down factors. We continue to employ a bottom-up strategy, identifying the most attractive portfolio candidates from a return/risk perspective.

Brandon Snow
Principal & Chief Investment Officer
Cambridge Global Asset Management

Each pillar of Cambridge's investment philosophy was conceived to help compound client wealth over the long term. It dictates how the team operates, what it stands for and what differentiates Cambridge from the competition.

The three pillars of investment management at Cambridge are:

- True Active Management
- Focus on Absolute Returns
- Manager Alignment

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