

### A Focus on "High-Quality Canadian Leaders"

Our Canadian equity management focuses on large cap, blue chip stocks in non-cyclical industries with strong dividends and steady growth. We tend to de-emphasize cyclical industries and diversify assets across different industries to reduce the concentration in sectors exposed to commodity prices.

Canadian equities are prudently divided into three categories to manage risk while allowing for investment in growth opportunities. The companies in the portfolio tend to have steady growth, high returns on invested capital, a dominant position in their market and reduced balance sheet risk.

### PORTFOLIO CONSTRUCTION

- Securities of the Fund are categorized as follows with the holdings limited to the ranges set forth: High-Quality Growth 50%-100%; Cyclical 0%-35%; and Mid to Junior Growth 0%-15%.
- Maximum sector weight of the Fund as defined by the Global Industry Classification Standard (GICS®) is the greater of 25% or Index sector weight plus 15%.
- Maximum market value in a single issuer: 10%.
- The Fund may invest in the JF Special Equity Fund, up to a maximum of 10%.
- The Fund may invest up to 20% in non-Canadian North American equities.

### ANNUALIZED PERFORMANCE (%)

As of December 31, 2018

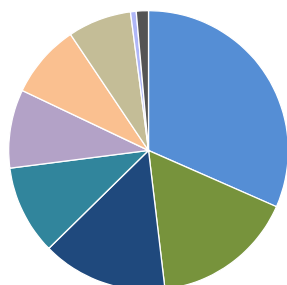
	3 mos.	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs
JF Canadian Equity Fund	-8.2	-6.3	5.8	5.5	8.4	8.8	8.4
S&P/TSX Composite	-10.1	-8.9	6.4	4.1	5.7	7.9	6.6

### CALENDAR YEAR PERFORMANCE (%)

To December 31<sup>st</sup>

	2018	2017	2016	2015	2014	2013	2012
JF Canadian Equity Fund	-6.3	6.4	18.8	-2.5	12.8	22.6	10.1
S&P/TSX Composite	-8.9	9.1	21.1	-8.3	10.6	13.0	7.2

### SECTOR WEIGHTINGS



- Financials 31.6
- Industrials 16.5
- Energy 14.5
- Cons. Stap. 10.3
- Info. Tech. 9.1
- Cons. Disc. 8.5
- Materials 7.3
- Utilities 0.7
- Cash 1.4

Inception Date	April 1, 1997
NAV per Unit	\$28.8419
Quarterly Distribution	\$0.2830720
Fund Size (\$M)	\$4,510.1
Benchmark	S&P/TSX Composite

### PORTFOLIO CHARACTERISTICS

\*5-year period

	Fund	Benchmark
Yield (%)	3.5	3.4
Weighted Avg. Market Cap (\$B)	\$48.0	\$44.6
Turnover (5-yr avg. to 12/31/18)	13.6	-
Sharpe Ratio*	0.6	0.4
Standard Deviation*	7.6	9.6
Upside Capture*	93.0	100.0
Downside Capture*	78.4	100.0
Batting Average*	0.5	-

### TOP 10 HOLDINGS

	% of Fund
Toronto-Dominion Bank	7.7
Canadian National Railway	5.7
Bank of Nova Scotia	5.6
Enbridge	5.5
Royal Bank of Canada	5.0
Alimentation Couche-Tard	4.3
Nutrien	4.0
Manulife Financial	3.9
Open Text	3.6
CGI Group	3.6
<b>Total for Top 10</b>	<b>49.0</b>

## MARKET & ECONOMIC REVIEW

The final quarter of 2018 saw heightened volatility, erasing the gains in equity indices from the last few quarters. In many ways, 2018 was the antithesis of 2017; volatility returned with a vengeance, both in terms of day-to-day fluctuations and in the form of two “corrections” of greater than 10%. Despite relatively strong economic fundamentals, generally accommodative monetary policy and a corporate tax cut in the U.S., the world’s equity markets suffered their worst year since the global financial crisis. While the USMCA trade agreement will replace NAFTA, the U.S./China trade tensions continue, and Brexit negotiations are ongoing. The world’s central banks, led by the U.S. Federal Reserve are on the path towards interest rate normalization. The Fed announced the fourth increase of 2018 in mid-December, but lowered its projections for future hikes, estimating that there will be an additional two increases in 2019. In Canada, the narrative continues to be focused on the Energy sector, an issue that became quite divisive late in the year. Differentials between the price for Western Canadian Select and West Texas Intermediate crude reached all-time highs during November. Access to new markets is limited by a lack of pipeline capacity, and until that issue is addressed in some meaningful way, even the \$1.6 billion in federal assistance announced in December can only be seen as a “band aid” solution. In addition, the closing of the GM plant in Oshawa may turn out to be the canary in the coal mine for auto manufacturing in Canada.

## PORTFOLIO REVIEW

The Canadian equity portfolio outperformed significantly the benchmark for the quarter. Notable in the quarter was the substantial decline in cannabis stocks (-45%), which we have avoided due to what we believe are speculative valuations. The two largest sectors in the index, Financials (-11%) and Energy (-17%), dropped as well. Financials were mainly affected by the deteriorating mood around trade as well as the potential impact of rising interest rates on a highly-indebted Canadian consumer, while the Energy sector was impacted by industry headwinds from insufficient pipeline capacity and weak oil prices.

Contributing strongly to our outperformance this quarter was our large overweight in Consumer Staples with exposure to Metro (+18%) and Alimentation Couche-Tard (+5%), followed closely by Consumer Discretionary due to our absence in declining Dollarama (-20%) and good performance from Gildan (+6%). Financials and Energy sectors also contributed strongly due to our conservative positioning, where we are underweight in banks, overweight in Thomson Reuters (+12%) and overweight in the pipelines at the expense of energy producers. This was partially offset by the negative contribution from Materials, mainly due to declining stock prices at Nutrien (-13%) and CCL (-14%), two significant positions with favourable long-term returns expectation. Our absence from Communication Services and Utilities also cost us a little during the quarter, due to the flight to safety, but we continue to believe there are better long-term risk/reward opportunities. For the year, we again outperformed the market substantially, with significant contribution from Thomson Reuters (+24%), CGI (+22%) and Metro (+20%). This was partially offset by certain energy companies such as ARC Resources (-42%) and life insurance companies, like Industrial Alliance (-25%) and Manulife (-23%).

The Bank of Nova Scotia (BNS) is the parent company of Jarislowsky, Fraser Limited. BNS securities held in your portfolio are related securities.

Returns for the JF Pooled Funds have been calculated using the net asset value (NAV), are gross of management fees and in Canadian dollars. Complete Investment Policy guidelines are available upon request.

JF Pooled Funds are only available to Canadian residents. Past performance is not a guide to future performance. Future returns are not guaranteed. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. This document is prepared by Jarislowsky, Fraser Limited (JFL) and is provided for information purposes only, it is not intended to convey investment, legal, tax or individually tailored investment advice. All opinions and estimates contained in this report constitute JFL's judgment as of the time of writing and are provided in good faith. All data, facts and opinions presented in this document may change without notification. No use of the Jarislowsky, Fraser Limited name or any information contained in this report may be copied or redistributed without the prior written approval of JFL.

Source: TD Securities, S&P, Bloomberg, FTSE TMX Global Debt Capital Markets Inc. and eVestment Alliance.

## INVESTMENT STRATEGY

At this time, we do not believe that the fourth quarter correction in stock markets will extend far into 2019. Economic fundamentals are still relatively sound and leading indicators, while pointing to slower growth, are not suggesting that the next global recession will occur within the 12-18 months. However, there is a great deal of uncertainty for investors to consider and markets will continue to be volatile. Our strategy is to maintain our focus on Canada’s best companies that have strong management and sustainable growth prospects. It is an exciting time to be a Canadian investor, with many of our top companies taking leadership in their industries on a global scale.

Within this context, we believe Jarislowsky Fraser’s high quality/low risk approach provides superior downside protection, while benefitting when the markets turn upwards. The current volatility also provides excellent opportunities to acquire quality securities at better valuations, and ultimately increase potential gains.

## INVESTMENT TEAM

Jarislowsky Fraser has a team-based approach that anchors a culture of collaborative decision-making. The Investment Strategy Committee (ISC), our central risk and investment oversight body, oversees the entire investment process to ensure that investment decisions adhere to the firm’s long-standing philosophy and process.