EXECUTIVE SUMMARY

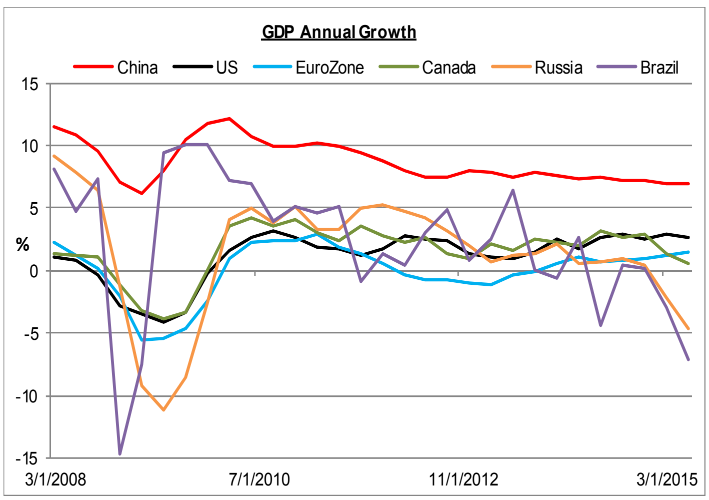
Economic Review

- *The expected reduction in central bank stimulus added significantly to market volatility.*
- *Slower growth from China increased market turbulence.*
- *Continued weakness in the energy sector and adjustments to the supply and demand imbalances drove oil prices down 24% for the quarter.*

Investment Outlook

- *Interest rates are expected to rise very slowly for the next several years.*
- *We continue to believe that a North American recession is not imminent and our overweight allocation to equities remain.*
- *Government bonds continue to be expensive and where permitted, corporate issuers are preferred.*

ECONOMIC OUTLOOK



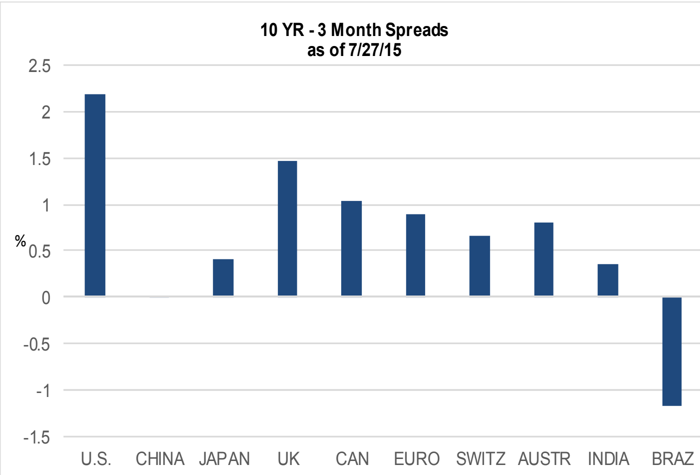
Financial markets experienced one of their more volatile quarters with fast money "investors" displaying a lack of appetite for risk. This was epitomized by the panic selling that caused a 1,000 point decline in the Dow Jones Industrial Average in less than an hour in late August. Equity markets underperformed bond markets this quarter, however higher quality securities generally outperformed. Global economic growth continues to be relatively steady, although it cannot be considered robust. Emerging markets are the current weak spots, particularly Russia, Brazil and China (now the second largest economy in the world). Headwinds have hit China recently, as the massive increase in debt levels over recent years have now become a negative driver for growth. What seemed like a manageable debt load when growth was above 10% now becomes an anchor at 6% GDP growth, essentially reinforcing the economic weakness. In addition, China benefited from U.S. dollar depreciation and renminbi devaluations since the 1980s. More recently, however, the U.S. dollar has appreciated against major currencies and Chinese policymakers have allowed the currency peg to the U.S. dollar to drift higher. Chinese overall debt levels are manageable but not with a slower growth trend. This has implications for global growth given that China represented 38% of global growth last year.

The recession in Russia is representative of the weakness currently being experienced by commodity exporting nations. Energy markets are still adjusting to the supply and demand imbalance with oil prices down 24% in the quarter and 58% from last year's high. Although it is still too early to call the bottom, there is the possibility of upside from these levels if there are any signs of increased political instability or supply discipline from OPEC. The recent declines in commodity prices should be viewed in the context of the secular peak in commodities that occurred over four years ago. Canada is among the commodity exporters group, with the energy sector representing 7% of the economy—while not insignificant, it's far from the 22% level for countries like Norway. The talk of a Canadian recession is likely off the mark because the weakness is not broad-based and is concentrated in the energy sector. The export sector has actually improved from the weakness experienced in the first half of the year and employment growth is holding up. A growth rate of 1.5% for the year is hardly strong, but is certainly better than a recession.

The plunge in Chinese stocks and the economic slowdown culminated in a renminbi devaluation of almost 5% versus its U.S. dollar peg. That seemed to trigger increased volatility in stock and bond markets as well as heightened sensitivity to the U.S. Federal Reserve's interest rate decision. After preparing the markets for rate increases over the past year the Fed decided to take a pass on an interest rate increase in September as they likely wanted to get a better handle on the impact of international market weakness and resultant tightening in financial conditions (higher USD, higher corporate borrowing costs, and weaker equity markets) for the U.S. economy. The U.S. Federal Reserve's uncertainty in terms of the timing of the policy rate normalization process is adding to the volatility in the markets. Faith in policymakers was also dealt a blow by the Chinese government's mishandling of the stock market selloff and currency devaluation. Slowing global growth and fading confidence in policymaker's ability to stimulate growth in a demand deficient world is a recipe for volatility.

BOND MARKETS

The weakness in riskier markets was also reflected in the underperformance of corporate bonds which dragged down bond markets returns to a modest 0.2% for the quarter. Outside of intermittent equity market volatility the focus for bond investors was the potential start and path of the Fed's interest rate hiking process. In July the Bank of Canada cut interest rates again, to 0.5%, in what we think will be the final cut in their effort to help offset the impact on the Canadian economy from the weakness in the resource sector. Corporate bonds experienced one of their more challenging quarters in recent years, underperforming federal government bonds by 1.17%. The volatility in financial markets generally manifested itself in reduced liquidity for corporate bonds. Ultimately, this represents an opportunity for patient investors like us to add to higher-quality corporate bonds at relatively cheap valuations as negative news produces outsized moves in individual bonds.



EQUITY MARKETS

Market Returns (as at September 30, 2015)

(%)	3M	1 Yr	5 Yrs	10 Yrs	15 Yrs
S&P/TSX	-7.9	-8.4	4.5	4.8	4.2
S&P 500 (C$)	0.5	19.2	19.6	8.4	3.2
S&P 500 (US$)	-6.4	-0.6	13.3	6.8	4.0
Russell 2000 (US$)	-11.9	1.3	11.7	6.6	6.5
DJIA (C$)	-0.7	14.6	14.6	5.9	2.1
DJIA (US$)	-7.6	-4.4	8.6	4.4	2.9
MSCI EAFE Net (C$)	-3.6	9.6	9.7	4.5	2.2
MSCI EAFE Net (US$)	-10.2	-8.7	4.0	3.0	3.0
Nikkei 225 (US$) Japan	-11.8	0.1	7.3	3.7	1.4
Shanghai (US$) China	-29.7	26.7	6.5	15.1	6.9
BSE Sensex (US$) India	-8.2	-5.9	-0.7	8.9	12.3
EAFE Emerging Mkts (US$)	-17.8	-19.0	-3.3	4.6	7.8
FTSE TMX Canada Universe	0.1	5.3	4.5	5.0	6.0
FTSE TMX Canada 91 Day T-Bills	0.1	0.8	0.9	1.8	2.2
C$/US$	-6.9	-16.6	-5.2	-1.4	0.8

Converted to Canadian funds using London 4PM rates.
Returns are annualized for periods greater than 1 year.

The weakness in equity markets was broad-based but, within the markets, high quality businesses outperformed more cyclical and leveraged companies. The Canadian dollar continued its downward path with a 6.9% loss in the quarter that cushioned the overall decline for foreign holdings. The Energy and Materials sectors were again the weak link, more so for Canada given its higher weighting in these sectors. Within the Energy sector the higher quality, more diversified, companies outperformed the more pure-play oil and gas companies and the service companies. Our holdings are concentrated in companies with the highest-quality management and assets. Internationally, it was emerging markets that dragged down overall performance due to their commodity exposure, like Russia, or slowing growth prospects, like China. Outside the resource sector we have seen declining earnings growth expectations, but absent a recession, this period should be viewed as weakness within a cycle rather than the end of the business cycle. Other than Brazil, which is already in a recession, the positive slope of yield curves in various countries does not suggest heightened recession risks.

INVESTMENT STRATEGY

In previous outlooks, we highlighted our expectations for increased volatility, as the crisis era stimulus policies look to be unwound. After 600 interest rate cuts by central banks globally (as noted by Citigroup) and over $8 trillion expansion of central bank balance sheets, financial markets are not convinced that current valuations make sense with less support from central banks. When you add the recent popularity of more active investment strategies such as “risk parity” (and its dependence on liquidity), you can better understand the recent market volatility. Stepping back we see valuations that have priced in some of the increased risks, both in stocks and corporate bonds, and we would note that equity market returns have tended to be positive in periods of Fed rate increases, but particularly so when the increases are gradual.

Two aspects of our investment philosophy help insulate our portfolios from periods of market turbulence. One is our focus on high-quality companies, that is, companies with the best-in-class management (ones that consistently show excellent leadership and judgement in the allocation of capital), superior assets (assets that can withstand the tremendous competitive forces in today’s markets), and relatively clean balance sheets (with low relative levels of leverage). These companies have more capacity to withstand the inevitable fluctuations of the business cycle.

Second is our long-term focus; our average holding period for a stock is over eight years. This gives us the ability to look through the ups and downs of the market and take advantage of volatility to add or trim our positions. We expect the market volatility experienced over the summer months to continue, but that our carefully selected group of companies will also provide a solid base for our clients’ investment portfolios.

Sources: TD Securities, S&P, BIS and Bloomberg. The yen and euro currency conversion are based on Bank of Canada noon rates.