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How did we do in 2015 and what's next?

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Happy new year to all of our readers!

The stock and currency markets were volatile in 2015 and that trend is continuing into 2016. Most asset classes had mediocre returns last year. Domestic bonds, as represented by the FTSE TMX Universe Bond Index, returned 3.5%, outperforming both domestic and global stock markets. The value of the Canadian dollar fell and Canadian investors' returns on foreign investments were enhanced by the currency conversion.

It is important to note that effectively all asset classes had negative returns since mid-2015, with domestic bonds being the best-performing asset class. However, all of the gains in the FTSE TMX Universe Bond Index were made in January 2015 and the index had negative returns for the remainder of the year (see chart). At one point during 2015, investors had assumed that the worst was over for the oil sector as oil prices (West Texas Intermediate) gained 15% in the first five months of the year. However, prices then fell 40% during the next seven months, ending 2015 with a 30% loss. We were able to avoid a lot of the "potholes" and generated positive one-year returns in all of our portfolios.

	Peak Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total 2015 Return
FTSE TMX Universe Bond Index	2/2/2015	4.8%												3.5%
Merrill Lynch High Yield Master II (USD)	5/29/2015		4.1%							-8.4%				-4.6%
S&P/TSX Composite Index	4/15/2015		6.5%							-13.9%				-8.3%
S&P/TSX Preferred Share Index	n/a									-15.0%				-15.0%
S&P500 Index (USD)	7/20/2015			4.5%						-3.0%				1.4%
MSCI World Index (Local currency)	5/21/2015			8.5%						-5.4%				2.6%
WTI Oil	6/10/2015			15.3%						-39.7%				-30.5%

Source: Bloomberg

Over the course of 2015, we reduced the equity exposure and simultaneously increased the government bond exposure in all of our portfolios. The change is more apparent in our conservative portfolios, which are generally for investors who do not have a long investment horizon to weather a storm. The recent volatility has resulted in a decline in the equity portion, but bonds and foreign currencies have done extremely well for the same reason. We believe a recession would cause limited damage to our conservative portfolios, as they have a large exposure to bonds, which have continued to perform. Investors who invest for the long

term should not focus on short-term volatility and make short-term changes that may derail their long-term goals. Short-term downside may actually boost long-term results. For example, U.S. stock markets were very volatile from 2008-2010 and we took advantage by adding U.S. stocks and the U.S. dollar at unusually low valuation levels. The result was an enhancement to our investors' long-term performance.

As we enter 2016, our portfolios are positioned for lower economic growth globally. Europe is still struggling with high unemployment rates and oil-producing countries are encountering challenges because of an extended period of declining oil prices. In Canada, if investors who are concerned about market volatility decide to hold cash, they must consider the fact that the cost of utilities and food are increasing at rates higher than wages. With the current unemployment rate at 7.1%, unfortunately, wages are not growing fast enough.

We recognize that the world and its investment opportunities are not static, so our positioning will continue to evolve.

Combined top 15 equity holdings as of December 31, 2015 of a representative balanced United Financial portfolio with alpha-style equity exposure:*

1. Altagas	6. E-L Financial	11. Toronto-Dominion Bank
2. Manitoba Telecom Services	7. Alphabet Inc.	12. HeidelbergCement
3. Atco	8. CIBC	13. Microsoft
4. Galp Energia	9. Suncor Energy	14. Industrial Alliance
5. Galaxy Entertainment	10. Loblaw Companies	15. Canadian Natural Resources

Combined top 15 equity holdings as of December 31, 2015 of a representative balanced United Financial portfolio with value-style equity exposure:*

1. Toronto-Dominion Bank	6. American International	11. Willis Towers Watson
2. Microsoft	7. Bank of Nova Scotia	12. Boeing
3. Royal Bank of Canada	8. Manulife Financial	13. Citigroup
4. Apple	9. UnitedHealth Group	14. Ace Ltd.
5. Alphabet Inc.	10. CIBC	15. Tokio Marine

*Approximately 37% fixed-income, 7% enhanced income, 49% equities and 7% global real estate.

To see the top 15 holdings of the individual United Pools or of the United equity Alpha mandates, please visit the United Financial web page by right clicking on this link and selecting “open web link in browser”: <http://www.assante.com/wp/optima/financials.jsp#united15>.

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