

# Investment Specialists

## Due Diligence Report

AUGUST 2015

At Counsel Portfolio Services, we believe strongly in the value of independence and objectivity in money management. To achieve this, we actively research, evaluate, select and monitor every investment specialist on our platform. Each investment specialist is appointed based on a selection of criteria as defined by our Portfolio Management Team. This includes having a successful and repeatable investment processes for the mandate that they are hired to manage. Our approach and process allows us to give investors access to the expertise of some of the best money managers in the industry.

When constructing a portfolio, the Team will optimize the asset allocation structure of each Counsel portfolio by combining various investment mandates to target a given set of investment objectives while managing risks. As part of this, they also ensure that the different investment styles and processes of the investment specialists complement each other so as to avoid unnecessary investment overlap and manage the overall risks.

At the heart of our process is the view that our investment specialists must continue to earn a place in our portfolios year after year. Because of this view, we undertake a stringent review of each investment specialist at regular intervals. This allows us to objectively replace an investment specialists, when necessary.

### INVESTMENT SPECIALIST SELECTION PROCESS

One of the most important factors in portfolio management is to have a defined and disciplined approach for the selection and replacement of investment specialists for each mandate in your portfolio. Our Portfolio Management Team searches a wide universe of potential candidates to select the ideal investment specialist for a given mandate. Using both quantitative and qualitative evaluation criteria, investment specialists are selected based on an analysis of their track record, expertise in a particular asset class or geographic region, investment style, and risk management. This due diligence process continues even after an investment specialist has been selected.

### INVESTMENT SPECIALIST AND PORTFOLIO MONITORING PROCESS

The following table provides a high level summary of the different levels of monitoring that the Counsel Portfolio Management Team undertakes.

<b>Daily</b>	Evaluates for any deviation from a given mandate's investment objectives.
<b>Monthly</b>	Reviews contributors, detractors and the drivers of performance for each mandate and reviews the manager's performance against their peers in the same category.
<b>Quarterly</b>	Evaluates reports that are submitted by each investment specialist, which includes any changes to their team structure, firm ownership and compliance or legal risk. This includes a report on performance drivers over the last three and 12 month periods, which are then compared against the Team's own analysis.

<b>Annually</b>	Conducts on-site due diligence visits and interviews with all investment specialist teams. The due diligence visits consist of an extensive review with the firm's business (asset growth, product development, client mix, etc.), changes within the investment management teams, their executive leadership, trading teams, operations, and compliance/legal risk.
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## INVESTMENT SPECIALIST REPLACEMENT PROCESS

There are several factors that could result in an investment specialist being placed on watch and, if necessary, replaced. The following criteria are reviewed on a regular basis:

PHILOSOPHY & PROCESS	ORGANIZATION & PEOPLE	PERFORMANCE	REGULATORY
<ul style="list-style-type: none"> <li>• Fundamental strategy shift</li> <li>• Mandate drift</li> <li>• Inconsistent discipline</li> <li>• Purchase and sell discipline</li> </ul>	<ul style="list-style-type: none"> <li>• Ownership change</li> <li>• Firm size and growth</li> <li>• Financial and capital profile</li> <li>• Material personnel concerns</li> </ul>	<ul style="list-style-type: none"> <li>• Unexpected performance results</li> <li>• Risk exceeds portfolio guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Lack or failure of compliance</li> </ul>

## FINDINGS FROM ON-SITE DUE DILIGENCE VISITS (JANUARY - JULY 2015)

In the first half of this year, the Portfolio Management Team completed eight on-site due diligence visits. The following is the Team's assessment of each investment specialist visited today. It provides the Team's assessment of each investment specialist's performance relative to the factors we've outlined above over the recent short-term.

INVESTMENT SPECIALIST	PORTFOLIO MANAGEMENT TEAM COMMENTS
<b>TD Asset Management Inc.</b> <i>Mandate:</i> Counsel Short Term Bond <i>Due Diligence:</i> May, 2015	We have no concerns with the TD Asset Management (TDAM) team or the performance of this mandate versus its objectives. Of note, there were organizational changes within TDAM's leadership team in 2015, and we are comfortable with its new leadership structure.
<b>RBC Global Asset Management Inc.</b> <i>Mandate:</i> RBC Canadian Dividend Fund <i>Due Diligence:</i> May, 2015	We have no concerns with the RBC team or the performance of this mandate versus its objectives. We would like to point out that the RBC Canadian Dividend Fund is utilized in some Counsel portfolios as Canadian equity exposure. As such, it should be compared to broad Canadian equity funds rather than dividend income or dividend growth funds, which have different investment characteristics.
<b>Picton Mahoney Asset Management</b> <i>Mandate:</i> Counsel Canadian Growth <i>Due Diligence:</i> May, 2015	We have no concerns with the Picton team or the performance of this mandate versus its objectives. We are impressed by the firm's commitment of resources to enhance its quantitative and fundamental investment process, and it has resulted in investment results that have a high information ratio* and hence are of high quality.

\*Information ratio is the ratio of portfolio returns above the returns of a benchmark (usually an index) to the volatility of those returns. This ratio will identify if a manager has beaten the benchmark by a lot in a few months or a little every month. The higher the ratio, the more consistent a manager is and consistency is an ideal trait. Source: Investopedia

<p><b>Mackenzie Investments</b>  <i>Mandates:</i> Counsel Fixed Income  Canadian component of Counsel Global Small Cap  <i>Due Diligence:</i> May, 2015</p>	<p>We continue to have a high level of confidence in both the Fixed Income and Canadian Small Cap teams. We are positive about the leadership changes that have taken place at Mackenzie, i.e. the appointment of a new CIO and CEO in the last three years. However, we are continuing to maintain a watchful eye on the effects of the change to the investment teams.</p>
<p><b>Invesco Canada Ltd.</b>  <i>Mandate:</i> U.S. component of Counsel Global Small Cap  <i>Due Diligence:</i> June, 2015</p>	<p>The lead portfolio manager for our mandate was appointed CIO of Invesco Canada in April 2015. As a result, we have some concerns about how he will split his time between the new role and his current portfolio management duties. The co-manager of this mandate will take over as lead during the fourth quarter of 2015. We have no concerns with Invesco's historical performance on this mandate versus its objectives. However, we will be closely monitoring any effects of the organizational changes going forward.</p>
<p><b>Acuity Investment Management Inc.</b>  <i>Mandate:</i> Income &amp; Growth component of Counsel Regular Pay Portfolio  <i>Due Diligence:</i> June, 2015</p>	<p>AGF Management purchased Acuity in 2011 and over the last few years AGF and Acuity have undergone some significant organizational changes. As such, we placed Acuity "under review", and have been closely monitoring the impact of these changes to the investment team. AGF hired a new CIO in 2014 and we met with him twice in 2014 and again in 2015. Given the organizational changes however, we are maintaining the "under review" status for this team for the time being. There are no performance concerns with this mandate, however we are monitoring and evaluating the qualitative issues intently.</p>
<p><b>Leon Frazer &amp; Associates Inc.</b>  <i>Mandate:</i> Counsel Canadian Dividend  <i>Due Diligence:</i> June, 2015</p>	<p>The Canadian dividend mandate is underperforming relative to its mandate objectives and what we believe are its Canadian dividend peers. Underperformance for one, two, or even three years is not a concern if we understand the structural reasons for the underperformance. The key is to determine whether the underperformance is due to a change or flaw in the investment process, a change in people or the firm, or if it is part of the natural result of the investment process, which should be expected from time to time. This mandate is designed to invest only in Canadian companies with growing dividends, and it targets a dividend yield of at least 1.25 times that of the S&amp;P/TSX Composite Index. As a result, the mandate will be invested more heavily in Energy Infrastructure sectors, such as Power Generation, Transmission, Distribution, Renewable Energy, Pipelines, and Storage. The decline in energy prices in late 2014 affected the performance of securities in these sectors. Despite the fact that the sensitivity of these businesses to energy prices is relatively low, investors tended to lump them in with energy production and exploration companies whose business prospects are highly sensitive to energy prices. Our review of the mandate shows that stock selection continues to be a positive contributor to returns, however, sector allocation has been the detractor. This is not unexpected given the investment style and process, and over time, we expect that it will right itself.</p>
<p><b>Sionna Investment Managers</b>  <i>Mandate:</i> Counsel Canadian Value  <i>Due Diligence:</i> June, 2015</p>	<p>We have no concerns with the Sionna team or performance of this mandate versus the mandate objectives. To date, 2015 has proven to be a difficult year for value oriented Canadian investment specialists. Valeant Pharmaceuticals has represented ~60% of the S&amp;P/TSX Composite Index's return, and given its business strategy and extremely high valuation, it is a company that we would not expect any value manager to invest. Likewise, Sionna did not invest in Valeant, and thus did not benefit from its disproportionately positive performance.</p>

## PORTFOLIO MANAGEMENT CHANGES MADE IN 2014

Our Portfolio Management Team initiated some changes in 2014, including the launch of a new investment solution, and the replacement of an investment specialist.

MONTH	ACTION	DESCRIPTION
OCTOBER	<b>Changed</b> <i>(Hedge)</i>	Removed the U.S. dollar currency hedge as the Canadian dollar was trending steadily downward versus the U.S. dollar. The hedge was intended to protect any U.S. dollar investments in our portfolios against an appreciating Canadian dollar. The Canadian dollar continued to depreciate significantly versus the U.S. dollar after the removal of the hedge and, as a result, our U.S. dollar holdings appreciated, benefiting portfolios.
SEPTEMBER	<b>Changed</b> <i>(Asset Allocation)</i>	Introduced an asset allocation change across four Counsel Strategic Portfolios along with the corresponding Corporate Class portfolios: Counsel Conservative Portfolio, Counsel Balanced Portfolio, Counsel Growth Portfolio and Counsel All Equity Portfolio. Exposure to international equities were increased and North American equity allocations were reduced as a result of our expectation of lower future returns from the North American equity markets, and the expectation for better returns from international markets over the medium term. The allocation of Counsel Fixed Income was increased as the allocation of Counsel Short Term Bond was reduced on expectations of better returns from global bonds over domestic bonds. These changes were made as part of our portfolio monitoring and active management process.
	<b>Launched</b> <i>(Investment Solution)</i>	Counsel Global Trend Strategy, an investment solution managed by Mount Lucas Management LP, was added to four portfolios (Counsel Conservative Portfolio, Counsel Balanced Portfolio, Counsel Growth Portfolio, and Counsel All Equity Portfolio) to provide additional protection when markets are declining, and to potentially improve returns compared to other investments with similar risk.
APRIL	<b>Replaced</b> <i>(Investment Specialist)</i>	Appointed Timbercreek Asset Management Inc. to replace Forum Securities Inc. as the sub-advisor for Counsel Global Real Estate. The change was made due to the Portfolio Management Team's assessment that the firm changes at Forum Securities had negative implications to performance of the Counsel mandate. Timbercreek Asset Management was hired in part because their core investment management team was formerly at Forum, and our Portfolio Management Team has a great deal of confidence in that team. Counsel Global Real Estate's mandate was adjusted in order to add more diversification to the portfolio by being able to invest in both debt and equity securities issued by real estate companies. This strategy is intended to maximize return, reduce volatility and preserve capital.

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