Currency Perspectives

Expect greater uncertainty

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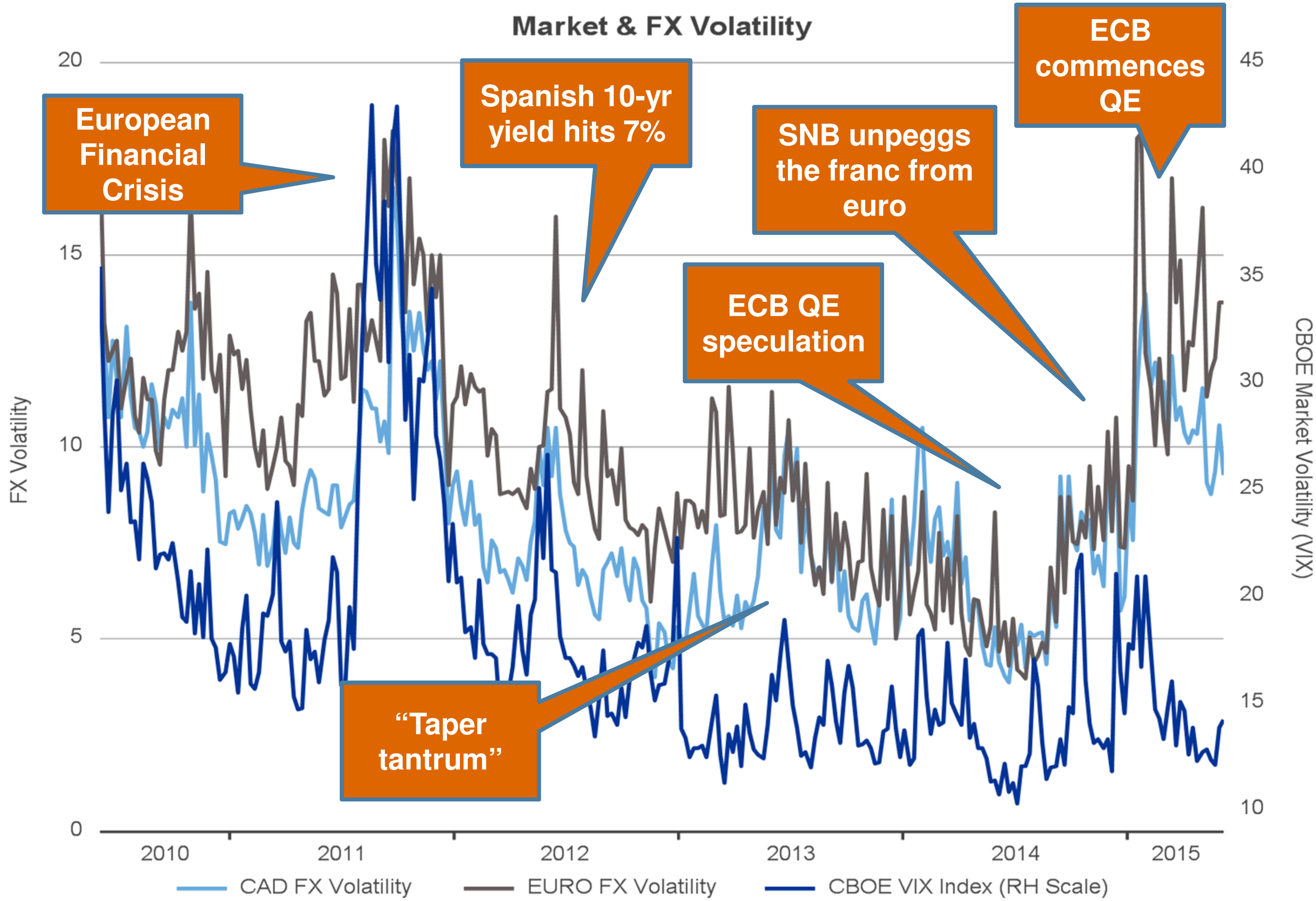
Turmoil no, but volatility and uncertainty, yes



Source: Thomson Reuters Datastream, 6/5/2015

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Macroeconomic trends influencing currency

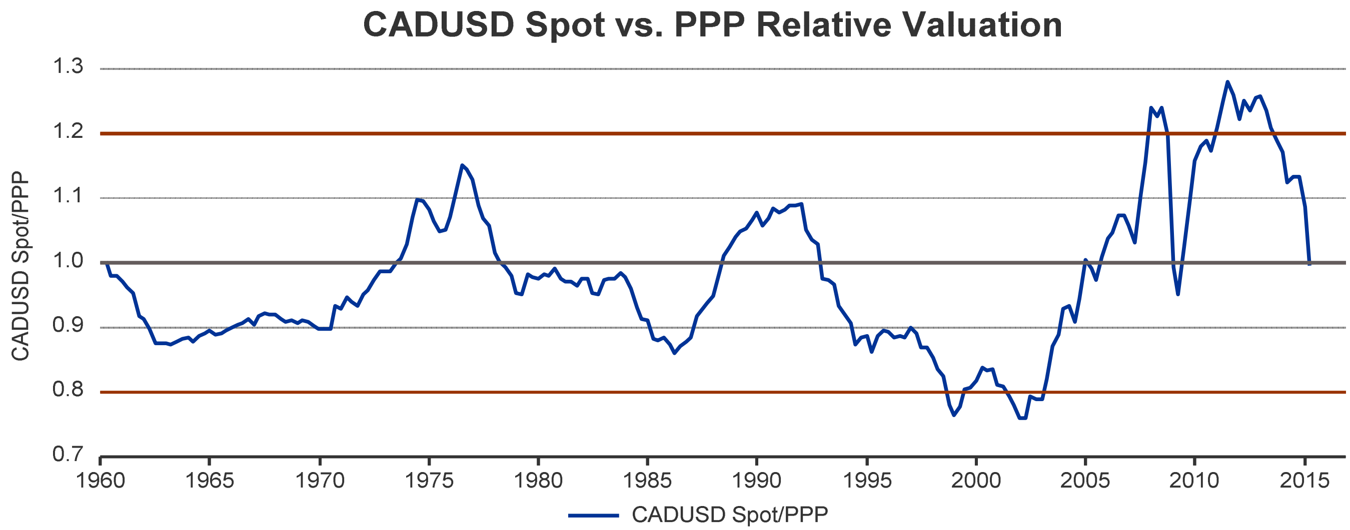
- US economy transitioning from liquidity driven to growth
  - The Fed is not data dependant at the moment, unless the US economy derails…therefore Fed policy diverges vs. the majors
  - USD strength moderate going forward
- Improving Euro economy contributes to rise in Euro-area bond yields from overbought conditions
  - ECB purchases are relevant and will be headwind for currency
  - Greece may not be of consequence economically but a source of sustained uncertainty and volatility for Europe

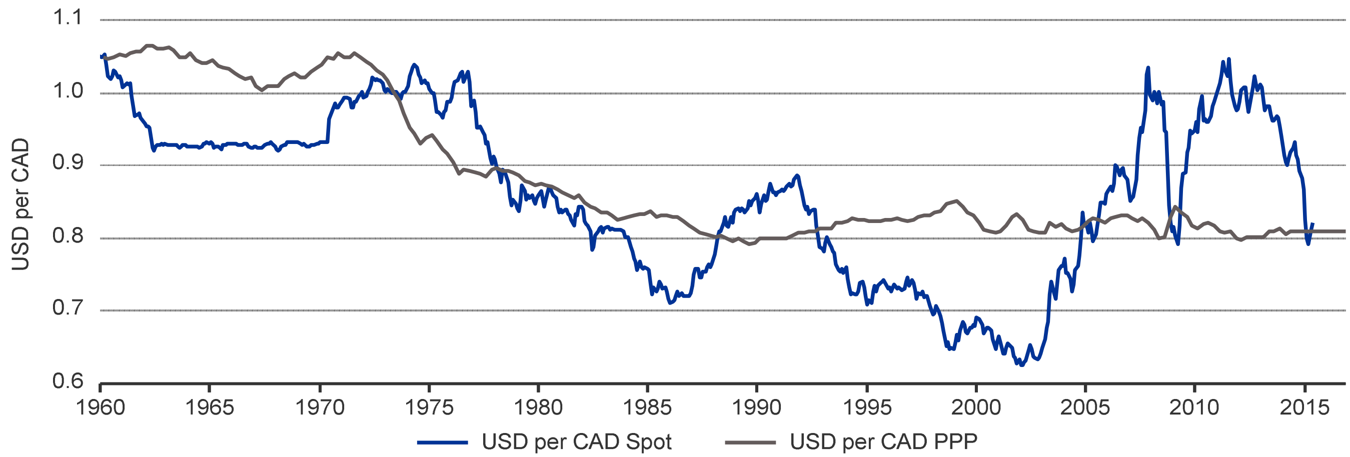
Currency considerations

- To hedge or not to hedge?
  - Strategic:
    - Fully hedge vs. fully un-hedged
    - Minimize regret: 50% hedge
    - Strategically hedge: Margin of safety crucial
  - Tactical:
    - Aim for incremental return
- Currency as an asset class
  - Potential for diversified return source – Historically low correlated asset class to traditional stocks and bonds
  - Rules based approach utilizing currency factors: carry, value and trend to determine exposures

Strategic hedging

Taking into consideration "margin of safety"





- "Pro-cyclical" tendencies of CAD leads to potential negative correlation of equity and FX returns.
- Currency exposure dampens equity market volatility for Canadian-based investor.

Source: Thomson Reuters Datastream, Q2 15

For additional information: See Russell Research: "A forward-looking approach to strategic currency hedging", John Osborn, Kendra Kaake , Jul 2013.

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Currency as an asset class
Improving diversification

Carry
Tendency of higher interest rate currencies to appreciate relative to lower interest rate currencies

Value
Currencies have the tendency to mean revert to a level of long-term economic parity (e.g. PPP)

Trend
Currencies tend to trend. Daily currency returns exhibit positive autocorrelation

Correlation	Currency Asset Class	*S&P/TSX Composite Index*	*FTSE TMX Canada Univ. Bond Index*
Currency Asset Class	**1.0000**	**0.1092**	**-0.1414**
S&P/TSX Composite Index	**0.1092**	**1.0000**	**-0.0585**
FTSE TMX Canada Univ. Bond Index	**-0.1414**	**-0.0585**	**1.0000**

Source: BNY Mellon, Russell Investments. In CAD. Data as of ten years ending December 2014. RCCI refers to Russell Conscious Currency Index and was used as the proxy for Currency Asset Class strategy. Diversification does not assure a profit and does not protect against loss in declining markets. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Thank you.