The Exemplar Growth and Income Fund had a return of -1.12% for the month of June, but remains positive YTD at 2.82%. Since inception, the Fund is up 8.31% versus a return of 4.02% for the blended benchmark. We have achieved positive returns with almost half the volatility of the benchmark. As of June 30th, 2017, 75% of the Portfolio’s net assets (where short positions are netted against long positions in each category) were invested in equities and 18% in fixed income (U.S. and Canadian bonds) and 8% in cash equivalent instruments.

**Equities**

Summer has arrived in Toronto just in time to witness Canadian equities limp into the midyear finish line, underperforming nearly every other major stock market. In fact, the MSCI All Country World Index had its best first half in nearly 20 years! The economy was certainly not to blame. Canada’s first quarter real annualized GDP growth of 3.7% was the best in the G7 countries and was accompanied by double digit corporate profit growth. In the face of such strength, Mr. Poloz was forced to abandon the doomsday scenario and pull a U-turn in his interest rate policy.

The logical conclusion many have reached is that the Canadian stock market is due for a catch-up. Given the Toronto Index sector composition, the leadership of such an advance is not obvious to me. Taking cue from south of the border, U.S. markets look ready for yet another sector rotation. The outperforming growth stocks have stalled, and capital has begun flowing out of frothy technology stocks into the cheaper and more economy-sensitive financials. Rising interest rates should be a tailwind for this rotation. Having suffered a meaningful correction mostly because of the Home Capital debacle, Canadian banks might be ready to rally along with their U.S. cousins. Clearly, the depressed Energy sector would be a much preferred candidate to lead a market recovery in Canada. However, three years after the most recent oil price peak, there seems to be plenty of confusion and very little conviction among investors regarding the oil market direction. I have recently come across no investor willing to make a call on the Energy sector. So until there is better leadership clarity, I have begun dipping my toe into the bank stocks for the first time in years. I think there is time left for an advance before the credit concerns of an aging cycle cause serious damage to the fundamentals.

The portfolios were in good shape for the recent correction in the Canadian financial sector with three short positions: Great-West, Bank of Commerce (for the heaviest mortgage loan exposure) and a small Element Fleet short position against long ECN Capital position. Oh, and a frustratingly small Short HCG (500 shares) position -profitably covered now.

The bombshell Amazon purchase of Whole Foods left the portfolios equally unscathed, principally because we had no exposure to U.S. retail stocks, food or otherwise. The exception was a position in Whole Foods. This transformational development will have significant implications not only for the retailing industry, but will affect the distribution of almost all consumer goods. I could fill pages with a discussion of how this event will revolutionize the Consumer sector, but perhaps I can do that after the deal closes. The crucial thing to realize is that AMZN+WFM will over (a long) time shrink margins in the entire consumer sector. However, the solution is not as simple as shorting the most vulnerable consumer stocks, as it is too early to gauge reaction from the industry players. The most likely outcome will be consolidation within the industry to gain a better position to ward off the 800 pound gorilla. There is no question that the inventive American minds will eventually create a new winning model that is able to grow and prosper in this new environment.

**Fixed Income**

**Performance Summary**

A significant portion of our performance came from shorter dated credits (between 1-4 years to maturity), as we keep the portfolio positioned defensively. Broad market credit spreads narrowed 5bps in June after widening in May and currently sit at similar levels to where we started the Quarter (using the BAML Canada Corporate Index).
Interest rates were the big story in June with rates rising 35bps on the month. The Bank of Canada acknowledged the strong economic data and caught the market by surprise with their change of tone. While people were expecting zero rate hikes in early June, two hikes are now fully priced into the market through end of 2017 (BoC officially hiked July 12th for the first time since 2010).

Pure Credit (no rates) and preferred shares were among the only asset classes with positive performance in June. The S&P/TSX Composite sold off on lower oil. We’ve seen an increase in the correlation between equities and interest rates which hurts traditional portfolio allocation strategies (Equities and Bonds). This means that investor’s fixed income (with interest rate exposure) holdings are not providing the compensation previously obtained when equity holdings sold off.

Market Snapshot

<table>
<thead>
<tr>
<th>Canadian Credit (BAML Canada Corporate OAS)</th>
<th>Tightened 5bps</th>
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<tbody>
<tr>
<td>U.S. Credit (Barclays US Aggregate Credit OAS)</td>
<td>Tightened 4bps</td>
</tr>
<tr>
<td>Canadian Equities (TSX/S&amp;P Total Return)</td>
<td>-0.76%</td>
</tr>
<tr>
<td>U.S. Equities (S&amp;P 500 Total Return)</td>
<td>+0.62%</td>
</tr>
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<td>Source: Bloomberg LP</td>
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Canadian Interest Rates (GoC 10 Year) | Rose 35bps

| U.S. Interest Rates (US 10 Year) | Rose 10bps
| CAD/USD | +4.2%
| Crude Oil | -5.2%

Noteworthy Trades/Positions that Performed

Shaw Communications

- One of our best performing names was Shaw Communications which announced a sale of its data center business ViaWest for $2.3B (it payed $1.3B for it less than 3 years ago) and bought spectrum from Quebecor for less than markets expected. We were overweight this name and spreads came in roughly 30bps.

- Moody’s upgraded the ratings to “Outlook Positive” as it sees this move creating flexibility in growing a higher growth business line while removing a non-core business that could distract management from its goal of becoming a credible 4th national wireless competitor.

Canadian Bank NVCC Positions

- The portfolio’s NVCC bank bonds performed well, as securities within this part of the capital structure are now being considered for inclusion in the index. The market saw a sharp increase in demand (spreads tightened 15-24bps) as the probability of passive indexers needing to buy in the future emerged. As you’ll recall, our PM’s are overweight the Bank (financials) sector, and this positioning contributed to approximately half of our return on the month.

Noteworthy Trades/Positions that did not Perform

Protection

- Given the 5bps of tightening within the broad IG Credit markets, our portfolio’s downside protection did not directly contribute to performance in June. That said, the Fund continues to hold these protection trades, as they remain an extremely cheap (given ultra-low volatility levels) and effective way to help preserve capital and insulate the Fund if we see market weakness.
Final Thoughts

The portfolio remains defensively positioned in high quality bonds with a shorter maturity profile than the index providing investors with a strong risk-adjusted current yield (carry). The Fund is extremely flexible and we will look to add positions when we believe the market more appropriately compensates for the additional risk.

Thank you for your continued interest in the Exemplar Growth and Income Fund. For further information, please contact your regional Arrow Capital Management representative.

Sincerely,

Arrow Capital Management Inc.