SAGE PAGE

G. Bradley Moore CFA
Portfolio Manager

David Sherlock
Portfolio Manager

Geoff Richardson, B.Com
Trading & Research Specialist

Marshall Evens, BBA
Client Service Coordinator

SAGE INVESTMENT ADVISORS
Raymond James Ltd.

www.SAGEinvestmentadvisors.com

As we celebrate SAGE's sixth year anniversary we would like to THANK YOU for your interest and support!

Since inception (June 30, 2010) the SAGE equity model has generated a total return of 93.13%. This equates to an **11.59%*** compound annual growth rate ("*CAGR"), /KAY • grr/.*

In addition to delivering superior risk adjusted returns, SAGE was founded on the principle of transparency regarding precisely:

- How your money is invested
- What investments you hold
- What fees you pay
- Your bottom line = How much money you make

In this anniversary issue we'd like to give you a closer/more transparent look at our investment management process…*Where the Rubber Meets the Road*. We have pulled our chronicled transactions for a company that we recently held in the model which illustrates SAGE's three pronged investment management process:

i. Stock selection. Our equity model typically holds the best 40 stocks identified in our database of over 22,000 companies based on profitability, value, and dividend policy.

ii. Investment allocation. Our allocations, and therefore our portfolio construction, are determined by both the volatility of the stock relative to the market (beta) and the volatility of the stock to itself (sigma).

iii. Harvesting volatility. Despite solid earnings, stock prices can fluctuate dramatically. This presents opportunities to harvest volatility by trimming and adding to our positions. At SAGE, we have developed a **S**ystematic **M**e **A**n **R**eversion **T**rading ("SMART") process that mitigates risk and generates incremental profits over 'buy and hold' strategies.

For a more detailed explanation of our methodology and process please see page 3 of the *Q1 2016 SAGE Page.*

Our process is designed to work in all environments and take advantage of price opportunities as fundamentals hold while investor emotions fluctuate. In SAGE's *2016 Investment Outlook* we cited geopolitical risk in the "eurozone related to the immigration crisis". Since then, the "Brexit" exit has come to fruition. As investors we must remember that there is always another Brexit boogie man lurking around the corner…oil prices, Russia, ISIS, Ebola, Hong Kong, to name a few recent ones.

INVESTMENT SELECTION:

Our multi-factor quant model continuously screens and ranks the over 22,000 companies in our stock universe. On March 24, 2015, it identified Transcontinental as an investment candidate.

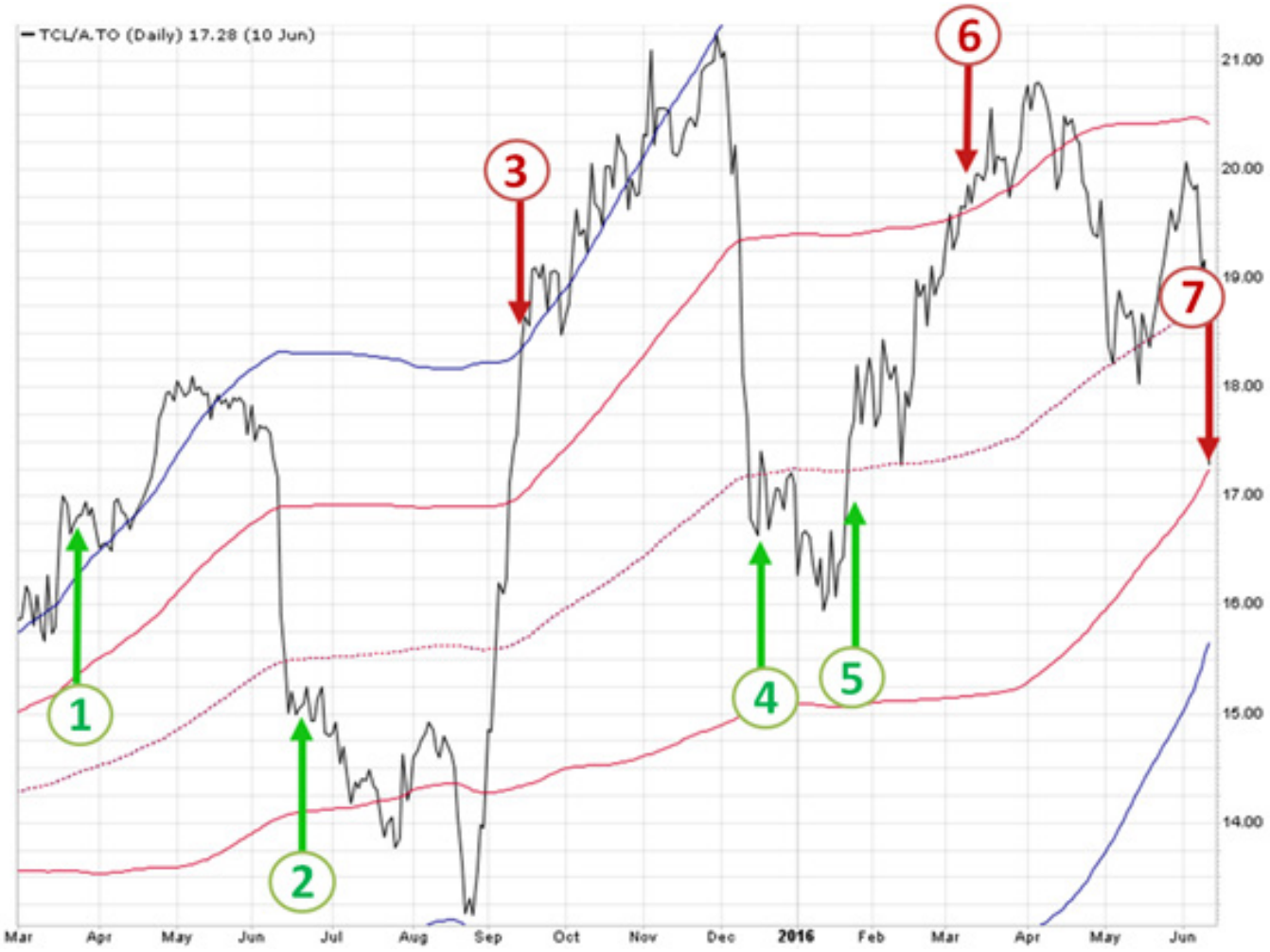
Transcontinental Inc. (TCL.A) is a Canadian company with operations in print and digital media, publishing and flexible packaging. It hit our radar based on the following metrics:

- Return on equity (ROE): 21.8%
- Earnings yield: 12.9%, (P/E =7.8X)
- Dividend yield: 3.9%
- Dividend growth rate: 15.0%

Transcontinental offered a pure value play trading at a low price-to-cash-flow multiple of 4.4 times. Initially, we gave TCL.A a price target of $20.50 on 2.28 earnings per share (EPS) for the year. Total return potential of 16.2% +/-.

Trading Process:
Our trading decisions are both data and price driven. We trade as new data becomes available, and as the price changes significantly. We have summarized our TCL.A transactions below***.

Transcontinental Inc. (TCL.A) Trading History



Green = BUYS. Red = SELLS.

1. **INITIAL BUY**
   DATA DRIVEN: TCL.A screened well with strong fundamental metrics, combined with our research suggesting a buy.
   3/27/2015, $17.76:

   INITIAL WEIGHTING:
   - **Our portfolio construction criteria suggested this initial weight of 1.30%.**
   - **We also stated at the time we would add to our position if the stock traded close to $15.00 (with fundamentals still intact).**

2. **ADD**
   PRICE DRIVEN: Even with a strong Q2 earnings report TCL.A traded down giving us an opportunity to add.
   3.45% weight, 6/17/2015, $15.89:
   - **As TCL.A slipped we increased our position in the model to 3.45%.**

3. **TRIM**
   PRICE DRIVEN: *A strong Q3 earnings report gave an opportunity to sell into strength.*
   1.80% weight, 9/15/2015, $18.7023:
   - **TCL.A jumped 17.6% higher in three months so we trimmed into this strength as we felt the stock needed to build an investor base in the $19.00 range.**

- **ADD**
  PRICE DRIVEN: Added into earnings season as we expect strong fundamental growth. 2.75% weight, 12/16/2015, $17.63.
  - **After trading for a couple months in a statistically high range TCL.A reverted down once again.**
  - **We used this as an opportunity to add to our position and increase our weight to 2.75%.**

4. **ADD**
   DATA DRIVEN: Earnings growth driven by acquisitions and new strategic relationship warrants increased portfolio weighting. 4.00% weight, 1/26/2016, $18.39.
   - **Metrics remained very strong; ROE is 19.7%, E/Y is 13.5%, dividend is 3.85% with 10.5% dividend growth.**

5. **TRIM**
   PRICE DRIVEN: In March TCL.A traded above the expected price range; up 10.87% since our last add six weeks earlier. 2.00% weight, 3/9/2016, $20.39.
   - **We paired back our position to a 2.00% weight to take profits and reduce risk.**

6. **FINAL EXIT**
   DATA DRIVEN: Weak Q2 earnings and industry conditions justify an exit. 6/10/2016, $17.16.
   - **TCL.A missed on earnings, on Friday June 10. We exited noting the deterioration in the company's fundamentals.**

CONCLUSION:

In summary, we attempt to add value in three ways:

1. Beat the market with our stock selection process.
2. Reduce risk through our investment allocation process
3. Beat the buy and hold strategy by executing our SMART process.

So how did we do?

1. During this time the TSX fell by 5.23%. On a buy and hold basis Transcontinental, including dividends, grew by 1.52% - thus beating the market by 675 basis points.
2. The risk of a portfolio is measured by its beta. The lower the beta the lower the risk. The stock market has a beta of 1.0 and the SAGE Equity Model's three year daily beta is 0.62 (TSX) and 0.64 (S&P 500). While stock selection and the SMART process contribute to reducing risk, we believe our allocation process also plays an important role.
3. And the chronicled trades above generated a total return of **35.78%**. Check, check and double check.

Total returns include dividends received during the holding period, and are calculated using Modified Dietz.** ***CLICK HERE FOR THE MATH.

We look forward to discussing how our suite of investment and wealth management services can help you achieve your financial goals and peace of mind. You can contact us at *info.SAGE@raymondjames.ca*, or by phone (403)221-0308.

Wishing you a wonderful summer!

Geoff Richardson, B.Com

David Sherlock, BA (ECON), AICB, PFP, FMA, CIM, FCSI

G. Bradley Moore, CFA

Marshall Evens, BBA

RJ Disclosures

**11.59% Compounded Annual Growth Rate was calculated by Dataphile based on an actual client investment account managed in accordance with the SAGE Equity Model. Inception date = 06/30/2010. All calculations are before fees. CLICK HERE TO SEE OUR FEE SCHEDULE*

***Client's performance may differ from that of the model performance described due to timing of cash flows, management fees, etc.*

**** Trade log taken from the SAGE Equity Model and David's CIO notes to the team*

This newsletter has been prepared by SAGE Investment Advisors and expresses the opinions of the authors and not necessarily those of Raymond James Ltd. (RJL). Statistics and factual data and other information in this newsletter are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. This newsletter is intended for distribution only in those jurisdictions where RJL and the author are registered.

Securities-related products and services are offered through Raymond James Ltd., member – Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a member – Canadian Investor Protection Fund.

This newsletter has been prepared by SAGE Investment Advisors and expresses the opinions of the authors and not necessarily those of Raymond James Ltd. (RJL). Statistics and factual data and other information in this newsletter are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. This newsletter is intended for distribution only in those jurisdictions where RJL and the author are registered.

Securities-related products and services are offered through Raymond James Ltd., member – Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a member – Canadian Investor Protection Fund.