ONE CAPITAL MANAGEMENT, LLC

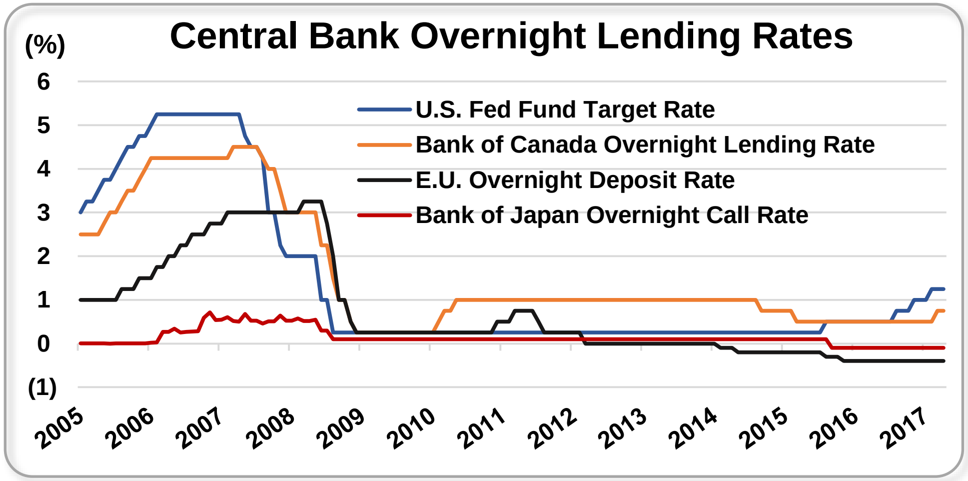
Playbook

Autumn 2017

Our *Playbook* is designed to share our quarterly views in a visual presentation with comments providing context to what we believe are the pertinent issues of the most recent quarter and what we see moving forward.

Winds are Changing

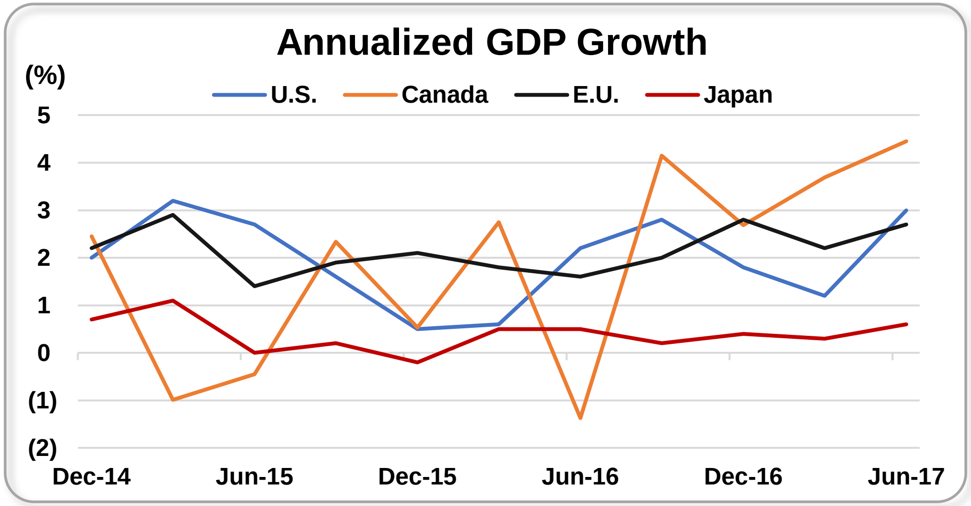
- *Central banks in the U.S., Europe, Canada and Japan lowered overnight policy interest rates toward zero during the 2007-2008 financial crisis and they have remained low since. Combined with Quantitative Easing (QE), bond purchases by central banks to inject cash into the banking system, low interest rates have provided a tailwind to stock and bond markets.*
- *Policy "normalization" is now an important theme with the U.S. Federal Reserve Bank, European Central Bank (ECB) and Bank of Canada (BOC) all beginning or considering interest rate hikes and the tapering of QE.*
- *Stock and bond prices are vulnerable to hikes and tapering.*



** Source: Bloomberg, OCM analysis. Note: Time period is from 5/1/2005 to 8/31/2017. From 5/1/2005 to 10/31/2008, the Bank of Japan rate is taken from the Bank of Japan Result Unsecured Overnight Call Rate Index (MUTKCALM Index). From 11/1/2008 to 8/31/2017, the Bank of Japan rate is taken from the Bank of Japan Policy-Rate Balance Rate Index (BOJDPBAL Index).*

Global Economies Continue to Improve

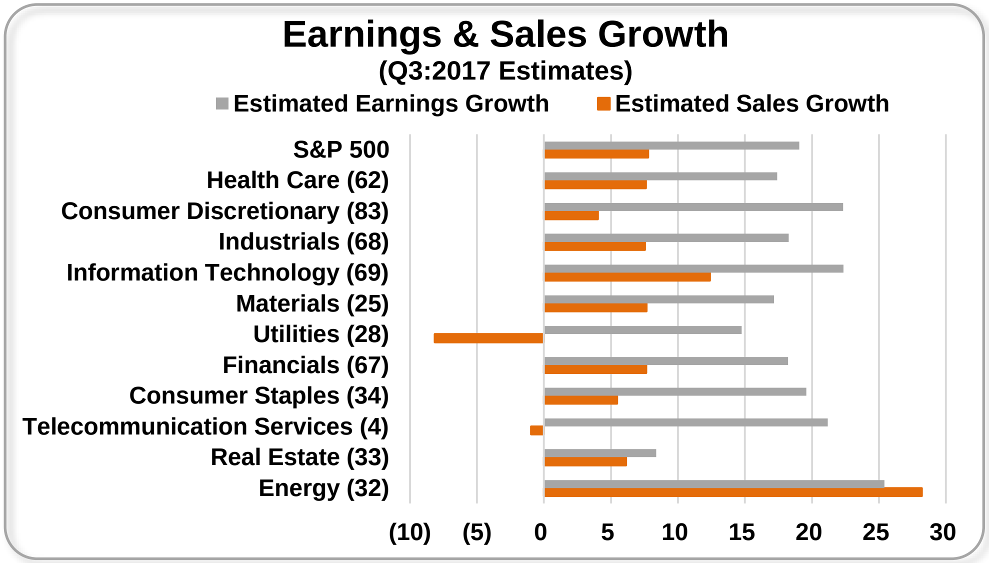
- *Global economic growth has exhibited an improving trend in major world economies throughout 2017.*



Time period is from 12/31/14 to 6/30/17. Annualized GDP growth is represented by the quarter over quarter percent change from the previous quarter, seasonally adjusted and annualized.

Low Interest Rates Support Earnings & Sales Growth

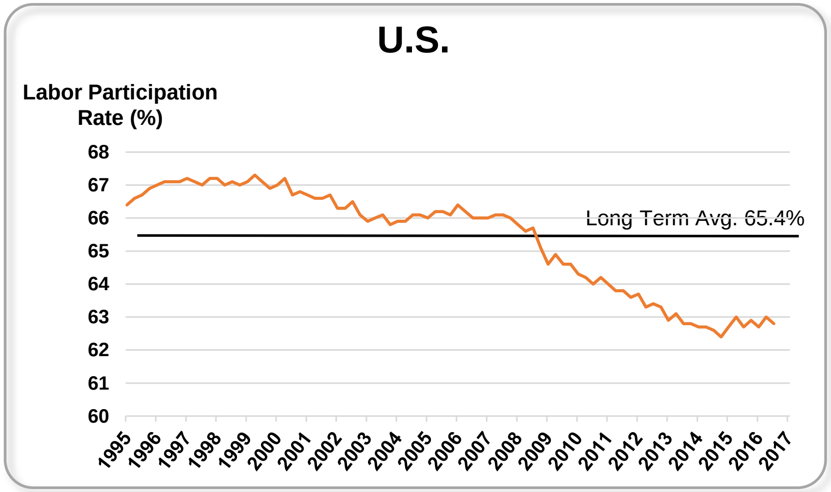
- *Earnings and sales growth for U.S. companies has remained robust in 2017. The S&P 500 estimated earnings and sales growth is 19.0% and 7.8%, respectively.*
- *Nine out of eleven sectors are expected to report positive sales growth in the third quarter of 2017. All eleven sectors are expected to report positive earnings growth.*
- *Structurally low interest rates, healthy underlying corporate fundamentals supporting rising corporate earnings, free cash flow and balance sheet strength provides a solid foundation for stock valuations.*

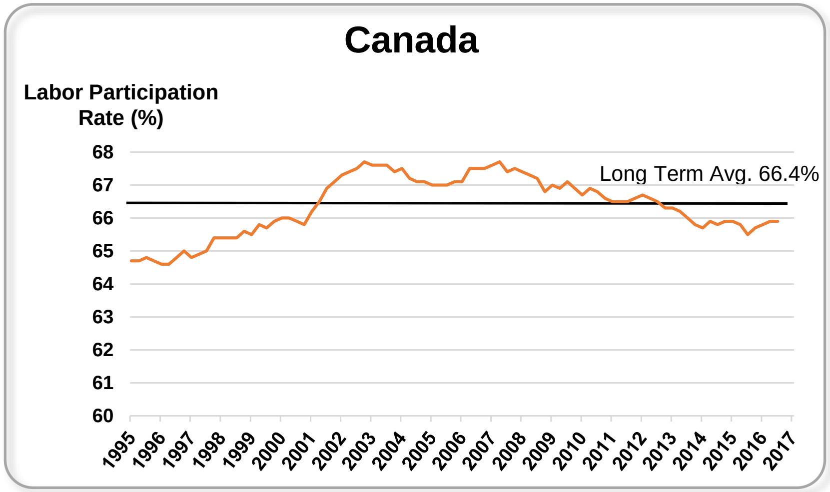


Source: Bloomberg, One Capital Management, LLC, and IBES estimates. Data is sales and earnings growth of the companies in the S&P 500 index, segregated by sector for Q2:2017, year-over-year percentage growth over Q3:2016.

Labor Participation Rate has Suppressed Inflation

- *Inflation in the U.S. has lingered below the U.S. Fed bank target level of 2% for the past five years due to lack of wage growth.*
- *Sluggish wage growth driven by the low labor participation rate has recently stabilized and ticked up. Wage growth and the labor participation rate drive inflation trends.*
- *Canadian employment has steadily risen over the past two years and inflation has remained benign. Monetary tightening by the Bank of Canada is likely to keep inflation under its 2% target.*
- *Higher inflation numbers could cause more rapid interest rate hikes by central banks.*

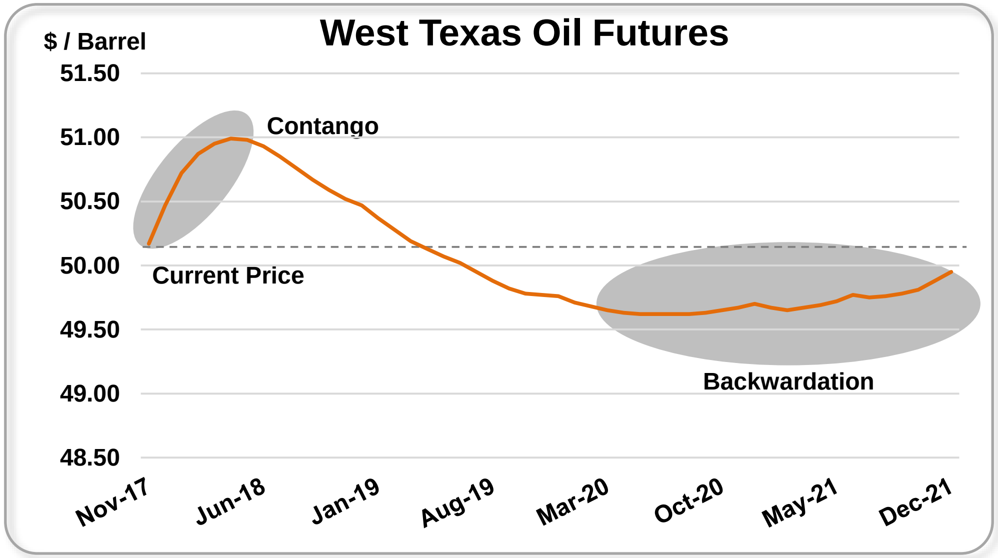




Source: US: Bureau of Labor Statistics, Canada: STCA, Statistics Canada, OCM analysis. Note: The U.S. and Canadian labor participation rates are from 12/31/1995 to 6/30/2017.

Is Oil Hitting a Ceiling?

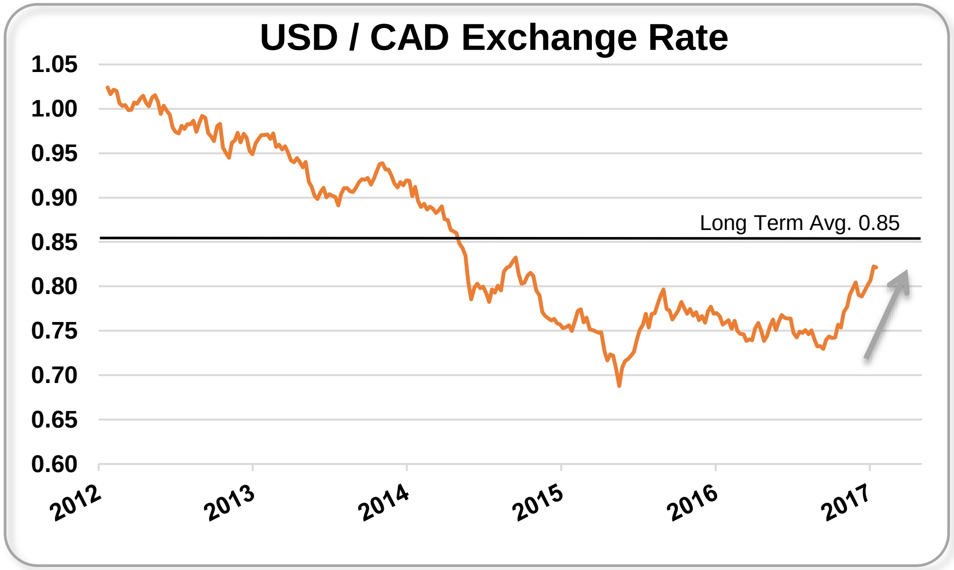
- *Oil prices rose 13% during September 2017 on the back of OPEC production cuts. West Texas Intermediate (WTI) crude oil rose from $46 to $51 (per barrel) over the month.*
- *Oil futures markets currently exhibit contango (when futures prices are above the current price) in the front months and backwardation (when futures prices are below the current price) in the far months, indicating oversupply in the short-term and prices that have been driven down by shale oil producers hedging in the long-term.*
- *It may be difficult for OPEC and Russia to sustain oil prices above the $50-55 (per barrel) range on WTI in the medium-term as North American shale oil producers will likely increase production and supply at those price levels.*



Source: Bloomberg, RBC Capital Markets, OCM analysis. Note: Time period is from 11/2017 to 12/2021.

Stronger Loonie

- *The Canadian dollar (CAD) lost about 25% of its value against in the US dollar in the 2014-16 time frame as oil prices fell. The average annual value of 0.75 USD/CAD in 2016 left the CAD at its weakest since 2003. Since early September 2017, the CAD has reversed trend and appreciated due to two main factors:*
    - *First, strong GDP growth in Canada in the first half of 2017 convinced the Bank of Canada (BOC) to raise interest rates sooner than expected. Two rate hikes increased the BOC overnight lending rate from 0.50% to 1.00% in the span of just two months.*
    - *Second, a rebound of almost 20% in oil prices since June 2017 provided further support to the CAD as it portends stronger economic growth in part due to more profitable oil production.*



Stronger CAD after long period of weakness

Source: Bloomberg, OCM analysis. Note: Time period is from 9/21/2012 to 9/14/2017.

Risk Factors

- ***Central Bank Policy.*** *Aggressive monetary tightening by global central banks could pose risk to stock and bond valuations in coming months. This could take the form of faster-than-expected interest rate hikes or a more rapid reduction in Quantitative Easing (bond purchase programs) than currently priced in by the U.S., European and Canadian investors. The new Chair of the U.S. Fed could take a more hawkish stance than the present Chair, Janet Yellen, whose term expires on February 1, 2018. Conversely, dovish central bank policy and deregulation may continue to be supportive of financial markets.*
- ***Oil Market.*** *Recent fluctuations in oil prices may impact energy exporting countries and companies that generate a large component of sales and earnings from oil and oil-related markets. The oil price may also be a driver of short-term inflation, which could impact central bank policy and have an indirect effect on securities prices and investment portfolios.*
- ***U.S. Debt Ceiling.*** *Current U.S. debt ceiling limits expire in December 2017 and could set up a showdown between conservative lawmakers who advocate fiscal responsibility and liberal lawmakers who would like to see the debt ceiling abolished altogether to reduce its leverage in political negotiations. Lawmaker disagreements on debt ceiling increases has in the past prompted credit rating agencies to downgrade U.S. government bonds and could present a risk factor if not resolved smoothly.*
- ***U.S. Legislative Gridlock.*** *A series of setbacks for the presidential agenda include failure to pass healthcare reform and tax reform. Further legislative gridlock could present small-to-moderate investment risk going into 2018 mid-term elections if the congressional balance of power shifts in a less-favorable manner for financial markets.*
- ***North Korea.*** *Escalation of tensions with North Korea, up to and including active military engagement, could frighten investors and pose some risk to stocks and corporate bonds, depending on the nature and severity of the developments.*
- ***Natural Catastrophes.*** *Recent hurricanes and floods in Texas, Florida and the Caribbean have not had a detrimental effect on financial markets despite tragic and widespread humanitarian impact. That said, response efforts including massive insurance claims, commercial and residential property reconstruction, vehicle replacement and migration patterns of those populations affected have significant impact on particular sectors and companies.*

Source: Bloomberg, OCM analysis. Note: Time period is from 9/21/2012 to 9/14/2017.

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MANAGEMENT, LLC

October 20, 2017