





Quarterly Investment Update

Fourth Quarter 2016


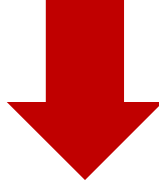



Market Update: A Quarter in Review

December 31, 2016





CANADIAN STOCKS

| Large Cap | Small Cap | Growth | Value |
|---|---|---|---|
| +5.59% | +0.46% | -1.05% | +10.55% |
|  |  |  |  |






INTERNATIONAL STOCKS

| Large Cap | Small Cap | Growth | Value | Emerging |
|---|---|---|---|---|
| +1.64% | -0.87% | -3.29% | +6.64% | +0.92% |
|  |  |  |  |  |

US STOCKS

| Large Cap | Small Cap | Growth | Value |
|---|---|---|---|
| +6.28% | +11.41% | +3.60% | +9.78% |
|  |  |  |  |

REAL ESTATE AND FIXED INCOME

| Global REITs | 1-Month T-Bills | Short-Term Bonds | Intermediate Bonds | Global Bonds (hedged) |
|---|---|---|---|---|
| -2.86% | +0.12% | -0.50% | -3.44% | -0.56% |
|  |  |  |  |  |

Data is in Canadian dollars. Market segment (index representation) as follows: Canadian stocks: Large Cap (S&P/TSX 60), Small Cap (MSCI Canadian Small), Growth (MSCI Canadian Growth), Value (MSCI Canadian Value); US stocks: Large Cap (S&P 500), Small Cap (Russell 2000), Growth (Russell 3000 Growth), Value (Russell 3000 Value); International stocks: Large Cap (MSCI EAFE [net div]), Small Cap (MSCI EAFE Small Cap [net div]), Growth (MSCI EAFE Growth [net div]), Value (MSCI EAFE Value [net div]), Emerging Markets (MSCI Emerging [net div]); Real Estate: Global REITs (S&P Global REIT [net div]); Fixed Income: Canadian (Canadian 1-month T-bills), Short Term Bonds (FTSE TMX Canada Short-Term Bond), Intermediate Bonds (FTSE TMX Canada Universe Bond), Global Bonds-Hedged (Citi World Government Bond Index 1-5 Years [hedged to CAD]). Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance does not guarantee future returns.

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Survey of Long-Term Performance

December 31, 2016

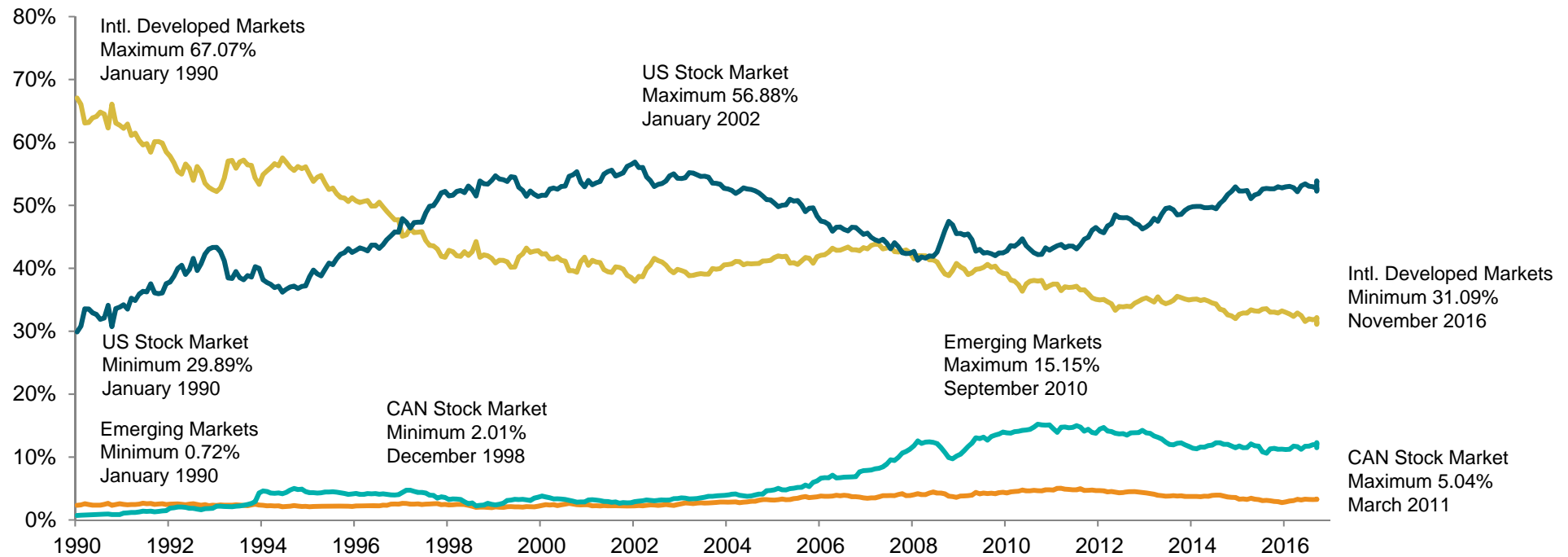
| Asset Class | Index | Annualized (%) | | | | | Since Inception | Inception date |
|-----------------------------|--|----------------|---------|---------|----------|----------|-----------------|----------------|
| | | 1 Year | 3 Years | 5 Years | 10 Years | 20 Years | | |
| CANADIAN STOCKS | | | | | | | | |
| Large Cap | S&P/TSX 60 | 21.36 | 7.92 | 8.99 | 4.86 | 7.77 | 8.70 | Feb-87 |
| Small Cap | MSCI Canadian Small | 27.16 | 3.56 | 3.89 | 3.29 | 6.78 | 8.67 | Jul-90 |
| Growth | MSCI Canadian Growth | 11.68 | 7.05 | 6.37 | 3.08 | 6.06 | 7.15 | Jan-82 |
| Value | MSCI Canadian Value | 32.38 | 6.12 | 9.15 | 5.59 | 9.51 | 11.05 | Jan-82 |
| US STOCKS | | | | | | | | |
| Large Cap | S&P 500 | 8.66 | 17.72 | 21.17 | 8.47 | 7.57 | 11.27 | Feb-51 |
| Small Cap | Russell 2000 | 17.73 | 15.42 | 20.96 | 8.59 | 8.14 | 12.02 | Jan-79 |
| Growth | Russell 3000 Growth | 4.23 | 17.07 | 20.94 | 9.82 | 6.70 | 11.18 | Jan-79 |
| Value | Russell 3000 Value | 14.91 | 17.38 | 21.34 | 7.26 | 8.29 | 12.64 | Jan-79 |
| INTERNATIONAL STOCKS | | | | | | | | |
| Large Cap | MSCI EAFE (net div.) | -1.98 | 6.40 | 12.58 | 2.18 | 4.07 | 9.14 | Jan-70 |
| Small Cap | MSCI EAFE Small Cap (net div.) | -1.35 | 10.34 | 16.81 | 4.42 | 5.55 | 6.58 | Jan-93 |
| Growth | MSCI EAFE Growth (net div.) | -5.90 | 6.83 | 12.73 | 3.08 | 3.24 | 8.99 | Jan-75 |
| Value | MSCI EAFE Value (net div.) | 1.93 | 5.81 | 12.32 | 1.20 | 4.75 | 11.78 | Jan-75 |
| Emerging Markets | MSCI Emerging Markets (net div.) | 10.93 | 4.24 | 5.38 | 3.43 | 6.09 | 11.01 | Jan-88 |
| REAL ESTATE | | | | | | | | |
| Global REITs | S&P Global REIT (net div.) | 2.65 | 17.40 | 16.00 | 3.58 | 7.94 | 8.70 | Jul-89 |
| FIXED INCOME | | | | | | | | |
| Canadian Bills | Canadian 1-Month T-Bills | 0.47 | 0.64 | 0.76 | 1.23 | 2.38 | 6.17 | Jun-73 |
| Canadian Short-Term Bonds | FTSE TMX Canada Short-Term Bond | 1.01 | 2.22 | 2.08 | 3.56 | 4.48 | 7.75 | Jan-80 |
| Canadian Bonds | FTSE TMX Canada Universe Bond | 1.66 | 4.61 | 3.22 | 4.78 | 5.82 | 8.92 | Jan-80 |
| Global Bonds (hedged) | Citi World Government Bond Index 1-5 Years | 1.34 | 1.86 | 1.98 | 3.01 | 3.92 | 6.30 | Jan-85 |

Data is in Canadian dollars. MSCI EAFE Small Cap Index return is price-only prior to January 1999 data inception. MSCI Emerging Markets Index return is gross dividends prior to January 1999 data inception. S&P Global REIT Index return is gross dividends prior to January 2001 data inception. S&P/TSX data provided by S&P/TSX. MSCI data copyright MSCI 2017, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995-2017, all rights reserved. Canadian fixed income data provided by FTSE TMX Global Debt Capital Markets Inc., all rights reserved. Citigroup bond indexes copyright 2017 by Citigroup. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Value of Stock Markets around the World

January 1990–December 2016

| | Number of Countries | Number of Stocks | Total Value | Weights | | |
|-------------------|---------------------|------------------|-----------------------|-------------------|---------------------------|---------------------|
| | | | | December 31, 2016 | Change from Previous Year | 01/90-12/16 Average |
| Canada | 1 | 320 | 1.57 Trillion | 3.3% | ↑ +15.8% | 3.1% |
| United States | 1 | 2,478 | 25.47 Trillion | 53.8% | ↑ +1.5% | 46.7% |
| Developed Markets | 21 | 3,158 | 14.90 Trillion | 31.4% | ↓ -4.7% | 43.5% |
| Emerging Markets | 23 | 2,677 | 5.44 Trillion | 11.5% | ↑ +2.7% | 6.8% |
| Total | 46 | 8,633 | 47.38 Trillion | 100.0% | | |



Global market capitalization weights are not static; they change across time.

Data is in US dollars and values are beginning of month. The proxies for the Canadian and US equity markets are based on the respective country markets from the MSCI All Country World IMI Index. The international developed market proxy is the MSCI All Country World IMI ex USA ex Canada Index. The proxy for emerging markets is the MSCI All Country World IMI Index (Emerging Markets). MSCI data copyright MSCI 2017, all rights reserved.

The Randomness of Quarterly Returns

December 31, 2016

This table shows from top to bottom the highest returning asset classes each quarter over the last 15 quarters. Each asset class is color coded based on the legend below.

| | Q2 2013 | Q3 2013 | Q4 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | Q1 2017 |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Highest Return | 6.31 | 9.26 | 13.67 | 11.38 | 6.41 | 4.99 | 13.77 | 14.37 | 0.14 | 6.26 | 10.18 | 4.54 | 9.02 | 10.68 | 6.68 | ? |
| | 2.52 | 6.25 | 9.01 | 6.12 | 4.16 | 1.31 | 9.16 | 13.00 | 0.02 | 0.66 | 8.75 | 1.39 | 6.41 | 8.05 | 4.54 | ? |
| | 0.24 | 4.15 | 7.29 | 6.06 | 2.87 | 1.06 | 2.70 | 11.49 | -0.71 | 0.15 | 8.56 | 1.13 | 5.60 | 5.98 | 1.64 | ? |
| | -0.14 | 3.58 | 5.00 | 4.76 | 1.99 | 0.71 | 0.70 | 11.01 | -0.79 | 0.12 | 4.36 | 0.38 | 5.11 | 5.45 | 0.12 | ? |
| | -1.02 | 0.68 | 2.09 | 3.62 | 1.21 | 0.50 | 0.23 | 4.15 | -1.26 | -0.91 | 0.98 | 0.12 | 4.93 | 1.29 | -0.56 | ? |
| | -2.36 | 0.26 | 0.45 | 2.77 | 0.79 | 0.23 | 0.02 | 2.58 | -1.63 | -4.10 | 0.11 | -0.77 | 3.31 | 1.19 | -1.90 | ? |
| | -4.08 | 0.11 | 0.38 | 0.78 | 0.45 | -0.59 | -0.94 | 0.82 | -1.71 | -7.86 | -0.06 | -5.23 | 3.11 | 0.12 | -2.86 | ? |
| Lowest Return | -4.84 | -2.23 | 0.24 | 0.20 | 0.23 | -1.19 | -1.47 | 0.20 | -9.19 | -12.28 | -1.40 | -8.96 | 1.41 | 0.06 | -3.44 | ? |

| |
|---------------------------------|
| Canadian Stocks |
| US Stocks |
| International Developed Markets |
| Emerging Markets |
| Global REITs |
| Canadian 1-Month T-Bills |
| Canadian Bonds |
| Global Bonds |

The lack of a pattern indicates that picking which asset classes will be the best or worst performers is virtually impossible.

Portfolios combining these various investments will avoid extreme returns.

Data is in Canadian dollars. Indexes represented as follows: Canadian stocks (S&P/TSX Composite Index), US stocks (Russell 3000 Index), International Developed Markets (MSCI EAFE Index), Emerging Markets (MSCI Emerging Markets Index), Global REIT (S&P Global REIT Index), Canadian 1-Month T-Bills, Canadian Bonds (FTSE TMX Canada Universe Bond Index), Global Bonds (Citi World Government Bond Index Canada 1-5 Years). Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.





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Currency

December 31, 2016

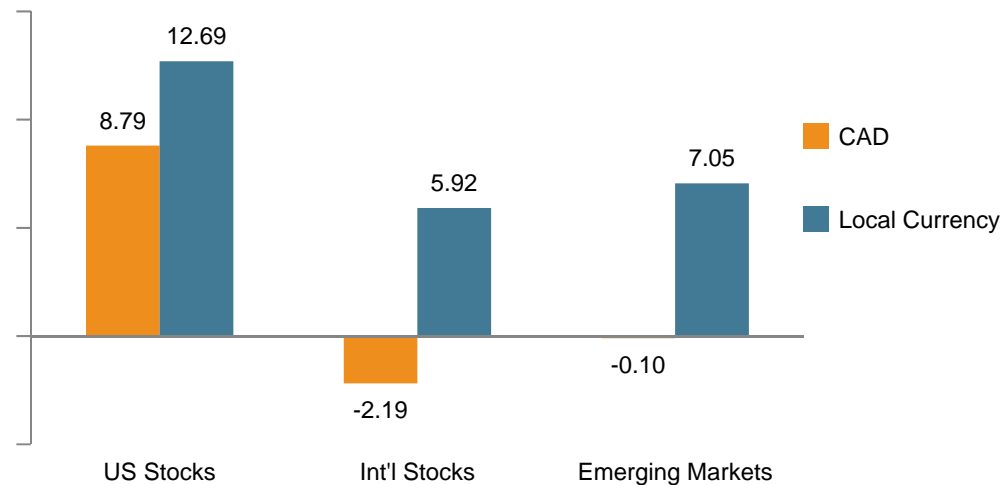
CHANGE IN FOREIGN EXCHANGE RATES (%)

\$CAD/FX

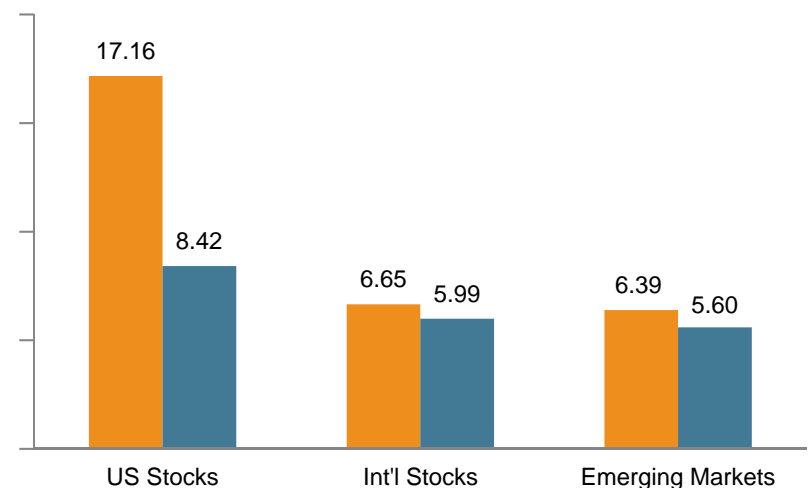
| Currency | Q4 2016 | One Year | Three Years |
|---|---------|----------|-------------|
|  \$ US Dollars | -2.33% | 3.01% | -20.91% |
|  € Euro | 4.34% | 6.37% | 3.54% |
|  £ Pounds | 2.58% | 23.13% | 6.14% |
|  ¥ Yen | 12.73% | 0.15% | -12.13% |

IMPACT OF CURRENCY FLUCTUATIONS

Annual Returns in CAD and Local Currency



Three-Year Annualized Returns in CAD and Local Currency





Data is in Canadian dollars. The market for the United States, International Developed Markets, and Emerging Markets is defined as: Russell 3000 Index, MSCI EAFE Index, and MSCI Emerging Markets Index, respectively. The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995-2017, all rights reserved. MSCI data copyright MSCI 2017, all rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. FX Rates courtesy of Federal Reserve of New York.



MSCI Country Returns in Canadian Dollars and Local Currency

December 31, 2016

FOURTH QUARTER 2016 RETURNS

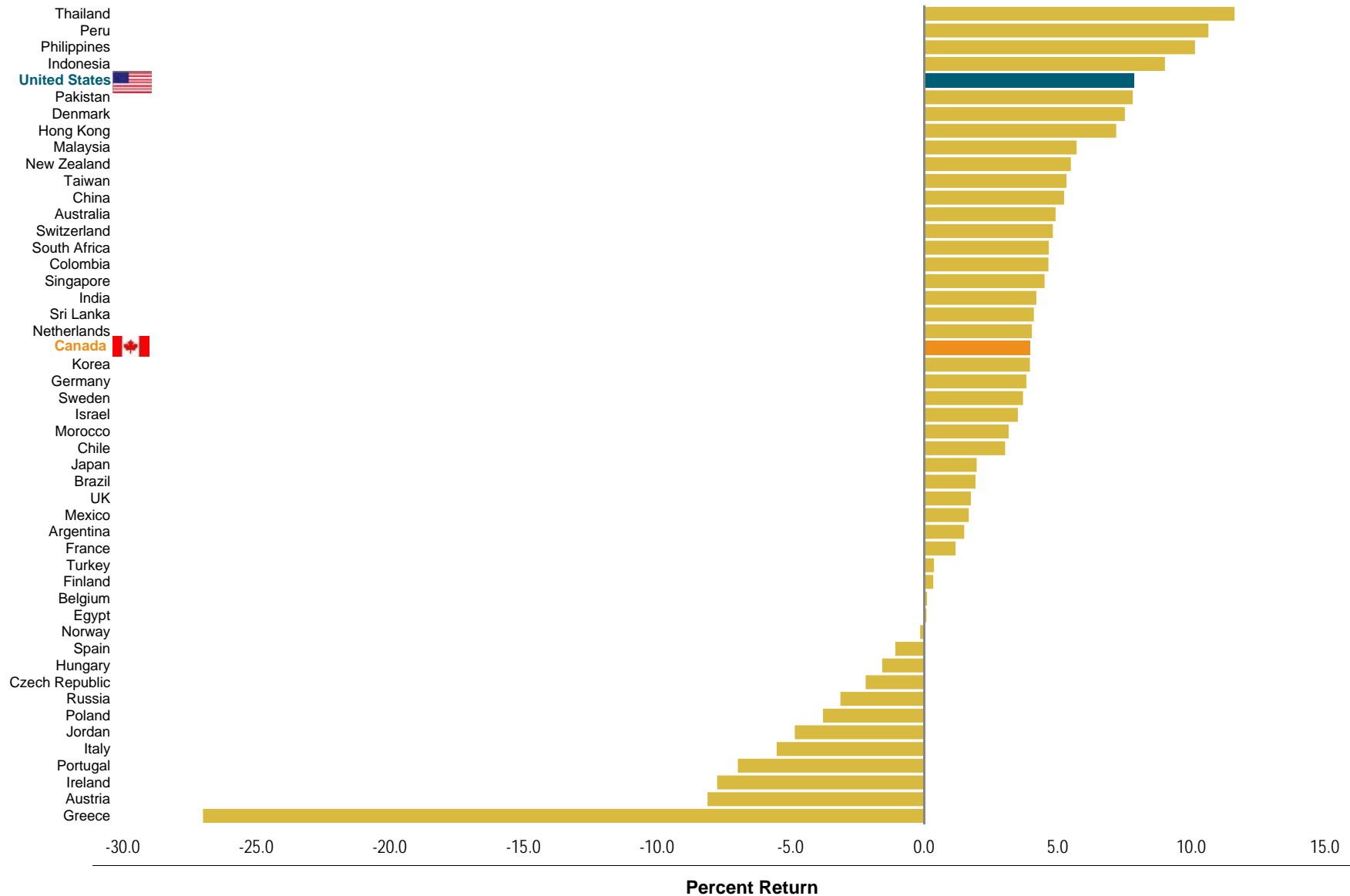
| | Return in CAD | Return in Local Currency | Impact of Currency |
|--|---------------|--------------------------|--------------------|
| 1. Russia | 21.38% | 15.23% | 6.16% |
| 2. Greece | 16.21% | 21.35% | -5.13% |
| . | | | |
|  5. United States | 6.11% | 3.99% | 2.12% |
| . | | | |
|  9. Canada | 4.77% | 4.77% | 0.00% |
| . | | | |
| . | | | |
| . | | | |
| 45. Turkey | -11.82% | 1.31% | -13.12% |
| 46. Egypt | -20.93% | 58.20% | -79.14% |

ONE YEAR RETURNS IN CAD AND LOCAL CURRENCY

| | Return in CAD | Return in Local Currency | Impact of Currency |
|---|---------------|--------------------------|--------------------|
| 1. Brazil | 60.44% | 36.72% | 23.72% |
| 2. Russia | 52.65% | 32.16% | 20.49% |
| . | | | |
| . | | | |
|  7. Canada | 21.91% | 21.91% | 0.00% |
| . | | | |
|  14. United States | 8.71% | 12.61% | -3.90% |
| . | | | |
| . | | | |
| . | | | |
| 45. Israel | -19.31% | -17.33% | -1.98% |
| 46. Egypt | -21.75% | 87.68% | -109.43% |

MSCI Country Returns

Country Rankings—Ten-Year Annualized Returns as of December 31, 2016



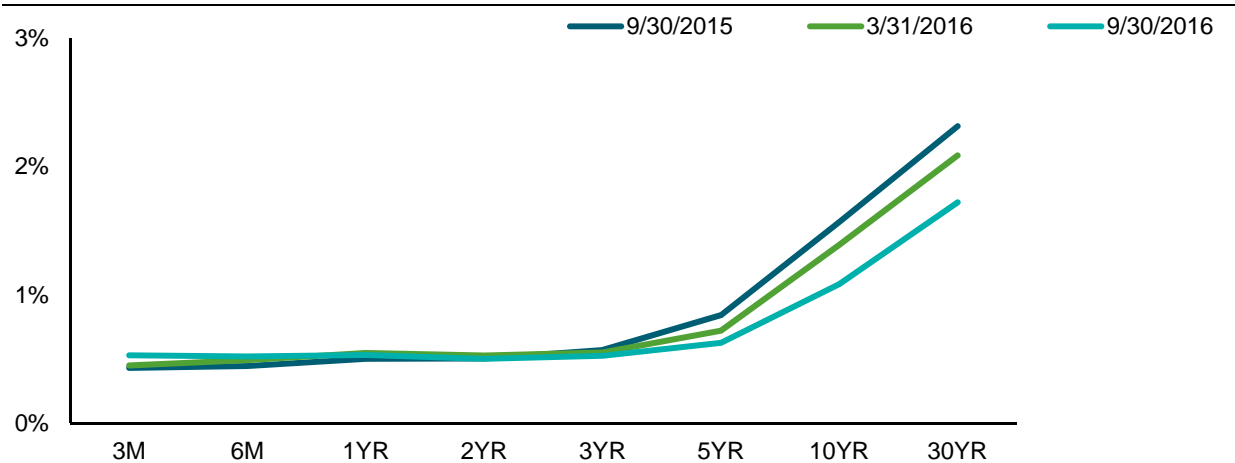
Data in Canadian dollars gross of fees. MSCI data copyright MSCI 2017, all rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Bond Returns

December 31, 2016

| Index | Return (%) | | |
|---|------------|----------|------------------------|
| | Q4 2016 | One Year | Three Years Annualized |
| Canadian 1-Month T-Bills | 0.12% | 0.47% | 0.64% |
| FTSE TMX Canada Short-Term Bond Index | -0.50% | 1.01% | 2.22% |
| FTSE TMX Canada Mid-Term Bond Index | -3.12% | 1.61% | 5.17% |
| FTSE TMX Canada Long-Term Bond Index | -7.54% | 2.47% | 7.71% |
| FTSE TMX Canada Universe Bond Index | -3.44% | 1.66% | 4.61% |
| Citi World Government Bond Index 1-5 Years (hedged to CAD) | -0.56% | 1.34% | 1.86% |

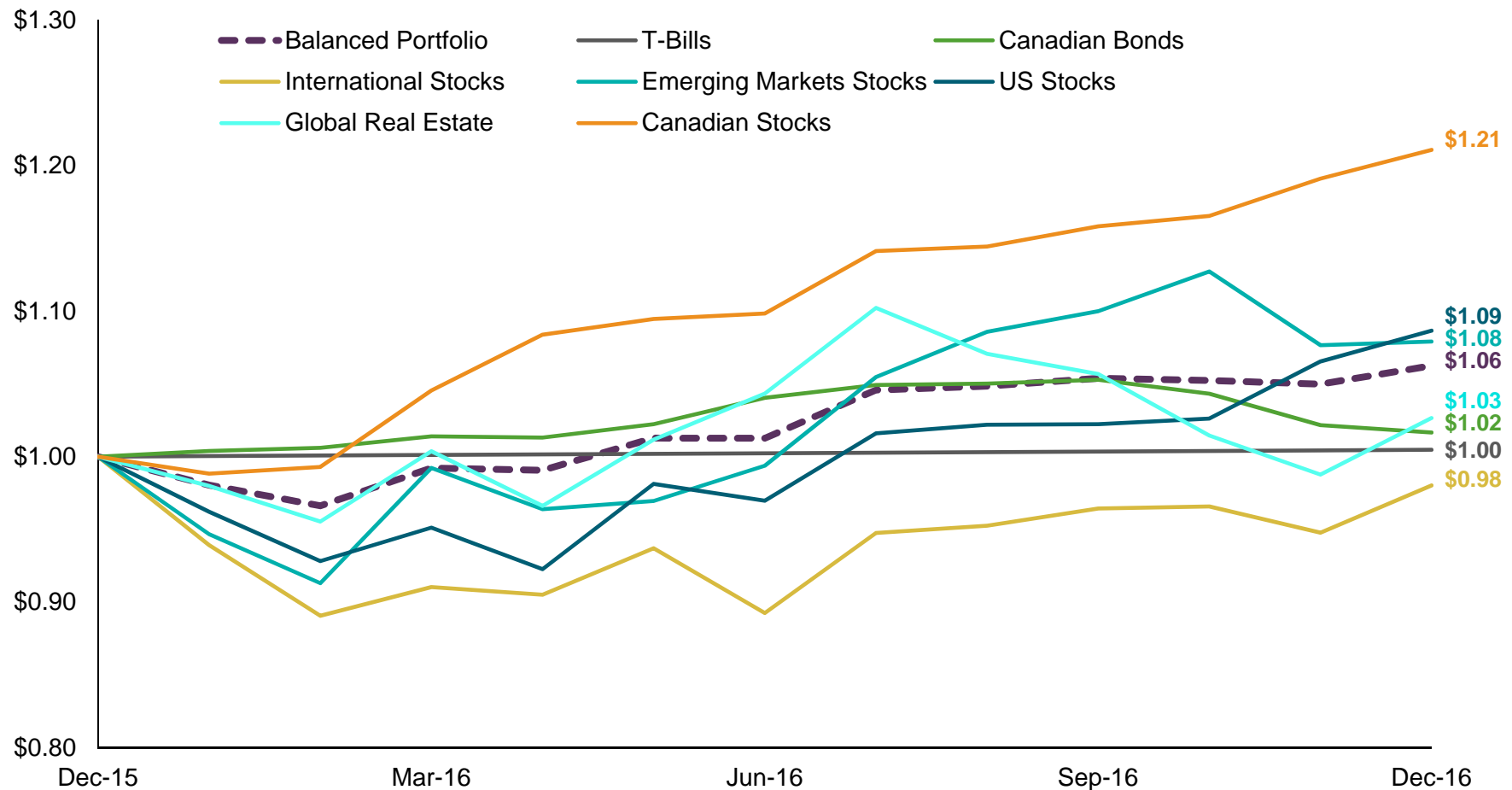
CAN Treasury Yield Curve



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Growth of Wealth

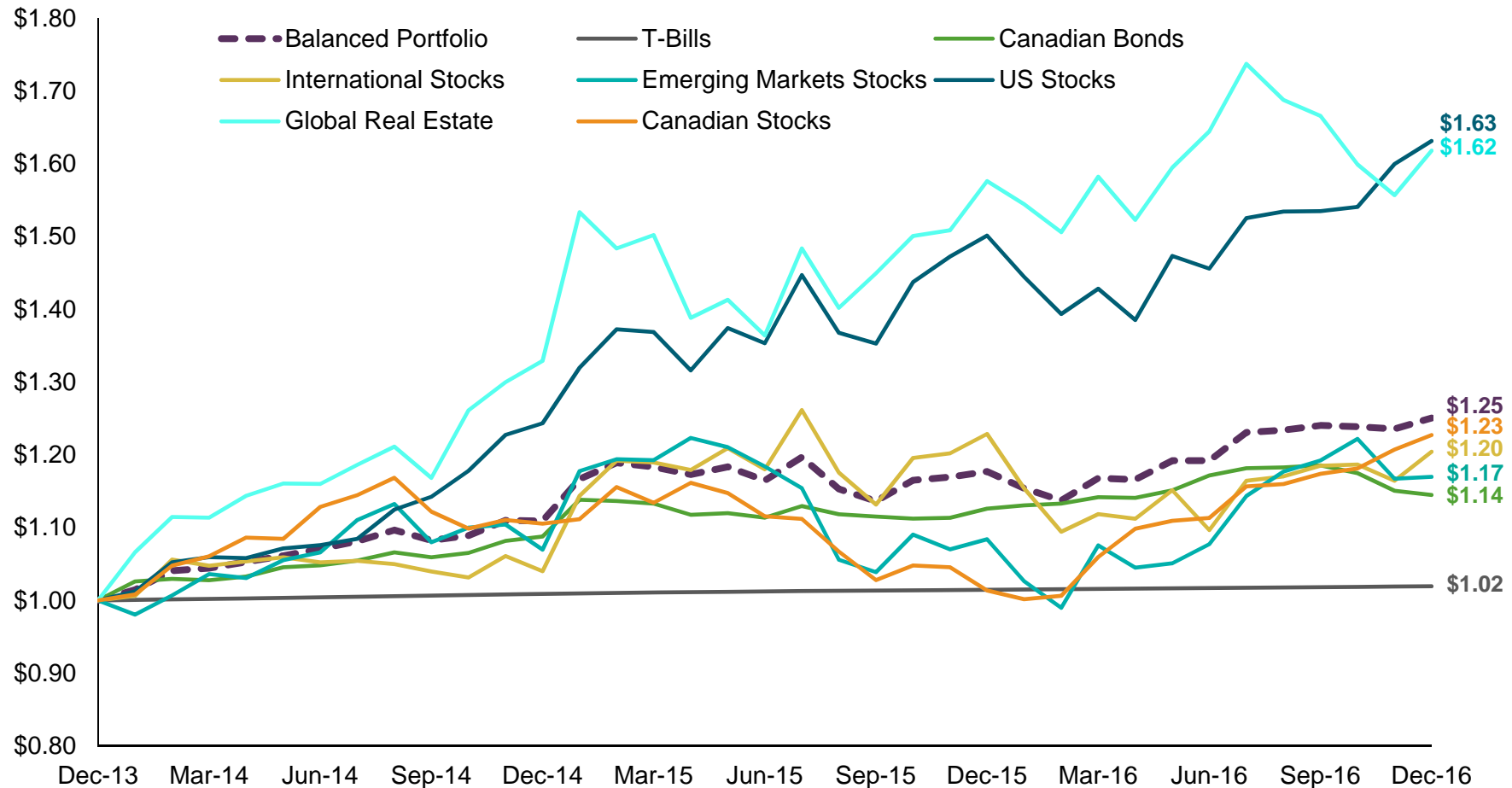
One Year as of December 31, 2016



In Canadian dollars. T-Bills is Canadian 1-Month T-Bills, Canadian Bonds is FTSE TMX Canada Universe Bond Index, International Stocks is MSCI EAFE Index (net div.), Emerging Markets Stocks is MSCI Emerging Markets Index (gross div.) from 01/1988 to 12/1998 and MSCI Emerging Markets Index (net div.) from 01/1999, US Stocks is S&P 500 Index, Global Real Estate is S&P Global REIT Index (gross div.) from 07/1989 to 12/2000 and S&P Global REIT (net div.) from 01/2001 and Canadian Stocks is S&P/TSX Composite Index. Balanced Portfolio is 10% T-Bills, 30% Canadian Bonds, 20% Canadian Stocks, 15% US Stocks, 15% International Stocks, 5% Emerging Markets Stocks and 5% Global Real Estate. Canadian fixed income data provided by FTSE TMX Global Debt Capital Markets Inc., all rights reserved. MSCI data copyright MSCI 2017, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Growth of Wealth

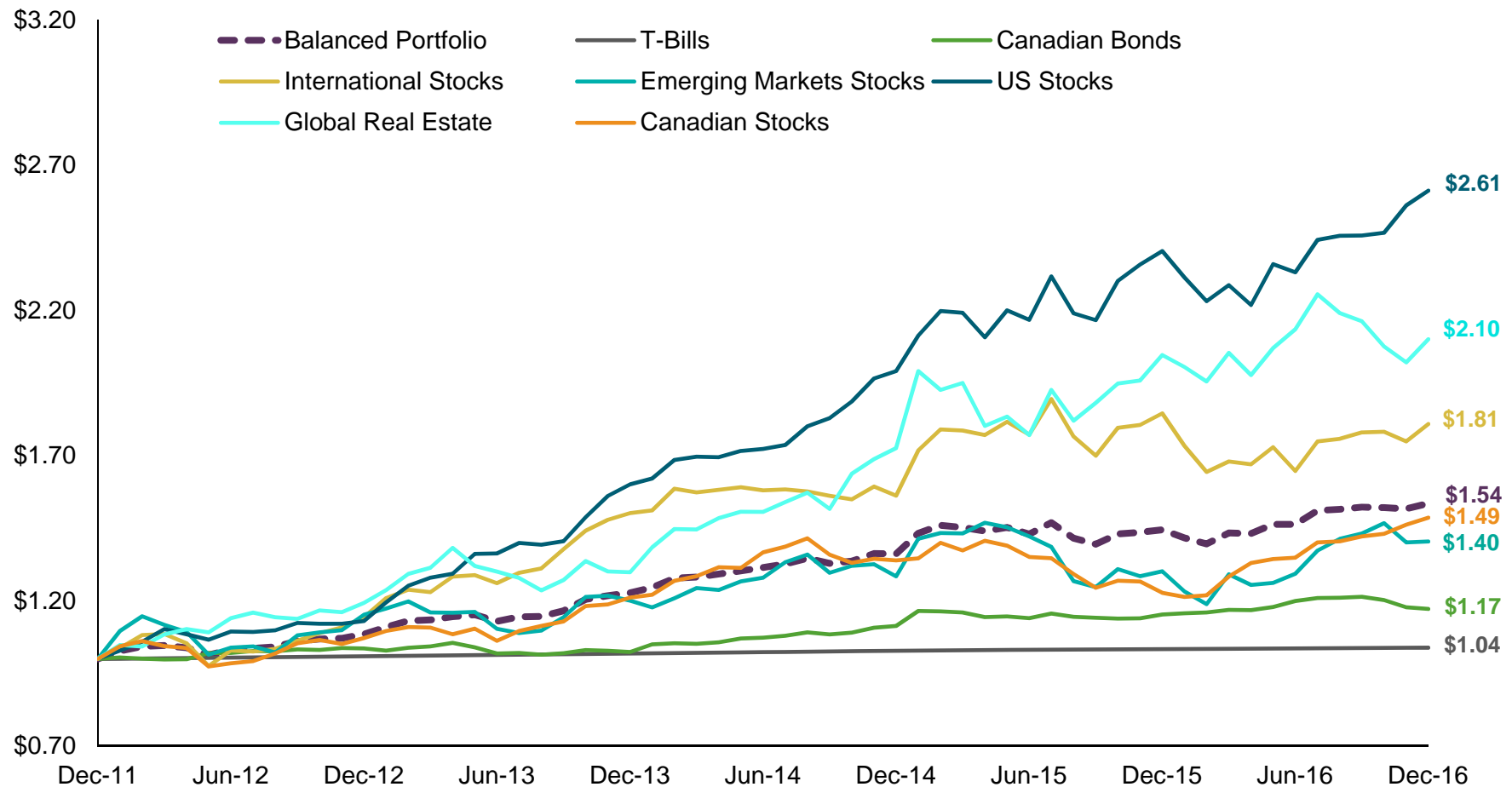
Three Years as of December 31, 2016



In Canadian dollars. T-Bills is Canadian 1-Month T-Bills, Canadian Bonds is FTSE TMX Canada Universe Bond Index, International Stocks is MSCI EAFE Index (net div.), Emerging Markets Stocks is MSCI Emerging Markets Index (gross div.) from 01/1988 to 12/1998 and MSCI Emerging Markets Index (net div.) from 01/1999, US Stocks is S&P 500 Index, Global Real Estate is S&P Global REIT Index (gross div.) from 07/1989 to 12/2000 and S&P Global REIT (net div.) from 01/2001 and Canadian Stocks is S&P/TSX Composite Index. Balanced Portfolio is 10% T-Bills, 30% Canadian Bonds, 20% Canadian Stocks, 15% US Stocks, 15% International Stocks, 5% Emerging Markets Stocks and 5% Global Real Estate. Canadian fixed income data provided by FTSE TMX Global Debt Capital Markets Inc., all rights reserved. MSCI data copyright MSCI 2017, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Growth of Wealth

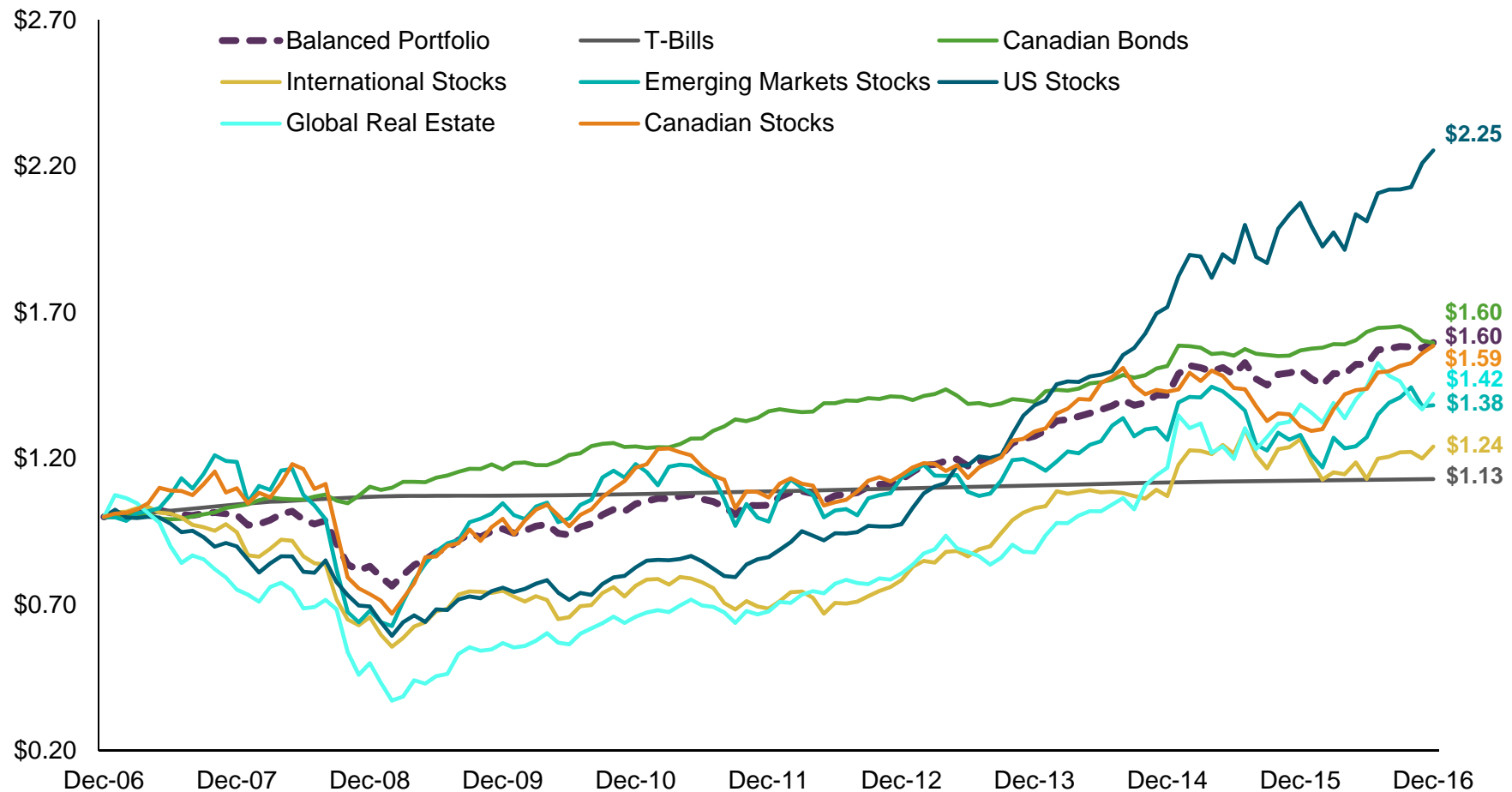
Five Years as of December 31, 2016



In Canadian dollars. T-Bills is Canadian 1-Month T-Bills, Canadian Bonds is FTSE TMX Canada Universe Bond Index, International Stocks is MSCI EAFE Index (net div.), Emerging Markets Stocks is MSCI Emerging Markets Index (gross div.) from 01/1988 to 12/1998 and MSCI Emerging Markets Index (net div.) from 01/1999, US Stocks is S&P 500 Index, Global Real Estate is S&P Global REIT Index (gross div.) from 07/1989 to 12/2000 and S&P Global REIT (net div.) from 01/2001 and Canadian Stocks is S&P/TSX Composite Index. Balanced Portfolio is 10% T-Bills, 30% Canadian Bonds, 20% Canadian Stocks, 15% US Stocks, 15% International Stocks, 5% Emerging Markets Stocks and 5% Global Real Estate. Canadian fixed income data provided by FTSE TMX Global Debt Capital Markets Inc., all rights reserved. MSCI data copyright MSCI 2017, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Growth of Wealth

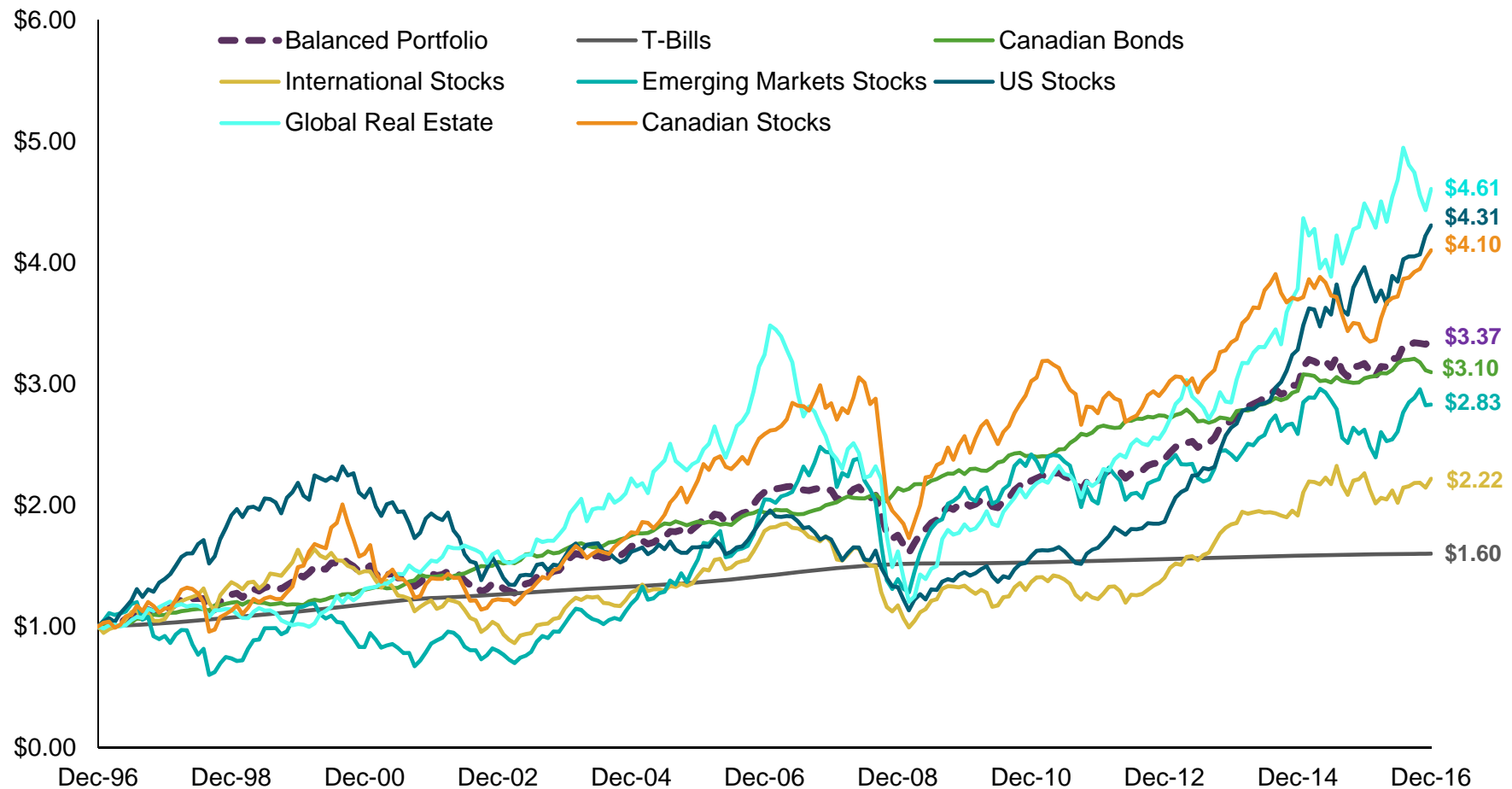
Ten Years as of December 31, 2016



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Growth of Wealth

Twenty Years as of December 31, 2016



In Canadian dollars. T-Bills is Canadian 1-Month T-Bills, Canadian Bonds is FTSE TMX Canada Universe Bond Index, International Stocks is MSCI EAFE Index (net div.), Emerging Markets Stocks is MSCI Emerging Markets Index (gross div.) from 01/1988 to 12/1998 and MSCI Emerging Markets Index (net div.) from 01/1999, US Stocks is S&P 500 Index, Global Real Estate is S&P Global REIT Index (gross div.) from 07/1989 to 12/2000 and S&P Global REIT (net div.) from 01/2001 and Canadian Stocks is S&P/TSX Composite Index. Balanced Portfolio is 10% T-Bills, 30% Canadian Bonds, 20% Canadian Stocks, 15% US Stocks, 15% International Stocks, 5% Emerging Markets Stocks and 5% Global Real Estate. Canadian fixed income data provided by FTSE TMX Global Debt Capital Markets Inc., all rights reserved. MSCI data copyright MSCI 2017, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

The Power of Markets

Fourth Quarter 2016

In 1958, economist Leonard Read published an essay entitled “I, Pencil: My Family Tree as Told to Leonard E. Read.”

The essay, narrated from the point of view of a pencil, describes the “complex combination of miracles” necessary to create and bring to market the common writing tool that has been used for generations. The narrator argues that no one individual possesses enough ability or know-how to create a pencil on their own. Rather, the mundane pencil—and the ability to buy it for a “trifling” sum—is the result of an extraordinary process driven by the knowledge of market participants and the power of market prices.

The Importance of Price

Upon observing a pencil, it is tempting to think a single individual could easily make one. After all, it is made up of common items such as wood, paint, graphite, metal, and a rubber eraser. By delving deeper into how these seemingly ordinary components are produced, however, we begin to understand the extraordinary backstory of their synthesis. Take the wood as an example: To produce wood requires a saw, to make the

saw requires steel, to make steel requires iron. That iron must be mined, smelted, and shaped. A truck, train, or boat is needed to transport the wood from the forest to a factory where numerous machines convert it into lumber. The lumber is then transported to another factory where more machines assemble the pencil. Each of the components mentioned above and each step in the process have similarly complex backstories. All require materials that are sourced from far-flung locations, and countless processes are involved in refining them. While the multitude of inputs and processes necessary to create a pencil is impressive, even more impressive are the coordinated actions required by millions of people around the world to bring everything together. There is the direct involvement of farmers, loggers, miners, factory workers, and the providers of capital. There is also the indirect involvement of millions of others—the makers of rails, railroad cars, ships, and so on. Market prices are the unifying force that enables these millions of people to coordinate their actions efficiently.

Workers with specific knowledge about their costs, constraints, and efforts use market prices to leverage the knowledge of others to decide how to direct their own resources and make a

living. Consider the farmer, the logger, and the price of a tree. The farmer will have a deep understanding of the costs, constraints, and efforts required to grow trees. To increase profit, the farmer will seek out the highest price when selling trees to a logger. After purchasing the trees, the logger will convert them to wood and sell that wood to a factory. The logger understands the costs, constraints, and efforts required to do this, so to increase profit, the logger seeks to pay the lowest price possible when buying trees from the farmer. When the farmer and the logger agree to transact, the agreed upon price reflects their combined knowledge of the costs and constraints of both growing and harvesting trees. That knowledge allows them to decide how to efficiently allocate their resources in seeking a profit. Ultimately, it is price that enables this coordination. On a much larger scale, price formation is facilitated by competition between the many farmers that sell trees to loggers and between the many loggers that buy trees from farmers. This market price of trees is observable and can be used by others in the production chain (e.g., the lumber factory mentioned above) to inform how much they can expect to pay for wood and to plan how to allocate their resources accordingly.

(continues on page 15)

The Power of Markets

(continued from page 14)

The Power of Financial Markets

There is a corollary that can be drawn between this narrative about the market for goods and the financial markets. Generally, markets do a remarkable job of allocating resources, and financial markets allocate a specific resource: financial capital. Financial markets are also made up of millions of participants, and these participants voluntarily agree to buy and sell securities all over the world based upon their own needs and desires. Each day, millions of trades take place, and the vast collective knowledge of all of these participants is pooled together to set security prices.

Exhibit 1 shows the staggering magnitude of participation in the world equity markets on an average day in 2015.

Any individual trying to outguess the market is competing against the extraordinary collective wisdom of all of these buyers and sellers. Viewed through the lens of Read's allegory, attempting to outguess the market is like trying to create a pencil from scratch rather than going to the store and reaping the fruits of others' willingly supplied labor. In the end, trying to outguess the market is incredibly difficult and expensive, and over the long run, the result will almost assuredly be inferior when compared to a market-based approach. Professor Kenneth French has been quoted as saying, "The market is smarter than we are and no matter how smart we get, the market will always be smarter than we are." One doesn't have to look far for data that supports this. **Exhibit 2** shows that only 17% of US equity mutual funds have survived and outperformed their benchmarks over the past 15 years. *(continues on page 16)*

Exhibit 1. Embrace Market Pricing

World Equity Trading in 2015

| | Number of Trades | Dollar Volume |
|---------------|------------------|-----------------|
| Daily Average | 98.6 million | \$447.3 billion |

In US dollars. Global electronic order book (largest 60 exchanges). Source: World Federation of Exchanges.

Exhibit 2. Don't Try to Outguess the Market

US Equity Mutual Fund Performance



Beginning sample includes funds as of the beginning of the 15-year period ending December 31, 2015. Past performance is no guarantee of future results. Source: Dimensional Fund Advisors, "The US Mutual Fund Landscape." See disclosures for more information.

The Power of Markets

(continued from page 15)

Conclusion

The beauty of Leonard Read's story is that it provides a glimpse of the incredibly complex tapestry of markets and how prices are formed, what types of information they contain, and how they are used. The story makes it clear that no single individual possesses enough ability or know-how to create a pencil on their own but rather that the pencil's miraculous production is the result of the collective input and effort of countless motivated human beings. In the end, the power of markets benefits all of us. The market allows us to exchange the time we require to earn money for a few milliseconds of each person's time involved in making a pencil. For an investor, we believe the lesson here is that instead of fighting the market, one should pursue an investment strategy that efficiently and effectively harnesses the extraordinary collective power of market prices. That is, an investment strategy that uses market prices and the information they contain in its design and day-to-day management. In doing so, an investor has access to the rewards that financial markets make available to providers of capital.

Leonard Read's essay can be found here: <http://econlib.org/library/Essays/rdPnc1.html>.

Source: Dimensional Fund Advisors LP.

There is no guarantee investment strategies will be successful.

US-domiciled mutual fund data is from the CRSP Survivor-Bias-Free US Mutual Fund Database, provided by the Center for Research in Security Prices, University of Chicago. Certain types of equity funds were excluded from the performance study. Index funds, sector funds, and funds with a narrow investment focus, such as real estate and gold, were excluded.

Funds are identified using Lipper fund classification codes. Correlation coefficients are computed for each fund with respect to diversified benchmark indices using all return data available between January 1, 2001, and December 31, 2015. The index most highly correlated with a fund is assigned as its benchmark. Winner funds are those whose cumulative return over the period exceeded that of their respective benchmark. Loser funds are funds that did not survive the period or whose cumulative return did not exceed their respective benchmark.

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