MARQUEST ASSET MANAGEMENT INC.

Fourth Quarter 2015 Review

Market Commentary

U.S. equities ended 2015 in an uneventful fashion. After much volatility between positive and negative territory, the S&P 500 posted a small loss for the year of -0.7%. This, of course, is the U.S. dollar return, not to be confused with the large returns enjoyed by Canadian investors in U.S. securities, fuelled entirely by the rapid and relentless deterioration of the Canadian dollar during the year. The Canadian dollar was the worst performing major currency last year, losing over 16% against the U.S. dollar. Absent a meaningful recovery in oil prices, the backdrop continues to favour a weak loonie.

The macro forces at work – although well-known and publicized daily – are complex. Oil prices posting their biggest 2-year losses in history (now at 10 year lows), monetary stimulus in Europe, monetary tightening in the U.S., slowing growth in China and emerging markets, record low interest rates (at times, negative), Canada teetering on recession, tension in the Middle East....the list goes on. In this unprecedented environment, a conservative approach to investing - rooted in company analysis, discipline, and quality – becomes increasingly important. The U.S. remains home to many of the highest quality and diversified companies – with significant global reach.

Equities remain the best investment alternative among asset classes. Dividend yields on many high-quality, blue chip companies are meaningfully higher than bond yields. Moreover, these dividend yields are growing at a healthy rate. At year end, the dividend yield on the equities that make up the Marquest American Dividend Growth Fund approximated 3.4%, which compared very favourably to 10 year U.S. Treasury yields of 2.27%. This helps support the Funds' attractive monthly payout of $0.075/unit.

For several years now, 'growth' has been outperforming 'value' in the U.S. marketplace – with the Russell 1000 Growth index generating a 15.2% annual return over a seven year period ended December 31, 2015, versus the Russell 1000 Value index's 10.3% return during the same timeframe. We think the backdrop is ripe to see a change in that pattern as we embark into a new year. So, despite the uncertainty ahead, we are confident of our investment process, and in the companies that make up our high quality portfolio.

Portfolio Commentary

With the U.S. beginning its monetary tightening in December and expected to continue at a slow and steady pace in 2016, strong balance sheets will become increasingly important. In addition to financial strength, we also focus on companies with a sustainable moat – be it a strong brand or a technology advantage – to enable the company to protect its pricing without sacrificing business volumes in periods of slower economic growth. Businesses that are highly levered and have a lack of perceptible moat can quickly become unravelled in difficult environments, as they experience declining revenues and fixed, or increasing, debt repayments. Our portfolio of companies generates an attractive average ROE in excess of 15%.

During the quarter, we took advantage of short-term volatility to add certain names to the portfolio. Healthcare company Novartis was added, in addition to consumer giant Nestle. Both are strong, global companies domiciled in Europe. We ended the year with just over 7% of the portfolio in cash. It appears volatility in the equity markets is heralding in 2016; therefore, we are happy to have buying power to take advantage of these markets.

Feature Holding - Novartis

We initiated a position in Novartis during the quarter. Novartis is a pharmaceutical company with an attractive moat, or competitive advantage, and a 3% dividend yield, and trades at a reasonable valuation of <17times P/E. It has a well-diversified product line that includes generics from Sandoz, eye-care products from Alcon and consumer products that are joint ventured with GlaxoSmithKline. The company has experienced some recent patent expiries which we believe will be offset by a strong late-stage pipeline of drugs

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