

Market Commentary

The US economy seems relatively healthy and ready for rate increases by the Federal Reserve. However, global economic growth is more tentative particularly with pressure on the Euro zone. The Brexit vote caught markets by surprise at the end of the second quarter. This caused a dip in market values in what was otherwise a good time period. The upcoming US presidential election will also likely deter an interest rate increase. This leaves reasonably priced banks struggling with thin net interest margins and bond-like utilities continuing to top their already lofty valuations for a while longer. WTI rose 32.9% to \$49.21 in the quarter. Consequently, energy stocks were strong. The C\$ rose 0.58% over the quarter to about US\$0.77.

Portfolio Commentary

The MSCI World Index returned 0.16% in the quarter. The Marquest Global Balanced Fund had roughly a 70/30 split between equities and fixed income. The Class F units posted a 1.38% return and the Class A units posted a 1.48% return. The Fund has never replicated benchmarks and, as an example, Canadian equities represented 38% of the Fund's equity portfolio at June 30. The MSCI World Index had a 3.4% weighting in Canada at June 30th. For the quarter, Energy (+9.9%) and Healthcare (+4.9%) were the strongest performing sectors in the index. Energy and Healthcare are both significant weights in the portfolio. Arc Resources (+17.9%) and Schlumberger (+7.9%) were top contributors to the Fund's positive performance. Pfizer (+19.9%), United Health (+10.0%) and Johnson & Johnson (+12.9%) were also top contributors, representing the Fund's typical overweight position in Healthcare. Consumer Discretionary (-4.2%) and Information Technology (-3.2%) were the weakest sectors in the index.

The Bank of America Merrill Lynch US High Yield index returned 5.9% in the second quarter. That brings the year-to-date total return for the index to 9.3%. In Canadian dollar terms, the second quarter return was 6.31% and the year-to-date total return was 2.2%. The high yield market has benefitted from collapsing yields on government bonds with the US 10 year treasury plummeting from 2.29% at December 31, 2015 to about 1.47% at the end of June. Investors are searching for yield, and high yield bonds are one of the very few places where investors can find it. Our fixed income portfolio performed well in the quarter.

By the end of the quarter we had removed almost half of our CAD hedges. The CAD has moved up 7.3% year-to-date. Our decision reflected our view on relative value, the increased risk of a global economic slowdown after the Brexit vote, which could affect our commodity-driven currency, and the fact that the CAD had moved up so much and so quickly. A one cent move in the CAD currently affects the portfolio by about 0.5%.

Feature Holding - Pfizer Inc.

Pfizer launched in the 1850s in Brooklyn, NY with an anti-parasitic drug. It grew with the discovery of a fungus to commercially produce Citric Acid (Vitamin C) during the First World War. This discovery contributed to its breakthrough capability to mass produce antibiotic penicillin during World War II. Most of the penicillin that went ashore with the troops on D-Day was made by Pfizer. Other well-known discoveries were: Terramycin (tetracycline), Zolofit, Lipitor, Norvasc, Zithromax, Aricept, Diflucan and Viagra. Some of its consumer products are: Advil, Robitussin and Centrum (multivitamins). Pfizer fit our investment parameters in that it has unique assets, sustainable competitive advantages, a strong balance sheet and prospects for dividend increases.

When we purchased Pfizer in 2015 it seemed to have made it through the patent expiries of Lipitor and Viagra and was resuming revenue growth with a strong pipeline of prospective new drugs. It represented good value. The stock traded at 13 times forward earnings with a 3.7% dividend yield and a history of 309 consecutive dividend payments. It was also in the midst of a merger with Allergan which would have significantly lowered its tax rate. The merger was cancelled after the US government announced that it would disallow US corporations from moving overseas to avoid US taxes. The stock price rose on the news. Pfizer returned 19.9% this quarter.

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