

## Market Commentary

The S&P 500 continued to move higher through the third quarter, as volatility surrounding the U.K.'s surprise move to leave the European Union quickly dissipated. The Marquest American Dividend Growth Fund Corporate Class returned 1.8% during the third quarter, bringing the one year return to 13.1%. The Marquest American Dividend Growth Fund Trust returned 1.9% in the third quarter and 12.5% for one year.

While the stock market was relatively stable for most of the quarter, the bond market exhibited heightened volatility after comments made by Mario Draghi, current president of the European Central Bank (ECB), made their way through media wires. The president refused to commit to an extension of the ECB's bond buying program, a monetary policy tool designed to stimulate the European economy. Exacerbating these comments, were reports that the Bank of Japan could also be stepping away from further bond buying. This led to sharply higher yields around the globe, which likely dampened the appeal of utilities, telecommunications, and consumer staples stocks during the quarter. They ended up being the worst performing sectors in the S&P 500. Investors instead sought value in information technology, financials, and industrials which were the sectors that led the S&P 500 higher.

The Funds remain positioned with a high level of industry diversification that is derived one company at a time. This approach allows it to mitigate the possibility of having one or two industries or secular themes dictate the portfolio's overall returns.

Both the Corporate Class and Trust Funds ended the quarter with healthy cash balances that we expect to be whittled down as opportunities arise at attractive entry points in the coming weeks or months.

## Portfolio Commentary

On recent price weakness, the Funds established positions in Bank of America, a leading U.S. bank poised to benefit from a large scale cost-cutting program and higher U.S. interest rates; Walt Disney Co, a global entertainment company, expecting double digit earnings growth over the next four years; Flowers Foods, a large U.S. bread and baked goods producer, with an attractive dividend yield; Honeywell International, a global industrial company, expected to deliver best in class revenue growth; and Walgreens-Boots Alliance, a global pharmacy and health provider, poised to benefit from an aging population and accretive acquisitions and investments.

Bristol-Myers Squibb has been held by the Fund's for a couple of years and has historically been a positive contributor to the Funds' performance. Recently, the company announced negative clinical trial results for their leading lung cancer drug, Opdivior. Bristol has had prior setbacks which it has subsequently overcome. We believe the company still has an attractive growth path and may be able to shift its focus for the drug to combination therapies. It will take time for the outlook for the company to improve again.

The poor results were a setback for Bristol-Myers Squibb, but coincidentally have helped Merck & Co., another position in the portfolios. Merck's competing lung cancer drug, Keytruda, should do well in the short-term as a result of Bristol's setback.

The September Canadian dollar future contracts were closed out ahead of the expiry. We re-established a 15% hedge shortly thereafter, in the December contracts. We are expecting to build the USD hedge position to as much as 50% of the portfolio's exposure.

The Fund purchased-to-close a number of option positions during the quarter, as share prices weakened. This provided the Fund some downside protection. The Fund continued to selectively write call options on holdings trading near the high end of their valuation ranges.

## Feature Holding - The Walt Disney Company

The Walt Disney Company is a leading global entertainment company with worldwide recognized brands and content. The company has a strong history of generating high-teens returns on equity - illustrating the sustainability of its competitive advantage. Disney has a solid financial position that will allow it to supplement the 10% per annum earnings outlook for the next four years. We were afforded the opportunity to buy on price weakness, as investors continue to debate the potential loss of ESPN subscribers from the converging cable/internet (so-called "over the top") landscape. We believe this weakness has offered an attractive entry point.

## Update of Feature Holding - Toyota Motors Corp (ADR)

We purchased shares of Toyota Motors via its ADR, trading on the NYSE in May. Shares were purchased at roughly \$98 per ADR, a level that offered an attractive 3.7% dividend yield. The shares were purchased at a valuation of only 1 times book value. Further, Toyota's cash hoard is equivalent to 50% of its current market cap, a testament to its fortress balance sheet. With these metrics, we believed the shares already reflect trough cycle valuations, and a potential slowdown in North American auto sales.

Toyota was recently sold at \$121. In May, the shares had been trading in an inverse lock-step with the Japanese Yen. That pattern diverged substantially after mid-year. The Yen appreciated, but so did shares of Toyota. That disconnect meant the shares were priced significantly higher, despite the currency exchange differential having disadvantaged Toyota. Recognizing that the substantial price gains realized was now at risk, the position was sold to monetize the 20+% gain.

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