

Market Commentary

In the third quarter, higher risk securities in the Technology and Resource sectors were the engines of price growth in the markets. The Russell 2000 returned 9% versus the S&P 500's 3.9% total return and CCC-rated corporate bonds outperformed bonds with higher credit ratings. WTI was flat (-0.2%), closing at US\$48.24/barrel. Gold was down (-0.6%), closing at \$1,315.75/oz. Copper was up (0.2%), closing at \$221.00/tonne. These small price moves masked some very volatile days during the quarter. The MSCI World Index and the BAML High Yield Index returned 5.8% and 6.8%, respectively, in the quarter.

Portfolio Commentary

The Marquest Global Balanced Fund Class F Units posted a 3.1% return over the third quarter, and, therefore, 4.2% year-to-date. We note that this return was very tax-effective and consequently, worth more "in your pocket" than similar returns from competitors who cannot offer our current tax advantage. We are pleased with the Fund's returns despite not matching the indices. Capital preservation is a primary tenet; consequently, we would expect that this Fund will often underperform in a booming bull market. The Fund had roughly a 70/30 split between equities and fixed income.

Our investment strategy is to target risk adjusted returns. This strategy generates lower returns in very strong markets but decreases the risk of losses. This strategy kept us away from heavily indebted mining companies and technology companies with little or no earnings. In the fixed income portion of the portfolio, our strategy is generally to stay high on the credit quality scale. Our fixed income portfolio performed well although it holds only one CCC rated bond.

The CAD fell 1.28% against the USD to about US\$0.76. We had reduced our currency hedges last quarter and at present about one third of our USD exposure is hedged. With many of the bond positions in the portfolio now trading around par, we thought it was important to shield them from currency fluctuations. However, the hedge can limit the upside when the USD moves ahead of the CAD which it did in the third quarter. At this point, a 1% move in the CAD affects the portfolio by 0.45%.

The Fund gained most from its holdings in: Broadcom (up 12.9%), Vermilion Energy (up 24.9%), CN Rail (up 12.9%) and First Quantum Minerals (up 19.8%). Laggards in the portfolio were: Cameco (down 20.2%) and Crescent Point Energy (down 14.9%). Broadcom, as an Apple supplier, benefitted from the new iPhone 7 release and First Quantum, a copper producer, benefitted from investor demand for materials stocks. Crescent Point's stock price suffered from poor timing on an equity issue. We have taken profits on First Quantum but still hold the other securities.

Feature Holding - Cameco Corporation

Cameco Corporation is a pure play nuclear fuel producer. In the long term, uranium and nuclear energy are an important source of supply to expanding global energy requirements. Uranium is required to fuel nuclear power plants and Cameco has the world's largest high grade uranium deposit and mine at McArthur River, along with the world's largest undeveloped high grade uranium deposit at Cigar Lake, both in Saskatchewan. It has reliable management and a strong balance sheet.

Cameco's stock price has fallen due to two issues: the falling uranium price and the CRA's transfer pricing challenge which is finally coming to trial this year. The uranium price has reacted to the current market imbalance of supply and demand. Excess inventory has not cleared as Japan has been slow to restart its nuclear power program. There were 52 reactors operating before the Fukushima accident and only 2 are back on line. This has had a negative impact on uranium prices. However, in Q2/2016, 60 reactors were under construction around the world. Cameco estimates that 65% of them will be online by 2024. China is committed to nuclear energy, with 21 reactors under construction. The long term fundamentals are strong but there is uncertainty as to how long excess uranium supply will take to clear the market and the tax dispute which began in 2008 will also take a while to resolve. Cameco has a unique, irreplaceable asset. It is trading at roughly 1x Net Asset Value and 0.8x Book Value. The timing for investors to realize its value is not clear but we can wait.

Note: all figures except commodity prices in C\$.

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