MARQUEST ASSET MANAGEMENT INC.

Third Quarter 2016 Review

Market Commentary

The Canadian market confirmed its recent trend of strong performance this quarter, despite the volatility worries that ended the previous quarter after a surprising vote for Brexit in the U.K. The combination of the Brexit vote, ongoing macro risks and the Fed beginning to signal higher rates, one would have expected a negative reaction. Certainly volatility should have increased. In fact, we just finished one of the quietest, least-volatile periods in a long time. Markets moved higher in a slow and steady pace with some big up days and no big down days. Against this backdrop the Fund registered a return of 3.52% and 3.80% for the quarter for Class A and Class F units, respectively.

The Fund's mandate to deliver income + return somewhat hampered the ability to take part in the overall market performance. One of the better performing groups in the quarter—and the year-to-date—has been gold. Of course very few gold companies pay dividends, let alone generate free cash flow. Nevertheless, the Fund did achieve a pretty good return for the quarter.

During the quarter, the (very indecisive) Fed once again deferred hiking rates, citing global conditions, but did indicate that a December hike is on the table citing strong underlying growth. With that factored in, the markets can now focus on the upcoming U.S. election.

First off, it is evident that neither representative is well-liked. Policy uncertainty is high. Both Trump and Clinton seem more concerned with mudslinging than with issues. While it appears Hilary is in the lead, there is a distrust that underlies her candidacy. Trump is viewed as a buffoon. With this broad distrust, anything can happen as we have seen with the Brexit vote, Alberta vote and the federal Liberals in Canada.

Overviews of likely outcomes:

1. Clinton wins – but house divided
    - Good for equities; more fiscal spending
    - December rate hike becomes more certain
    - U.S. dollar remains strong

2. Trump wins
    - risk-off trade
    - stocks with trade exposure hardest hit
    - bifurcations of market: developing markets vs. emerging markets
    - U.S. dollar weakens

3. Clean Sweep to Democrats
    - higher deficit
    - less tax reform
    - increased regulations
    - more trade liberalization

Of the above scenarios, the market would likely favor the first. A Trump win would increase volatility, where a clean sweep would impact certain areas of the market more profoundly (healthcare, banking and energy). In any case, the U.S. elections are currently keeping a lid on the markets and economic activity. Having the election behind us will hopefully spur the economy.

Portfolio Commentary

With respect to the Fund, we have continued to reposition the fund with a more cyclical bias. During the quarter, we increased our energy exposure almost three-fold. While gold stocks typically provide very little in the way of dividends, the oil sector, on the other hand, offers a number of dividend growth stocks. Companies such as Crescent Point, Cardinal Energy, Torq Energy and Whitecap pay out income, in addition to their ability to grow production. All of the above are relativity new positions in the Fund.

Other additions to the portfolio have been Descartes, Couche-Tard and slight increases to CGI group. We continue to be well represented by the Brookfield group of companies. Finally, we maintained—and slightly increased—our financials weighting. With an impending U.S. Fed rate hike in December, a steepening of the yield curve would benefit the group.

In closing, despite a difficult start to the year, the past quarter is beginning to reflect an emerging normalcy in Canada. With energy prices on the rebound, the Canadian economy will likely start to improve, or at least be more balanced. Hopefully, our U.S. neighbours will continue to grow their economy, and thus further help our trade.

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