

## MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT  
REPORT OF FUND PERFORMANCE

Year ended December 31, 2016

# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

---

## **A NOTE ON FORWARD-LOOKING STATEMENTS**

*This report contains forward looking statements. These statements primarily relate to assessments of future economic and market conditions. Such information has been included to assist readers with assessing recent developments in the Fund's operating climate and possible future developments that may affect Fund performance. All forward looking statements are based on management's current beliefs and assumptions which are subject to numerous risks and uncertainties. Statements with respect to future economic and market conditions are based on management's beliefs and assumptions with respect to a range of factors, including market conditions generally and within the sectors in which the Fund's investments operate. While management considers such beliefs and assumptions to be reasonable based on information currently available to it, no assurance can be given that such beliefs and assumptions will prove to be correct. As a result, these forward looking statements would typically include words such as "anticipates, believes, intended or estimated". Events or circumstances may cause actual results to differ materially from those expressed or implied by such forward looking statements as a result of numerous known and unknown risks and uncertainties, including, but not limited to, those associated with economic and market conditions, political stability and other risks identified in the Fund's prospectus. Most of these factors are beyond the control of the Fund and its Manager. Neither the Fund nor its Manager assumes any obligation to update any of the forward looking statements made in this report.*

# MARQUEST CANADIAN EQUITY INCOME FUND

---

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

---

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Marquest Canadian Equity Income Fund (the "Fund"). You can get a copy of the annual financial statements at your request, and at no cost, from the manager Marquest Asset Management Inc. (the "Manager") by calling 1-888-964-3533, by writing to us at Suite 4420, 161 Bay Street, PO Box 204, Toronto, Ontario, M5J 2S1 or by visiting our website at [www.marquest.ca](http://www.marquest.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### ***Management Discussion of Fund Performance***

#### ***Investment Objectives and Strategies***

The investment objective of the Marquest Canadian Equity Income Fund is to invest in a broadly diversified portfolio of securities comprising the S&P/TSX Composite High Dividend Index (Name changed from S&P/TSX Equity Income index) constituents. The Fund's weighting of each holding is approximately the same as the Index. Manager may sell covered call options on the Portfolio Securities from time to time in order to enhance returns and lower the overall volatility of the Portfolio.

#### ***Risk***

There were no changes in the Fund's investment objective or asset class during the period which materially impacted the overall level of risk in the Fund. The risks associated with investing in the Fund remain as outlined in the Fund's Simplified Prospectus.

#### ***Results of Operations***

As at December 31, 2016 the Fund's total NAV was \$3,552,009, a decrease of 11.27% since the prior year end (December 2015: \$4,002,982). The change is primarily due to distribution to holders of redeemable units of \$488,033, redemption of redeemable units of \$660,593, net realized loss on sale of investments of \$241,167. These were offset by unrealized appreciation of investments of \$921,114.

Canadian markets posted strong returns in 2016 on the back of solid rebound in the Material and Energy sectors which returned 40.23% and 36.26% respectively. All the sectors within the index ended the year with positive returns except for the Health Care index. During the year, the S&P/TSX Composite High Dividend Index gained 28.48%. Return of the Fund trailed those of the index, with a gain of 18.80% in the same period. The difference in the performance of the Fund relative to the index during the period resulted mainly from the impact of option writing strategies to generate income, management fees and operating expenses of the Fund.

As in previous years, a covered call strategy was used to generate additional income for the Fund. Call Options are written on approximately 20-25% of the Fund with a one month term to expiry. Due to the strong market conditions, volatility levels were quite subdued for most of the year which resulted in overall option premiums to be lower.

#### ***Distributions***

During the year, the Fund paid distributions totalling \$0.70 per unit.

# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

---

## ***Recent Developments***

2016 was a turning point for the economy as global growth reaccelerated in midyear. This improvement in economic growth has had a significant impact on the capital markets. Interest rates turned up in the second half of the year as witnessed by the 84 bp increase in US 10 Year Treasury yields in the fourth quarter closing the year at 2.27%. The improved economic outlook and the strong employment conditions have given a green light to monetary authorities to finally begin normalizing monetary policy by increasing interest rates. We expect to see a series of rate hikes over the next year. The rising interest rate environment will be a challenge for bond investors.

The stronger economy will cause a significant shift in relative corporate earnings performance. The cyclical sectors which have been under pressure over the past few years due to slow growth and weak pricing will now have the benefit of stronger pricing and increasing volumes. Given the rising rate environment equity markets will be more challenging from a valuation standpoint as rising interest rates will put pressure on valuations. Therefore, superior performance in equities will depend on an improving earnings outlook. The cyclical sectors have outperformed the overall market in 2016 reflecting both the improved earnings outlook for cyclical stocks and their depressed relative valuations. We expect the cyclical sectors to continue to outperform over the next year.

The shift in the investment environment from slow growth/low interest rates to rising rates and stronger cyclical earnings will cause a significant shift in asset allocation from bonds to equities. In addition, within the equity market investors are expected to focus on the sectors with the strongest earnings outlook. We are now in the late stages of the economic cycle where interest rates rise, employment is strong, commodity prices are firm and cyclical sectors outperform. Stock selection will be a key to performance in the next year as well as smaller cap stocks tend to outperform in late cycle environments.

## ***Related Party Transactions***

Marquest Asset Management Inc. is the Manager (“the Manager”) of the Fund. The Manager of the Fund is responsible for managing all of the Fund’s activities, including investment advisory and portfolio management services under a Management Agreement. The Management Agreement does not have a fixed termination date. The Management Agreement may be terminated on 60 days’ notice by the Manager if the Fund is not in breach or default of its obligations under the Management Agreement or on 20 days’ notice if the Fund is in breach or default of its obligations. The Manager may only be removed by the Fund if a certain specified events of default have occurred or by an extraordinary resolution of unitholders. Management fees are paid by the Fund as set out under “Management Fees” below.

During the year, \$27,571 in management fees and \$15,677 in dealer service fees (including HST) were paid to the Manager.

# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help the readers understand the Fund's financial performance for the past five years.

### Net assets per unit<sup>1</sup>

	2016		2015		2014		2013		2012	
<b>Net assets, beginning of year</b>	\$	5.66	\$	7.62	\$	8.10	\$	8.05	\$	8.50
<b>Increase (decrease) from operations</b>										
Total investment income		0.26		0.32		0.36		0.40		0.41
Total expenses		(0.29)		(0.21)		(0.19)		(0.19)		(0.19)
Realized gains (losses)		(0.30)		(1.12)		0.57		0.35		(0.16)
Unrealized gains (losses)		1.33		(0.16)		(0.48)		0.16		0.16
<b>Total increase (decrease) from operations<sup>2</sup></b>		1.00		(1.17)		0.26		0.72		0.22
<b>Distributions</b>										
From income (excluding dividends)		-		-		-		-		(0.69)
From dividends		-		-		-		-		-
From capital gains		-		-		(0.29)		(0.26)		-
Return of capital		(0.70)		(0.70)		(0.41)		(0.44)		-
<b>Total distributions<sup>3</sup></b>		(0.70)		(0.70)		(0.70)		(0.70)		(0.69)
<b>Net assets at end of year</b>	\$	5.97	\$	5.66	\$	7.62	\$	8.10	\$	8.03

### Notes:

1. This information is derived from the Fund's audited annual financial statements. Periods beginning on or after January 1, 2013 follow International Financial Reporting Standards (IFRS) and periods prior to January 1, 2013 follow Canadian Generally Accepted Accounting Principles (Canadian GAAP). The net assets attributable to holders of redeemable units per unit presented in the financial statements may differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to financial statements, if applicable.
2. Net Assets and distributions are based on the actual number of Units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of Units outstanding over the financial period.
3. Distributions were paid in cash. Actual distributions may vary slightly due to rounding.

### Ratios and Supplemental Data

	2016		2015		2014		2013		2012	
Net asset value (000's) <sup>1</sup>	\$	3,552	\$	4,003	\$	9,327	\$	14,049	\$	16,405
Number of units outstanding (000's) <sup>1</sup>		595		707		1,223		1,734		2,037
Management expense ratio <sup>2</sup>		4.88%		2.99%		2.36%		2.42%		2.36%
Portfolio turnover rate <sup>3</sup>		167.00%		98.98%		115.38%		203.80%		209.61%
Trading expense ratio <sup>4</sup>		0.30%		0.29%		0.29%		0.50%		0.53%
Net asset value per unit <sup>1</sup>	\$	5.97	\$	5.66	\$	7.62	\$	8.10	\$	8.05
Closing market price	\$	5.80	\$	5.51	\$	7.02	\$	7.72	\$	7.77

### Notes:

1. This information is provided as at December 31, 2016, 2015, 2014, 2013, and 2012.
2. Management expense ratio ("MER") is based on total expenses for the stated period (excluding brokerage commissions) and is expressed as an annualized percentage of daily average net assets during the period.
3. The Fund's portfolio turnover rate indicates how actively the Fund's investment manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Assets during the year.

# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

## Management Fees

The Fund pays an annual management fee equal to 0.60% of the NAV of the Fund, calculated daily and paid monthly in arrears.

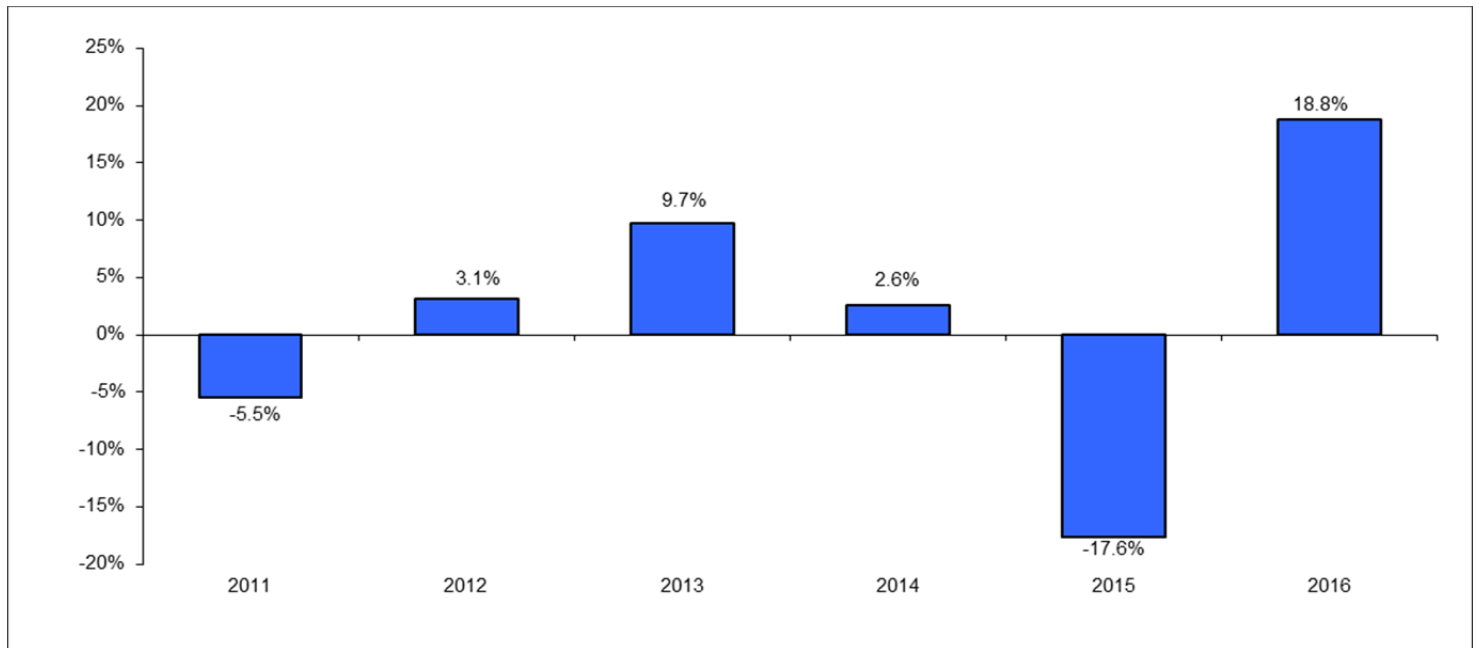
Of the management fees paid by the Fund to the Manager, 100% was for investment advisory and portfolio management services.

## Past Performance

Please note that the performance information shown in the section assumes that all distributions made by the Fund in the period shown were reinvested in additional securities of the Fund. Also note that performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

## Year-by-Year Returns

The following bar chart shows the Fund's performance for each of the periods shown, and illustrates how the Fund's performance has varied from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period.



Note:  
Returns are based on Net Asset Value per Unit plus distributions to date.  
The fund commenced operations on May 9, 2011.

# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

## Annual Compound Returns

The table below compares the annual compounded performance of the Fund against the S&P/TSX Composite High Dividend Index. S&P/TSX Composite High Dividend Index is a strategy index focused on dividend income. The index is made up of 50 to 75 stocks selected from the S&P/TSX Composite, the headline index and principal broad market measure for the Canadian equity market. For performance purposes, the index assumes the reinvestment of all dividends.

Unlike the index, the Fund must report performance net of all accrued fees and expenses, which dilute the actual Fund performance in relative comparison to the benchmarks, which does not incur any types of fees/expenses.

Percentage Return	1 Year	3 Years	5 Years	10 Years	Since Commencement of operations <sup>(1)</sup>
Marquest Canadian Equity Income Fund	18.8%	0.4%	2.5%	-	1.3%
S&P/TSX Composite High Dividend Index	28.5%	4.9%	7.6%	-	6.4%

(1) The fund commenced operations on May 9, 2011

# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

## Summary of Investment portfolio

The tables below provide information about the investment portfolio of the Fund, including a breakdown of the Fund's portfolio into subgroups and the Top 25 positions held by the Fund as a percentage of NAV.

**Total Net Asset Value:** \$ 3,552,009

## Portfolio Allocation

	% of Fund's Net Asset Value
Financials	33.82%
Energy	27.63%
Real Estate Investment Trusts	11.57%
Telecommunication Services	9.93%
Utilities	8.92%
Consumer Discretionary	4.23%
Cash	1.84%
Materials	1.59%
Industrials	0.89%
Information Technology	0.81%
Health Care	0.23%
Net other assets (liabilities)	-1.46%
	<b>100.00%</b>

## Top 25 Holdings

	% of Fund's Net Asset Value
<b>Long Positions</b>	
1 Bank of Montreal	5.05%
2 Royal Bank of Canada	5.05%
3 TELUS Corporation	5.00%
4 TransCanada Corporation	4.96%
5 Enbridge Inc.	4.95%
6 BCE Inc.	4.93%
7 The Bank of Nova Scotia	4.90%
8 Canadian Imperial Bank of Commerce	4.90%
9 Pembina Pipeline Corporation	4.80%
10 Inter Pipeline Ltd.	3.03%
11 National Bank of Canada	2.89%
12 Shaw Communications Inc. Cl. B Non-Voting	2.88%
13 Emera Incorporated	2.40%
14 RioCan Real Estate Investment Trust	2.26%
15 Keyera Corp.	2.11%
16 Vermilion Energy, Inc.	1.93%
17 Cash	1.84%
18 Power Corporation of Canada	1.74%
19 H&R Real Estate Investment Trust	1.64%
20 AltaGas Ltd.	1.61%
21 Brookfield Property Partners LP	1.61%
22 PEYTO Exploration & Development Corp.	1.61%
23 Great-West Lifeco Inc.	1.54%
24 Power Financial Corporation	1.29%
25 CI Financial Corp.	1.25%
	<b>76.17%</b>

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund and a monthly update is available at [www.marquest.ca](http://www.marquest.ca). The weightings of the positions are calculated based on total NAV of the portfolio as at December 31, 2016. The prospectus and other information of Marquest Canadian Equity Income Fund are available on the internet [www.sedar.com](http://www.sedar.com).



**TORONTO**

161 Bay Street  
Suite 4420, P.O. Box 204  
Toronto, ON M5J 2S1  
Phone 416.777.7350  
Toll Free 1.877.777.1541

**MONTREAL**

1155 Robert-Bourassa Boulevard  
Suite 905  
Montreal, QC H3B 3A7  
Phone 514.227.0666  
Toll Free 1.866.687.9363

**VANCOUVER**

1055 West Hastings  
Suite 300  
Vancouver, BC V6E 2E9  
Phone 604.895.7281

**CLIENT SERVICES**

Phone 416.365.4077  
Toll free 1.888.964.3533  
[clientservices@marquest.ca](mailto:clientservices@marquest.ca)

[WWW.MARQUEST.CA](http://WWW.MARQUEST.CA)