



MARQUEST GLOBAL BALANCED FUND

# MARQUEST GLOBAL BALANCED FUND

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

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## 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.*

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Marquest Global Balanced Fund (the "Fund"). You can get a copy of the annual financial statements at your request, and at no cost, from 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***

##### ***Investment Objectives***

The investment objective of the Fund is to provide investors with a stream of monthly cash distributions; and to preserve and enhance the net asset value ("NAV") of the Fund against inflation through capital appreciation, primarily through the purchase a diversified pool of global large capitalization dividend-yielding equity securities and fixed income securities.

##### ***Investment Strategies***

The Fund's investment approach is to purchase global large capitalization primarily dividend-yielding equity securities and fixed income securities. The Fund may use derivatives for hedging and non-hedging purposes. The Fund may hold money market instruments or cash. Security selection includes detailed bottom-up company-specific analysis to identify strengths and weaknesses and potential catalysts for price impact.

##### ***Risks***

There are risks associated with investing in the Fund. There have been no changes to the Fund which affected the risks associated with investing in the Fund during the year. Specific risk information can be found in the Fund's prospectus available through our website at [www.marquest.ca](http://www.marquest.ca) or at SEDAR's website [www.sedar.com](http://www.sedar.com).

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

As at December 31, 2017, the Fund's total NAV was \$19,237,773, a decrease of 10.33% since the prior year end (December 2015: \$21,452,867). The change is primarily due to distribution to unitholders and net redemptions of \$1,228,909 and \$2,215,094, respectively. These were partially offset by net realized gain on sale of investment of \$1,167,911.

In the first half of 2016, Central Banks were the focus as they lowered interest rates to historic lows (the US 30-year Treasury yield was 2.088% on July 11, 2016). Central Banks in Europe and Japan were supportive of economies to the extent that negative interest rates became a reality in some countries. In the second half of the year, politics became the focus of the markets. On November 30<sup>th</sup>, OPEC reached a historic deal to reduce crude production by 1.2 million barrels/day with non-OPEC producers delivering an additional 600,000 barrels/day of cuts. This joint curb was the first since 1998 and brought some stability to oil markets. In the same period, the 'Brexit' vote and the polarized US presidential elections seemed to be warning signs of a backlash to globalization, which has been viewed as the cause of job losses, wage disparity between the rich and the poor and loss of national pride. In the US, investors face a bifurcated future scenario. On the one hand, energy markets are less volatile and Washington could deliver economic growth through tax cuts and fiscal stimulus. On the other hand, protectionist policies could turn inflation into stagflation and investors could be disappointed by slowing sales and margin pressure due to a strong US dollar and elevated valuations. While some of the initiatives of the new government may be in the interests of the United States, they may have a negative effect on its trading partners and on the international economy.

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## ***Results of Operations***

The Fund built a relatively high cash position at the end of the year (10.8%). While the initial equity market reaction to the election in the United States has been positive, we have been searching for a clearer view of the likely policy initiatives prior to committing the cash. In December, average yields in the US\$ high yield market had decreased from 9.19% at the end of January to 6.19% in November. The US speculative grade default rate had increased to 5.1% according to S&P. The historical average default rate is 4.3%. A number of the bonds in the portfolio were trading above par. This meant that future returns would be lower. With spreads to treasuries narrowing, the bond prices would be more sensitive to interest rate increases. The bonds had a very good year in 2016 and we took profits in the portfolio.

The equity portion of the Fund was overweight in the Financial Services sector versus the benchmark (25% versus 21% weight in the benchmark). Financial Services outperformed. Financial Services stocks rose substantially after the US presidential elections in November. The Fund was also overweight in the Healthcare sector which performed poorly. This detracted from the Fund's performance. U.S. political rhetoric with regard to healthcare costs, the Affordable Care Act and drug pricing had negative effects on stock prices.

The Fund's largest position at year end was a 3.6% position in JP Morgan. JP Morgan returned 35% in 2016. When we purchased the stock, JP Morgan was trading close to book value, had been thoroughly vetted as financially sound by regulatory bodies and would benefit from interest rate increases which we anticipated given their historically low levels.

The C\$ fell 2.1% in 2016 and ended the year at US\$0.7441. The Fund decreased its hedge against US dollar exposure in mid year but maintained the hedge on the fixed income portion of the portfolio in order to shelter the US dollar yields from currency fluctuations.

The Fund outperformed the benchmark in 2016. The Fund carried an overweight position in Canadian Equities (23% versus 15% for the benchmark) and an underweight position in International Equities (10% versus 30% for the benchmark). The Fund's relative performance was helped by the outperformance of Canadian stocks. The S&P/TSX returned 21.1% and the MSCI World Index returned 5.2% in 2016.

## ***Recent Developments***

The US economy is forecast to grow 2.3% in 2017. Canada is expected to grow around 1.8% with reduced housing and consumption offset by growth in the energy sector. Consequently, the C\$ could see more downside. The portfolio manager feels that a higher weighting outside Canada may lead to better equity returns. The US Federal Reserve's plan to raise interest rates is well telegraphed. However, it is unlikely that the Bank of Canada can tighten monetary policy with the potential risks associated with the Trump administration's proposed trade policies. Rising interest rates in the US, narrowing spreads between Treasury yields and US\$ high yield bonds and a rising US speculative grade default rate have prompted us to decrease the bond weighting in the portfolio as returns in this space may be more muted going forward.

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## *Related Party Transactions*

Marquest Asset Management Inc. is the Manager (“the Manager”) of the Fund. The Manager of the Fund has engaged Cassels Investment Management Inc. as the Investment Manager for the Fund, at its own cost.

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 is subject to automatic renewal for additional one year terms. The Management Agreement may be terminated during its term if the Manager defaults in its performance of any of its duties or obligations thereunder and if the holders pass a resolution at a meeting of holders terminating the Management Agreement as a result of such default. Further, the holders of a Fund may, by resolution passed at a meeting of holders at least 180 days before the end of the initial term or each anniversary thereof, elect not to renew the Management Agreement, whereupon the Management Agreement will not be renewed beyond its existing term. The Manager must give the holders and the Trustee at least 180 days’ notice of its intention not to renew a Management Agreement. Management fees are paid by each class at the rates set out under “Management Fees” below.

During the year, \$425,956 in management fees (including HST) was paid to the Manager. The Manager is also the trustee of the Fund and is responsible for certain aspects of the day-to-day administration. The Fund reimbursed the Manager for operating costs (including HST) incurred in administering the Fund of approximately \$216,490.

As disclosed in the Fund’s prospectus, the Manager may voluntarily waive, absorb or pay a portion of the Fund’s fees and expenses, at its discretion. During the year the Manager absorbed \$43,635 in expenses of the Fund.

# MARQUEST GLOBAL BALANCED FUND

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. The information is derived from the Fund's audited annual financial statements.

Marquest Global Balanced Fund (Class A)*					
Net Assets per Unit (\$) <sup>(1)</sup>					
	2016	2015	2014	2013	2012
Net assets, beginning of the year <sup>(2)</sup>	17.35	17.45	17.41	15.45	15.52
<b>Increase (decrease) from operations:</b>					
Total revenue	0.63	(0.02)	6.41	0.12	0.10
Total expenses (excluding distributions)	(0.61)	(0.65)	(0.71)	(0.70)	(0.66)
Realized gains (losses) for the year	1.39	0.14	0.28	1.46	2.55
Unrealized gains (losses) for the year	(0.38)	1.21	(4.97)	2.09	(1.03)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>1.03</b>	<b>0.68</b>	<b>1.01</b>	<b>2.97</b>	<b>0.96</b>
Distributions:					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	(1.08)	(1.08)	(1.08)	(1.08)	(1.08)
<b>Total annual distributions <sup>(3)</sup></b>	<b>(1.08)</b>	<b>(1.08)</b>	<b>(1.08)</b>	<b>(1.08)</b>	<b>(1.08)</b>
<b>Net assets at December 31<sup>st</sup> of year shown</b>	<b>17.34</b>	<b>17.35</b>	<b>17.45</b>	<b>17.41</b>	<b>15.42</b>

Notes:

<sup>(1)</sup> 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 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Distributions were paid in cash or re-invested in additional units of the Fund, or both.

\*Class A units were first issued on October 31, 2006.

# MARQUEST GLOBAL BALANCED FUND

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

## Financial Highlights (continued)

Marquest Global Balanced Fund (Class F)*					
Net Assets per Unit (\$) <sup>(1)</sup>					
	2016	2015	2014	2013	2012
Net assets, beginning of the year <sup>(2)</sup>	19.77	19.53	19.16	16.72	16.55
<b>Increase (decrease) from operations:</b>					
Total revenue	0.72	(0.04)	6.90	0.15	0.44
Total expenses (excluding distributions)	(0.48)	(0.50)	(0.56)	(0.58)	(0.49)
Realized gains (losses) for the year	1.44	0.14	0.34	1.54	1.36
Unrealized gains (losses) for the year	(0.18)	1.63	(5.22)	2.42	(0.20)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>1.50</b>	<b>1.23</b>	<b>1.46</b>	<b>3.53</b>	<b>1.11</b>
Distributions:					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	(1.08)	(1.08)	(1.08)	(1.08)	(1.08)
<b>Total annual distributions <sup>(3)</sup></b>	<b>(1.08)</b>	<b>(1.08)</b>	<b>(1.08)</b>	<b>(1.08)</b>	<b>(1.08)</b>
<b>Net assets at December 31<sup>st</sup> of year shown</b>	<b>20.15</b>	<b>19.77</b>	<b>19.53</b>	<b>19.16</b>	<b>16.69</b>

Notes:

<sup>(1)</sup> 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 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Distributions were paid in cash or re-invested in additional units of the Fund, or both.

\*Class F units were first issued on September 7, 2006.

# MARQUEST GLOBAL BALANCED FUND

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## Financial Highlights (continued)

<b>Ratios and Supplemental Data</b>					
<b>Class A*</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total net asset value (000's) <sup>(1)</sup>	\$ 16,207	\$ 19,280	\$ 13,912	\$ 11,724	\$ 9,790
Number of units outstanding <sup>(1)</sup>	934,666	1,111,480	797,341	673,233	633,810
Management expense ratio <sup>(2)</sup>	3.39%	3.40%	3.41%	3.57%	3.41%
Management expense ratio before waivers or absorption <sup>(5)</sup>	3.61%	3.78%	3.62%	3.68%	3.69%
Trading expense ratio <sup>(3)</sup>	0.08%	0.06%	0.05%	-	0.01%
Portfolio turnover rate <sup>(4)</sup>	58.64%	51.40%	120.71%	32.48%	19.53%
Net asset value per unit <sup>(1)</sup>	\$ 17.34	\$ 17.35	\$ 17.45	\$ 17.41	\$ 15.45
<b>Class F**</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total net asset value (000's) <sup>(1)</sup>	\$ 3,031	\$ 2,173	\$ 1,806	\$ 1,489	\$ 1,287
Number of units outstanding <sup>(1)</sup>	150,425	109,886	92,436	77,733	76,999
Management expense ratio <sup>(2)</sup>	2.28%	2.29%	2.43%	2.50%	2.35%
Management expense ratio before waivers or absorption <sup>(5)</sup>	2.43%	2.54%	2.58%	2.58%	2.54%
Trading expense ratio <sup>(3)</sup>	0.08%	0.06%	0.05%	-	0.01%
Portfolio turnover rate <sup>(4)</sup>	58.64%	51.40%	120.71%	32.48%	19.53%
Net asset value per unit <sup>(1)</sup>	\$ 20.15	\$ 19.77	\$ 19.53	\$ 19.16	\$ 16.72

### Notes

<sup>(1)</sup> The information is provided as at December 31st of the year shown.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

<sup>(4)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser 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 Fund's portfolio 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 a Fund.

<sup>(5)</sup> Waivers and absorption of certain expenses associated with the Fund are at the Manager's discretion and may be terminated at any time.

\*Class A units were first issued on October 31, 2006.

\*\*Class F units were first issued on September 7, 2006.



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## Management Fees

The Management fees for each applicable class are calculated daily and are based on the Fund's ending total NAV per class; cumulative daily totals are then paid on a weekly basis. The Manager uses these management fees to pay sales and trailing commissions to registered dealers on the distribution of the Fund units, as well as for the general investment management expenses.

	Maximum Annual Management Fee Rate (%)	As a percentage of Management fees	
		Sales & Trailer Commissions (%)	Investment Advisory and Portfolio Management Services (%)
Class A Units	2.10%	39.78%	60.22%
Class F Units	1.10%	0.00%	100.00%

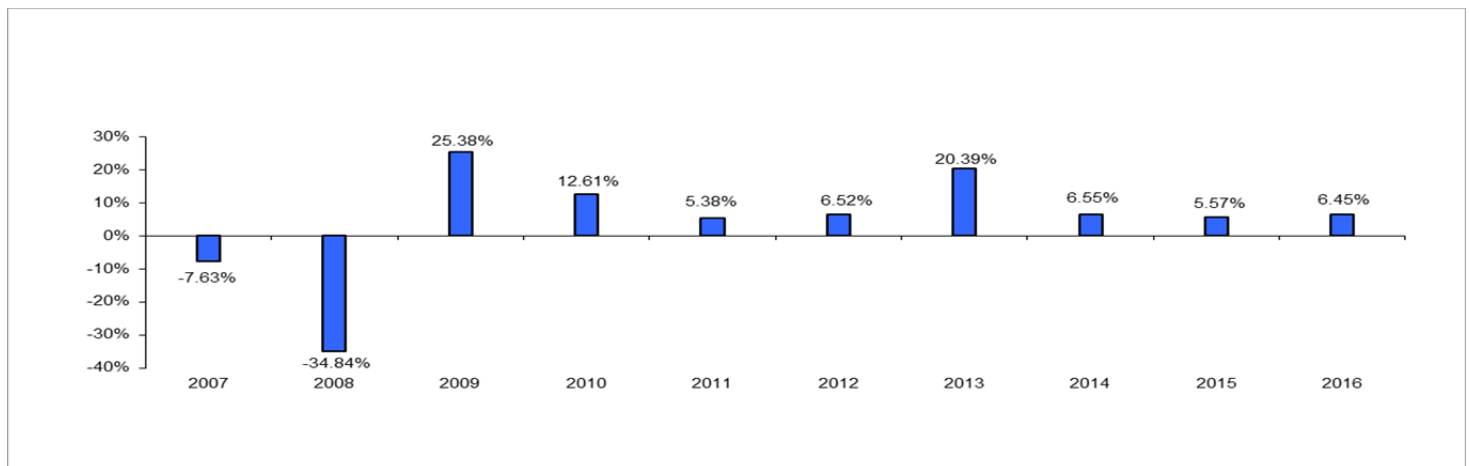
## Past Performance

The performance information shown assumes that all distributions made by the Fund in the years shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future. Performance differences between classes of units are mainly attributable to management fees charged to each class.

## Year-by-Year Returns

The following bar charts show the Fund's annual Class A and Class F unit's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. In percentage terms, the bar chart shows how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

### Class A



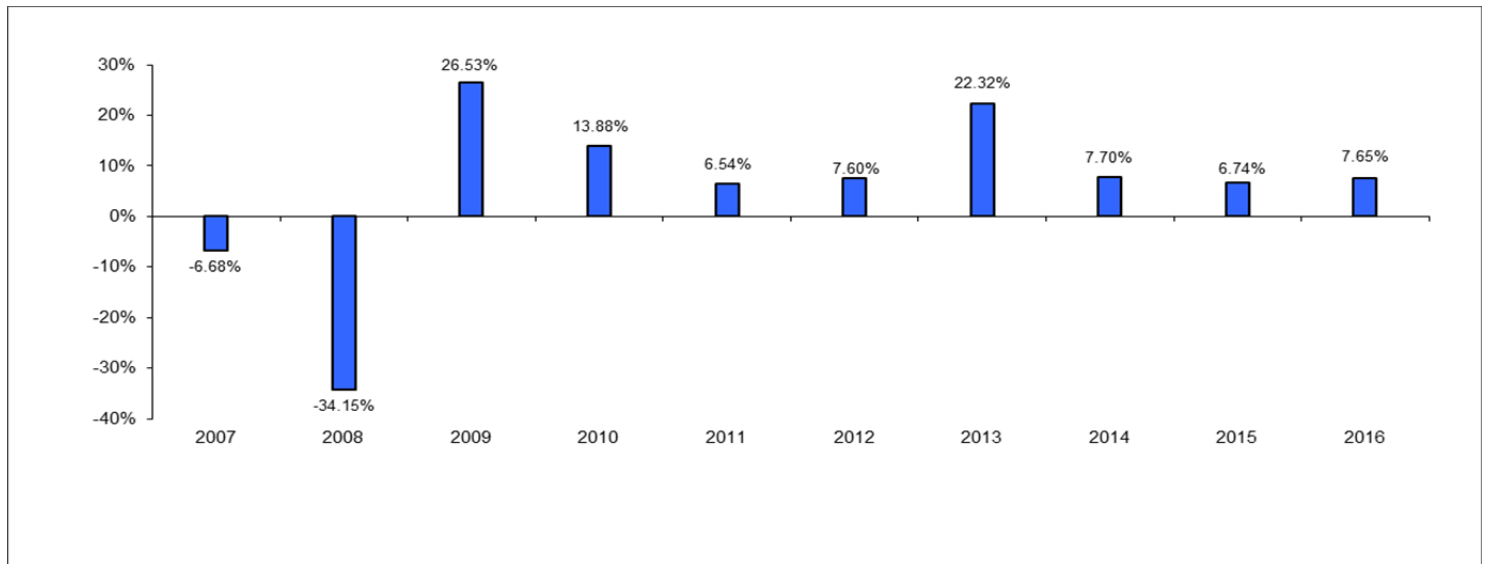
\* Inception date for Class A units was September 7, 2006.

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## Past Performance (continued)

### Class F



\* Inception date for Class F units was September 7, 2006.

## Annual Compound Returns

The table below compares the annual compounded return of the Class A and F units of the Fund against the Morningstar CAN Bal Global Agg CAD index. This index encompasses a broad selection of Canadian corporate and government bonds, Canadian small and mid- size capitalized companies and International large and mid-size capitalized companies.

As the index is made up of groups of securities from market capitalizations, it does not share the same holdings or the same weighted proportions as the Fund and compounded total returns figures between the two may differ. For greater in-depth discussion regarding the Fund's asset class holdings and performance over the year please see the "Results of Operations – Investment Portfolio" section of the MRFP. 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 benchmark, which does not incur any types of fees/expenses.

	1 Year %	3 Years %	5 Years %	10 Years %	Since Inception %
<b>Class A</b>	6.5%	6.2%	9.0%	3.2%	3.3%
<b>Morningstar CAN Bal Global Agg CAD</b>	5.4%	10.1%	13.0%	5.5%	6.5%
<b>Class F</b>	7.7%	7.4%	10.1%	4.1%	4.6%
<b>Morningstar CAN Bal Global Agg CAD</b>	5.4%	10.1%	13.0%	5.5%	6.5%

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## 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:** **\$ 19,237,773**

### Portfolio Allocation

	<b>% of Fund's Net Asset Value</b>
United States Equities	43.34%
Canadian Equities	23.32%
United States Bond	16.48%
Canadian Short Term Notes	8.36%
Canadian Bonds	5.93%
Cash	2.01%
Net Other Assets (Liabilities)	0.56%
	<hr/> 100.00%

### Top 25 Holdings

	<b>% of Fund's Net Asset Value</b>
1 The Toronto-Dominion Bank, 0.69%, 24/01/2017	8.36%
2 JPMorgan Chase & Co.	3.61%
3 Broadcom Ltd.	2.83%
4 Royal Bank of Canada	2.83%
5 Bank of Nova Scotia	2.80%
6 The Toronto-Dominion Bank	2.74%
7 Shire PLC	2.73%
8 Calpine Corp., 5.75%, 15/01/2025	2.70%
9 HDFC Bank Ltd.	2.54%
10 Celgene Corp.	2.42%
11 Time Warner Inc.	2.36%
12 UnitedHealth Group Inc.	2.23%
13 Canadian Natural Resources Ltd	2.22%
14 Cascades Inc., 5.50%, 15/07/2022	2.13%
15 Canadian National Railway Co.	2.07%
16 HCA Holdings Inc.	2.06%
17 General Electric Co.	2.03%
18 Cash	2.01%
19 Bank of America Corp.	2.00%
20 Whirlpool Corp.	1.90%
21 Cameco Corp.	1.86%
22 D.R. Horton Inc.	1.85%
23 AMC Networks Inc.	1.82%
24 Pfizer Inc.	1.81%
25 Keyera Corp.	1.74%
	<hr/> 63.65%

*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 Fund does not hold short positions. The prospectus and other information of Marquest Global Balanced Fund are available on the internet [www.sedar.com](http://www.sedar.com).*

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