

Third Quarter 2018 Waratah Investor Letter

Dear Investor,

Third Quarter Results

| | Q3 2018 | Year-to-Date Return | Average Annual Return | Annualized Volatility |
|---------------------|---------|---------------------|-----------------------|-----------------------|
| Waratah One | -1.8% | -0.9% | 5.9% | 3.5% |
| Waratah One X | -2.7% | -1.6% | 8.2% | 4.9% |
| Waratah Performance | -1.6% | 3.7% | 11.1% | 7.4% |
| Waratah Income | 3.1% | 5.5% | 7.2% | 5.9% |
| Waratah Energy | -2.4% | -2.6% | 6.2% | 5.8% |

Waratah One, Waratah One X, Waratah Performance, Waratah Income, and Waratah Energy, generated returns of -1.8%, -2.7%, -1.6%, 3.1%, and -2.4%, respectively, in the third quarter of 2018. These results compare to a return of 6.0% for the 50/50 weighting of the S&P 500 and the S&P/TSX Composite Index (the "50/50").

While Waratah Income outperformed the TSX Composite Index by 3.6% in Q3, the other Waratah funds underperformed in the quarter. The underperformance was driven by a number of factors including: poor performance on the part of some of our top names (Premium Brands, in particular, was down 16.4% in the quarter); our underweight position in technology stocks; our elevated net exposure to Canada; our exposure to put options; and, our commodity exposures. It is worth noting that most of the exposures listed above enabled us to significantly outperform the 50/50 in October.

Q3 Equity Markets Update

Q3 was another strong quarter for North American equities with the S&P 500 up 7.7%, its best quarter since Q4 2013. Canada continued to lag the U.S. market with the S&P/TSX Composite Index down 0.6% in the quarter.

U.S. equity market appreciation was fueled by strong earnings and strong economic growth and a willingness on the part of investors to shrug off concerns regarding rising rates, global trade, slowing growth in China and Europe and growing risks in some emerging market economies. Year-to-date to the end of Q3, growth outperformed value by 13% in the U.S. Large caps also outperformed small caps in Q3 – the Russell Top 50 was up 9.3% while the small cap Russell 2000 rose just 3.6%.

Despite a 31.4% appreciation in the Health Care sector (driven by cannabis stocks), Canada significantly underperformed the U.S. in Q3 2018. In fact, no sector other than Health Care kept up with the U.S. equity market in the quarter. Fears related to NAFTA and a surprising court decision related to the Trans Mountain Pipeline contributed to a weak quarter for Canadian equities. Large cap stocks also outperformed small caps in Canada in Q3 with the S&P/TSX 60 (large caps) down 0.6% in compared to a -2.8% performance for the S&P/TSX SmallCap Index.

Current Positioning

As most of our clients will have noticed...

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