JCClark Investments.

2016 Year-End Update

January 2, 2017

Dear Investors:

2016 was a relatively strong year for equity markets, with a particularly sharp rebound in the commodity-centric Canadian market. JC Clark's fund strategies all generated positive returns for the year while maintaining a relatively defensive posture. For the year, the Adaly Fund gained 10.58%, Focused Opportunities advanced 9.07%, the Preservation Trust returned 6.78%, while the Patriot Trust also gained ground with a 5.50% return. Despite a challenging fixed income market, our Yield Trust produced a very respectable 5.48% return. Our newest fund strategy, the JC Clark US Value Fund added 3.11% in its inaugural year. Canadian equity markets had a strong year as the TSX Composite gained 17.51%. Index returns were primarily driven by commodity producers in the gold and energy sectors, in addition to a few standout performances from companies such as Teck Resources and First Quantum Minerals, as well as the Canadian banking sector. Market leadership was relatively narrow, and without large commodity holdings, keeping pace with the Canadian index was a challenge for most active equity managers, ourselves included. The US equity market also had a reasonably strong year, with the S&P 500 gaining 9.54% for 2016.

<u>Year in Review</u>

Despite reasonably strong performance in North American equity markets (less so elsewhere), 2016 proved to be a year with many unexpected events, and several periods of heightened market volatility. The year began with a sharp sell-off in global equities as investors suddenly became concerned with global growth and even worried, if only for a brief period, about an imminent US recession. By March, oil prices had rebounded from the lows of $26/barrel, and fears of a market meltdown had passed. Optimism quickly returned as the consensus view once again reverted to the "goldilocks" scenario of moderate economic growth, combined with low interest rates for the foreseeable future. As a result, bond markets, and certain equity market sectors such as consumer staples and utilities performed well in the 1st half of the year. It was not until June 23rd when one of the key themes of the year truly emerged. On that day, in a British referendum (dubbed "Brexit"), 52% of the votes were unexpectedly cast in favour of the United Kingdom withdrawing from the European Union. For a brief period, this event sent global financial markets into a tailspin, only to see a relatively quick rebound days later. The British vote was, at the time, the most significant sign yet of the global rise of populism. This movement appears to be rooted in a complex series of trends including a growing wealth gap, rapid technological change, globalization, and immigration. Overall, it seems that the average person in many developed nations is feeling increasingly disenfranchised by these ongoing global changes. In perhaps an even more dramatic sign that populism is here to stay, on November 8th, 2016, Donald J. Trump was elected to become the 45th President of the United States. Without espousing our own political views (yes, like many other Canadians we have gone through periods of confusion and depression since the election), we will simply say that the world has changed and we must all pay close attention as this political and social disruption has far-reaching implications for the global economy and financial markets. Following the US election, financial markets shocked both pundits and investors, staging an impressive rally over the subsequent days and weeks. Even more dramatic than the market rally was the violent sector rotation, and movement in interest rates and currencies that ensued. Bond yields surged and inflation expectations rose as market participants quickly adjusted to what is believed to be a highly "pro-growth" agenda by the incoming Trump administration. The US election appears to have marked the end of the multi-decade bull market in bonds and has ushered in a period of rising interest rates globally. Overall, despite relatively lackluster economic growth, financial markets in North America enjoyed a solid year in 2016, driven primarily by rebounding commodity prices, optimism over future economic policies, and an expansion in valuation multiples.

2016 provided a reasonable outcome for JC Clark's investment strategies. We had a number of core positions whose fundamentals continued to improve and generated very nice gains for our funds during the year. Most notably, we owned a sizable position in US banks across several strategies, added a number of oil & gas investments at depressed prices, and held core weightings in many excellent, cash flow producing companies that continued to grow intrinsic value for shareholders. Our mistakes were primarily errors of omission. We did not own gold stocks in any material way during the year, and missed out on the dramatic rebound in a number of commodity oriented sectors. With the high level of uncertainty (both political and economic), we also chose to maintain a relatively defensive stance during the course of the year, and ultimately these hedges (short positions, put options, excess cash), proved to be a drag on returns. We do not regret having had this insurance ... we just wish we had held a bit less of it. Specific winners and losers included:

WINNING POSITIONS	
Imvescor Restaurant Group	Quebec-based restaurant franchisor
Brick Brewing	Craft brewer, owner of "Waterloo" beer brand
Air Canada	Canadian airline with rapidly improving financial results
Richards Packaging	Packaging distributor for broad range of consumer products
QHR Corporation	Provider of Electronic Medical Records Software that was acquired at a significant premium mid-year
Westshore Terminals	Owner of a valuable coal-loading terminal in Western Canada
Callidus Capital	Specialized lender

LOSING POSITIONS	
Capital Senior Living	US owner of seniors homes
Temple Hotels	Canadian hotel company with a focus in Western Canada
Merus Labs	Pharmaceutical company with a growth-through-acquisition strategy
Market Hedges	Short positions in the TSX Index, Russell 2000 Index, etc

As we enter 2017, we remain confident in the prospects for our primary portfolio investments, while looking to add more winners and mitigating mistakes by cutting any losing positions from our roster quickly.

Outlook

Looking ahead to the New Year we are cautiously optimistic, yet are proceeding with the awareness that we must expect the unexpected. The growth outlook is improving with global manufacturing and service indicators turning upwards, a robust outlook for corporate profit growth in North America, and the potential for fiscal stimulus to spur investment and create new jobs. While we are certain that the Trump administration will bring with it a level of unpredictability, we believe that President-Elect Trump will likely be a pragmatist and moderate many of his protectionist views, while choosing to focus on pro-growth policies such as corporate tax cuts, deregulation, and fiscal spending. After years of sub-par US economic growth and political gridlock, there is at least the potential for these policies to have a material positive impact on the US economy. Risks lie in the implementation of these policies, the potential for a significant increase in US federal debt, and what is certain to be a highly unpredictable foreign policy regime. We believe that reflation will be a key theme for 2017. An increasingly tight US labour market, upward pressure on wages, low interest rates, and government spending programs could all combine to push the rate of inflation upwards. As long as the rise is controlled, and not rapid, moderate increases in inflation would be welcomed by equity markets. More importantly, a reflationary environment will have far- reaching implications for a variety of industries and companies and will lead to rising interest rates and continued underperformance in the bond market. Overall, 2017 should be a better year for growth, but we remain cognizant that we are in the late stages of the economic cycle and face a new period of global unpredictability due to the significant political change we continue to witness in many regions around the world.

A positive economic outlook combined with recovering corporate profitability should generally be supportive of higher equity prices in the year ahead. Nevertheless, there are several factors that prevent us from adopting the unbridled optimism we have seen in recent weeks from other market participants. Equity valuations sit above historic norms, and based on some measures are near the highest levels in 20 years. Investor sentiment has also turned sharply positive following the US election, causing a significant rally late last year, which suggests that at least a portion of the good news has already been built into stock prices. We are taking a positive, but more measured view of the equity market in 2017. While we expect a general upward movement in markets, we believe there will be a notable increase in volatility in the months ahead and a large divergence in performance across different sectors and companies. For example, we expect rising interest rates to be a key theme going forward. On that basis, US banks will be major beneficiaries, while REIT's (Real Estate Investment Trusts), utilities and other interest rate sensitive sectors will underperform after years of above-average rates of return. While the overall market may be expensive, there are pockets of opportunity and cheap stocks to be found. The automotive and pharmaceutical sectors are both highly out of favour and in some cases valuations sit at multi-decade lows. Oil & gas remains an area of focus, and we believe one can not underestimate the significance of the recent OPEC production cut. While oil & gas stocks have rallied from their lows, many remain far below levels from only a few years earlier. In essence, we feel that the confluence of expensive overall equity markets, rapid political and economic change, and pockets of highly depressed market segments, will lead to the resurgence of value investing and favour stock pickers like ourselves. In other words, a wholesale bet on the market through an ETF (Exchange Traded Fund) will not be an adequate investing approach; rather, security selection and thorough due diligence will win the day. As such, we plan to maintain our focus on investing in individual businesses (as we always have), while holding an adequate level of cash and protection to take advantage of what could be a period of heightened volatility.

While the roadmap for the market will surely take many twists and turns in the year ahead, we see a number of investment themes and risks that are worthy of mention. Reflation, rising interest rates, a shift from monetary to fiscal policy, geopolitical uncertainty and the growing risk of anti-globalization and protectionist sentiment are all significant trends to monitor. High debt/GDP ratios globally, and the particularly dramatic credit growth in China in recent years (private debt/GDP now sits above 200%, well in excess of peak levels reached in the US prior to the 2008 crisis) are also risks that should not be ignored. Accelerating technological change will increasingly impact traditional industries and has the potential to create new winners and turn some of yesterday's storied companies into relics of the past. As we enter 2017, we see both great opportunity and risk in the investing landscape. Thorough due diligence, unconventional thinking, and a close eye on the aforementioned trends and risks will be essential for successful investing in the year ahead.

Sincerely,

JCClark Investment Team

IIROC
Investment Industry
Regulatory Organization
of Canada

This document is provided for information purposes only and should not be considered a recommendation to purchase, sell or hold any security. Past performance rates of return are no guarantee of future performance.