CELERNUS ABSOLUTE GROWTH FUND (CAGF)

CELERNUS
Investment Partners Inc.

As at June 30, 2018

CLASS A

WHY INVEST IN THIS FUND

- Target equity-level returns over a market cycle.
- Ability to provide protection during bear market.
- Lower volatility than broad-based indices over a market cycle.

FUND DETAILS

Manager:
Celernus Investment Partners Inc.

Inception Date: May 2012

AUM: 17.9 million

Minimum investment: $25,000

Advisory fee: 0.85%

Performance fee:
20%, after 6% hurdle

High water mark: Yes

Subscriptions: Weekly

Redemptions: Weekly

Prime Broker:
National Bank Independent Network (NBIN)

Auditor: BDO Canada LLP

Administrator:
Convexus Managed Services Inc.

Lawyer: WeirFoulds LLP

Eligible accounts:
RSP, RESP, RRIF, TFSA, cash

FUND CODES

CIP100A – No Load

INVESTMENT TEAM

Chris Grant, CFA
Senior Partner

**Full Bio can be found at www.celernus.com/people*

FUND OVERVIEW

The Celernus Absolute Growth Fund (CAGF) aims to provide long term growth of capital with below average volatility. The fund seeks to actively protect capital and manage risk. Equity selection combines a value-orientation with a robust quantitative framework. Net equity and currency exposure are dynamically managed to further mitigate risk.

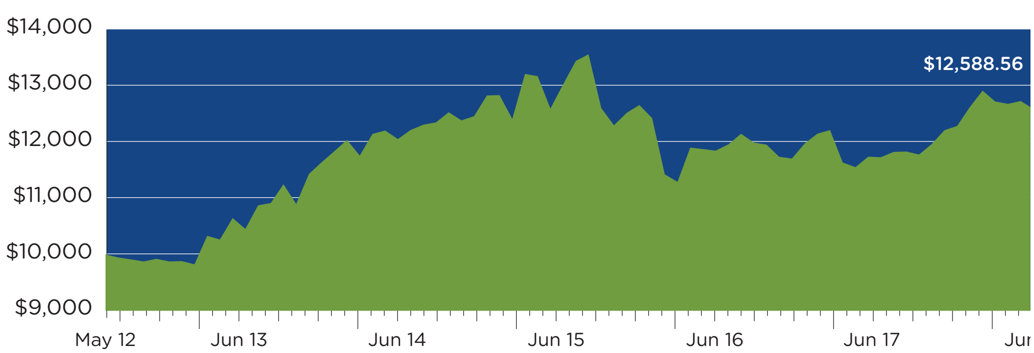
COMPOUND RETURNS (%) CLASS A

1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS	INCEPTION
-1.09	-1.02	2.47	7.33	-2.16	2.92	3.86

MONTHLY RETURNS (%) CLASS A

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2018	2.73	2.30	-1.50	-0.33	0.39	-1.09	-	-	-	-	-	-	2.47
2017	1.46	0.53	-4.72	-0.70	1.61	-0.08	0.80	0.06	-0.45	1.58	2.06	0.63	2.62
2016	-8.08	-1.06	5.43	-0.22	-0.24	0.94	1.67	-1.36	-0.31	-1.80	-0.27	2.28	-3.65
2015	-2.48	6.57	-0.39	-4.38	3.55	3.11	0.87	-7.03	-2.43	1.79	1.11	-1.83	-2.37
2014	-2.54	3.31	1.39	-1.81	1.06	0.92	-1.69	3.46	-2.08	1.56	2.95	-0.61	5.81
2013	3.17	-0.02	3.52	-1.24	3.42	0.40	3.50	-3.50	4.57	1.84	1.97	1.91	21.04
2012	-	-	-	-	-0.22	-0.32	-0.46	-0.27	0.48	-0.33	-0.11	1.00	-0.24

HISTORICAL PERFORMANCE - GROWTH $10,000



PUBLIC MARKET EXPOSURE

Long Exposure	100.2%
Short Exposure	-26.7%
Net Exposure	73.6%

PRIVATE MARKET EXPOSURE

Private Real Estate Equity	40.9%

PUBLIC SECTOR ALLOCATION

SHORT		LONG
-2.3%	Financials	16.7%
-6.2%	Information Technology	16.4%
-2.4%	Materials	13.9%
-3.3%	Health Care	12.5%
-2.5%	Consumer Discretionary	11.4%
-1.5%	Industrials	10.9%
-1.5%	Utilities	7.5%
-3.5%	Consumer Staples	6.4%
-1.0%	Telecommunication Sevices	2.5%
-1.7%	Real Estate	2.2%
-0.8%	Energy	0.0%
-26.7%	**Total**	**100.2%**

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COMMENTARY

The Celernus Absolute Growth Fund returned -0.91% over the second quarter of 2018 – consistent with the -0.92% return of its benchmark HFRX Equity Hedge Index. The broader-based S&P 500 and S&P/TSX Composite indices returned 2.93% and 7.90% respectively, over the same period.

The second quarter of 2018 was characterized by rising crude oil prices, a strengthening U.S. dollar and moderating bond yield momentum. The energy sector led the S&P 500 Index higher, rebounding 12.7% as crude oil prices rose. Consumer discretionary and information technology stocks rose 7.84% and 6.75%, while industrials, financials and consumer staples sector stocks underperformed, returning -3.66%, -3.58% and -2.34%, respectively.

Geopolitical tensions and oil supply interruptions supported oil prices as output from Venezuela remained weak and the re-imposition of sanctions on Iran counterbalanced the supply lift from the Organization of the Petroleum Exporting Countries. A Bloomberg survey of energy-focused investors found that just over half of the respondents expect the West Texas Intermediate crude oil benchmark to end 2018 between US$65-$75 per barrel. At quarter-end, the price of crude oil was just under US$75 per barrel.

Hedge funds appear to have taken the U.S. Federal Reserve Board's recent signal on interest rates at face value, adding U.S. dollar bets at the fastest pace on record. The strengthening U.S. dollar has weighed significantly on the international banking sector. This is because many banks, even the international ones, use U.S. dollars for lending backed by non-U.S. collateral. As the U.S. dollar strengthens, the value of the collateral declines relative to the loan. This results in riskier loans, and as risk rises, lending exposure is reduced. As lending exposure is reduced, revenue declines. Another factor – the flattening U.S. yield curve – has rendered the problem worse by making lending less profitable for banks, resulting in revenue and margin challenges in the international banking sector.

The short end of the U.S. yield curve continued to rise during the period, lifting from 2.26% to 2.52%. In contrast, U.S. 10-year bond yields rose to the 3.00% level for a couple of weeks but moved back to 2.85% by quarter-end. The long end of the yield curve closed the quarter exactly where it began, at 2.98%. This brought the yield curve to its flattest in the current cycle and close to inversion, which has typically been a precursor to recession.

Even as the yield curve flattened, the U.S. Institute of Supply Management ("ISM") Manufacturing and Non-Manufacturing Indices continued to show a robust U.S. economy. Consensus estimates of the next 12-month earnings have risen over 20% in the last year – a pace of estimate growth that has not been seen since 2010. However, as earnings estimates improved, valuation levels declined. Going into the second half of 2018, the U.S. equity market finds itself in a situation in which 12-month earnings per share are expected to rise 26% in a valuation environment that, while off its highs, is still extended versus historical averages.

We continue to have a positive outlook for the U.S. economy and modestly positive view on U.S. equity markets. The Fund's net positive exposure of approximately 70% reflects this. We also have continued to increase the Fund's private equity real estate exposure through participation in select projects that we feel offer attractive reward-to-risk profiles.

ABOUT US

Celernus manages investment funds for high-net-worth individuals and institutions. Our lineup of actively managed, low-fee solutions are built to help investors achieve long-term financial success. We manage our portfolios with a lower-volatility approach while also focusing on alpha generation and absolute returns.

CONTACT US

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