DECEMBER
MARKET COMMENTARY & FORECAST

There was no Santa Claus rally in 2018 as December was one of the worst months on record for the global markets. A confluence of negative headlines hit the markets at once. The MSCI dropped 7.1% and is down 10.4% for the year led by the S&P 500 down 9.1% and down 6.2% for 2018, while the Dow Jones was down 8.6% and down 5.6% for the year and the TSX was down 5.7% and down 11.6% for the year. The MSCI Europe index was down 4.7% and a whopping 17.3% for the year. Most markets had corrected into bear market territory defined by a 20% drop from their highs. The majority of the markets are bouncing back from their bear market lows. The market selloff has moved investors into the safety of US 10-year Treasuries as the yield plummeted to 2.50%, from highs of 3.25%. Investors found reasons to pile into these safer assets as the volatility in equities moved buyers into the safety of bonds.

The Federal Reserve (the "Fed") has reached its target of tightening monetary policy through both higher interest rates and quantitative tightening. Effective October 2018 the Fed had reached its quantitative tightening by reducing their balance sheet by $50B per month. Investors became uncomfortable with this level of tightening and rising interest rates by the Fed and the equity markets spoke up. The risk to the global economy of these two methods of tightening was real and the stock markets reflected this concern with a vicious sell off in Q4 2018. This concern, on top of other negative concerns such as the US-China trade impact on the global economy, year end tax loss selling and irrational global government policy. Real time markets are grappling with how deep the slowdown in global growth will be in 2019. The broad slide in equities and the deep-dive in cyclically sensitive commodities are signs of a potential global economic slowdown and have forced the Fed's hands into becoming less hawkish on future interest rate increases. Powell mentioned that he is prepared to adjust policy quickly and significantly depending on how the economy performs. As the Fed is listening to market risk concerns and sending downside risk signals, investors saw this as a positive change in policy and stock markets have rallied in reaction. This well-timed combination was just the tonic the market needed to counter the dire markets in December.

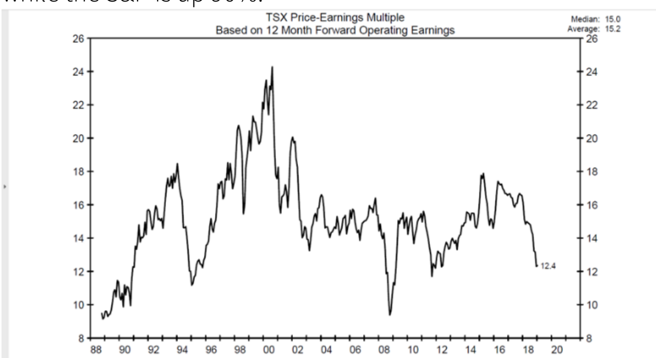
Canada has been a bit of a bystander amid the wild volatility in the markets. Governor Poloz and the Bank of Canada ('BoC") was also forced a hold on interest rate increases and cut its GDP forecast by 0.4% for 2019 from 2.1% to 1.7%. Just like its Fed counterpart, the BoC will also be data dependant for future policy moves especially in relation to oil markets, Canadian housing markets and global trade policy.

MARKET PERFORMANCE

Market	Return (%)*
Canada (S&P/TSX)	(5.4)
US (S&P)	(6.7)
MSCI (World)	(5.3)
Best (Mexico)	6.1
Worst (USA)	(6.7)

*In Canadian dollar terms as at December 31, 2018

The markets can now go back to focusing on corporate earnings for the upcoming Q4/18 earnings season and outlooks for 2019. After Apple's pre-release of weaker global iPhone sales, it would be interesting to see the impact on other companies. The S&P 500 may have to revise down its current 10% earnings growth for 2019 given the recent weakness in macro economic headlines such as the widespread drop in purchasing managers indexes. The US continues to be the global leader with 10% earnings growth for 2019 while Europe's developed markets is forecast to grow 9% and Asia Pacific developed markets, 5%. For reference, Canada is forecast to grow earnings a decent 13% but you wouldn't know it by the lacklustre performance of the TSX and thus an attractive forward PE multiple of 12.4x (see chart below). This low PE multiple compares to an average PE of 15.2x over the past 30 years. The TSX is basically flat over the past decade while the S&P is up 90%.



Source: John Aitkens, TD Securities

When it comes to managing money, we seek to deliver investors the following: 1) grow their principal, 2) managing the portfolio for changes in interest rates, and 3) managing the risk to the portfolio of changes in the inflation rate.

For many years, our focus has been on growing principal as interest rates and inflation were both on a slow and steady downward trend. Recently however, interest rate expectations have become one of the leading indicators for market investor sentiment and asset allocation. Interest rates will be at the forefront of news and short-term movements in rates will have a bigger impact on decision making about equity markets. For the time being, the market is trying to become familiar with all the nuances of newly appointed Federal Reserve chair Jerome Powell. As written earlier, SAM raised cash in September and our portfolios have been structured as more defensive compared to the index. We increased the cash weighting in our Growth Fund from a low single digit percentage to 15%. We also slightly increased our cash weighting in Stone Dividend Growth Class, Stone GaleForce Dividend Growth Pool and Stone Select Growth Class. We use our proprietary investment process daily and in volatile market conditions such as these, we seek to ensure that we can manage downside risk and adjust the portfolio accordingly while seeking to achieve our long-term investment goals.

We remain invested and are committed to companies that provide revenue growth, improving free cash flow and higher earnings per share. We are active portfolio managers with a disciplined investment process including the implementation of various risk management tools to benefit our investors.

Kindest Regards,

Richard Stone,
Chief Investment Officer
Stone Asset Management Limited

FUND PERFORMANCE - Series F/FF

	1 mo	3 mo	6 mo	YTD	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
Stone Dividend Growth Class, Series F	(6.0)	(9.0)	(5.8)	(1.4)	(1.4)	5.3	4.7	8.7	9.0	08/01/2003
80% S&P/TSX Composite, 20% S&P 500 C$	*(5.7)*	*(9.9)*	*(9.2)*	*(6.4)*	*(6.4)*	*6.9*	*6.1*	*9.3*	*7.7*	
Stone EuroPlus Fund, Series F	(1.8)	(4.9)	(6.9)	(8.7)	(8.7)	(2.2)	3.1	6.6	3.1	05/02/2008
MSCI Europe $C	*(2.3)*	*(8.1)*	*(8.8)*	*(7.4)*	*(7.4)*	*1.6*	*4.5*	*7.4*	*3.0*	
Stone Global Balanced Fund, Series FF	(2.0)	(6.0)	(5.4)	(1.9)	(1.9)	2.3	4.8	n/a	7.8	01/05/2009
15% S&P/TSX Composite, 15% S&P 500 C$, 30% MSCI World C$ and 40% FTSE TMX Canada Universe Bond	*(2.9)*	*(4.9)*	*(3.5)*	*(0.3)*	*(0.3)*	*5.8*	*6.3*	*n/a*	*8.1*	
Stone Growth Fund, Series F	(6.3)	(10.2)	(6.4)	8.1	8.1	1.2	7.5	8.8	6.2	08/01/2003
50% S&P/TSX Composite and 50% S&P 500 $C	*(6.1)*	*(9.5)*	*(7.1)*	*(2.6)*	*(2.6)*	*8.5*	*7.0*	*9.8*	*7.4*	
Stone Global Growth Fund, Series F	(4.1)	(12.5)	(9.9)	1.9	1.9	5.8	11.0	13.2	8.2	08/01/2003
MSCI World $C	*(5.4)*	*(8.8)*	*(5.8)*	*(0.7)*	*(0.7)*	*5.8*	*9.9*	*10.9*	*6.9*	
Stone Select Growth Class, Series F	(6.9)	(14.4)	(17.3)	(22.3)	(22.3)	(4.8)	n/a	n/a	(16.1)	09/01/2014
50% S&P/TSX Capped Energy, 50% S&P/TSX Capped Materials	*(0.6)*	*(14.4)*	*(22.4)*	*(17.0)*	*(17.0)*	*5.5*	*n/a*	*n/a*	*(8.2)*	
Stone GaleForce Dividend Growth Pool	(5.1)	(7.2)	(4.6)	(0.1)	(0.1)	5.0	4.7	n/a	5.3	05/17/2012
Stone American Dividend Growth Fund Series F	(8.0)	(10.5)	(6.8)	(7.0)	(7.0)	1.8	n/a	n/a	5.7	07/17/2014
Stone Global Strategy Fund Series F	(5.1)	(7.6)	(6.1)	(3.1)	(3.1)	2.7	4.5	4.2	3.9	09/22/2006
Stone Covered Call Canadian Banks Plus Fund Series F	(7.5)	(12.0)	(10.7)	(13.4)	(13.4)	4.5	n/a	n/a	2.4	07/17/2014
Stone Canadian Resource Fund Series F	(0.6)	(11.2)	1.1	(14.2)	(14.2)	7.0	(8.2)	(3.6)	(10.4)	02/07/2006
Stone Small Companies Fund Series F	(1.8)	(10.0)	(7.2)	(13.6)	(13.6)	(0.3)	(2.2)	2.4	(3.8)	02/07/2006

The returns set out above are historical annualized compounded returns net of all fund fees and expenses. The returns assume a re-investment of all distributions. Historic returns are provided for general information purposes only and may not be indicative of future returns or fund performance. Performance data of other Series of the Funds may differ from those shown above due to differences in fees. Please visit our website at www.stoneco.com for performance data of all Series.

As at December 31, 2018

CANADIAN FACTS - THE UN-COUNTERFEITABLE DOLLAR.

Why are American dollar bills green? The answer came from McGill University in Montreal in 1861. That year, the United States Congress authorized production of $50 million in demand notes, largely to cover the federal government's burgeoning war expenses. The next year, Thomas Sterry Hunt – an American chemist working for the Canadian Geological Survey at McGill – came up with the idea of using chromium sesquioxide for banknote ink. Hunt discovered that, when used as ink for the notes, the compound's green pigment could not be bleached by acid, thus making it incredibly durable. Nor could it be photographed, making it impervious to counterfeiting. Hunt's innovation was the straightforward use of science to solve an everyday problem. And with his discovery, the un-counterfeitable dollar – the greenback – was born. In Canada.

*Adapted from Ingenious - How Canadian Innovators Made the World Smarter, Smaller, Kinder, Safer, Healthier, Wealthier, and Happier, by David Johnston & Tom Jenkins

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There are risks associated with investing in mutual funds. Please refer to the simplified prospectus or offering memorandum for details of the risks associated with these funds.

All mutual funds carry the risk that the mutual fund may decrease in value. The degree of risk varies depending on the investment objective and strategies of the mutual fund. Before investing in any mutual fund discuss with your financial advisor how it works with your other investments and your tolerance for risk. Please refer to the simplified prospectus or offering memorandum for more information regarding the risks associated with these funds. The principal risks associated with the Stone Funds are as follows:

Stone Dividend Growth Class – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Stone Select Growth Class – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and sector risk associated with fluctuations in the resource sector.

Stone GaleForce Dividend Growth Pool – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus or offering memorandum before investing. Any indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The payment of distributions is not guaranteed and may fluctuate. The payment of distributions should not be confused with a fund's performance, rate of return, or yield. If distributions paid by the fund are greater than the performance of the fund, then your original investment will shrink.

Distributions paid as a result of capital gains realized by a fund and income and dividends earned by a fund are taxable in your hands in the year they are paid. Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, then you will have to pay capital gains tax on the amount below zero. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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