STONE
ASSET MANAGEMENT LIMITED

FEBRUARY
MARKET COMMENTARY & FORECAST

The markets continued with the strong start in 2019 after the 2018 Q4 long selling spree. For the month of February the MSCI World index jumped by 2.8% lead by a stellar 3.0% gain in the S&P 500 and 3.7% in the Dow Jones. This is the best 1-2 start (January and February) to the year since 1991. The TSX also continued its blistering start with a 3.0% gain. Every TSX sector was up for the month except for the materials sector. North American markets had nothing on Asian markets as China's Shanghai composite was up a whopping 13.8% in February taking its YTD gain to 18%. These Chinese market gains come even in the face of continual US-China trade disputes and downward GDP growth revisions. The yield on the benchmark US 10-year Treasury note has fallen once again settling at 2.74%, down from a high of 3.23%.

We want to highlight the recent Canadian bank quarterly earnings report for Q1 2019 (Nov 2018 to Jan 2019). Most Canadian banks reported a weaker-than-expected quarter for the first quarter of 2019 as the deep freeze in equity markets and new issue activity in Oct-Dec of 2018 had a big impact on a weakening capital markets business. Provisions for Credit Losses (PCL) grew a whopping 21% on average as the challenging credit environment had a negative impact on this business. The Canadian housing market slowdown is having a negative impact on loan growth. Overall EPS growth for the banks was +2.3% y/y, the lowest y/y growth since Q1/16. The one bright spot is that banks with exposure to the US and international growth markets have continued to show good numbers from those businesses.

Markets have been climbing even as they stared down a batch of weak trade and economic data and a plethora of geopolitical flashpoints. In the US, the national manufacturing ISM dropped to its lowest level in two years. In addition, consumer sentiment numbers continue to get revised lower as the equity market collapse of Q4 has had a negative impact on sentiment. Real personal consumption expenditures (PCE) dropped 0.6% in December, matching the worst reading during the credit crisis. Although the US GDP numbers were a healthy 2.6% in Q4, the forecast numbers for 2019 continue to get revised lower. The same cannot be said about Canada's dismal Q4 GDP number of 0.4%, barely above a positive reading.

MARKET PERFORMANCE

Market	Return (%)*
Canada (S&P/TSX)	3.1
US (S&P)	3.6
MSCI (World)	3.2
Best (China)	14.2
Worst (Argentina)	(9.2)

*In Canadian dollar terms as at February 28, 2019

Going into Q4 of 2018, we faced both a rising interest rate and inflation environment. These were drivers for higher employment levels and wage pressure. The combination of the above was a great catalyst for increased productivity and economic growth. But in that environment, the Federal Reserve chairperson, Jerome Powell, made a complete turn on his dual auto-pilot tightening stance of 2018, as discussed in previous commentaries, to an extended pause in the new year. By becoming data-dependant, the numbers did speak to an abrupt shift due to various new pieces of data. The Fed is now facing flat inflation, deteriorating economic conditions, slower corporate earnings growth and increased geopolitical tensions. The Fed has concerns across several baskets such as slower global economic growth, lower inflation expectations, tighter financial conditions and policy uncertainty. The most important item is slower global economic growth as the weak PMI in Europe, technical recession in Italy, cooling in China and slippage in US's domestic demand have all contributed to the wave of disappointing global economic data. This milder version of the FOMC has fired up the spirited recovery across all markets.

Our cash level has stayed the same and our portfolios have been structured as more defensive compared to the index. The markets can be unforgiving as we were dealt unwanted torpedoes in our funds during the 2018 Q4 selloff in the equity market. VALE was affected by mother nature and perhaps poor safety standards causing a deadly dam collapse at one of its mines in Brazil, SNC Lavalin is faced with fraud-related charges and lowered earnings guidance, and Kraft Heinz had to deal with some expensive accounting-related write-downs of its brands. We did not have an overweight position in any of these companies, but it goes to show how challenging the investment environment really is.

We are at an inflection point in the markets – the bears are looking for a "black swan" event to sell the market while the bulls are seeing "unicorns" with the lower interest rate environment, decent economic and corporate profit growth. The markets seem to be climbing a wall of worry as all great bull markets do. Investors who support the wall of worry are on the sidelines and missing the higher moves in the markets. At Stone we have a neutral opinion on the markets, the market itself is trading within a bandwidth – the S&P 500 between 2630 and 2815 and we expect this to continue into 2019. Good stock pickers will weather these conditions well.

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	3.4	1.4	(2.2)	7.9	6.4	9.4	5.5	10.5	9.5	08/01/2003
80% S&P/TSX Composite, 20% S&P 500 C$	*3.2*	*4.9*	*(0.5)*	*11.3*	*7.0*	*11.5*	*7.3*	*11.7*	*8.3*	
Stone EuroPlus Fund, Series F	4.2	4.1	(2.0)	5.9	(2.3)	2.8	3.0	8.4	3.6	05/02/2008
Comparable European Equity Index $C	*3.5*	*3.9*	*(2.8)*	*6.4*	*(2.9)*	*7.5*	*4.3*	*10.0*	*3.6*	
Stone Global Balanced Fund, Series FF	2.8	3.3	(2.3)	5.4	1.6	5.6	5.0	9.3	8.2	01/05/2009
15% S&P/TSX Composite, 15% S&P 500 C$, 30% Comparable Global Equity Index C$ and 40% FTSE TMX Canada Universe Bond	*2.0*	*2.7*	*(0.1)*	*5.7*	*4.7*	*8.3*	*6.6*	*9.4*	*8.5*	
Stone Growth Fund, Series F	2.3	(1.2)	(6.2)	5.4	5.3	8.2	7.5	10.7	6.5	08/01/2003
50% S&P/TSX Composite and 50% S&P 500 $C	*3.2*	*3.2*	*(1.2)*	*9.9*	*7.3*	*12.7*	*8.0*	*12.0*	*7.9*	
Stone Global Growth Fund, Series F	5.1	5.1	(5.1)	9.6	3.7	12.4	11.5	15.7	8.7	08/01/2003
Comparable Global Equity Index $C	*3.1*	*1.5*	*(2.6)*	*7.2*	*3.2*	*11.6*	*10.3*	*13.5*	*7.3*	
Stone Select Growth Class, Series F	4.4	(0.5)	(7.3)	6.9	(11.3)	(1.6)	n/a	n/a	(14.3)	09/01/2014
50% S&P/TSX Capped Energy, 50% S&P/TSX Capped Materials	*2.6*	*9.5*	*(7.3)*	*10.2*	*(0.7)*	*10.8*	*n/a*	*n/a*	*(5.9)*	
Stone GaleForce Dividend Growth Pool	2.5	1.5	(1.0)	7.0	6.2	8.6	5.5	n/a	6.3	05/17/2012
Stone American Dividend Growth Fund Series F	2.4	(3.9)	(6.4)	4.5	(3.2)	5.1	n/a	n/a	6.4	07/17/2014
Stone Monthly Pay Fund	1.2	0.8	(10.2)	6.6	(7.1)	(2.1)	(2.9)	6.5	1.5	02/07/2006
Stone Global Strategy Fund Series F	1.0	(1.7)	(5.0)	3.5	(0.4)	5.5	4.4	11.3	4.1	09/22/2006
Stone Covered Call Canadian Banks Plus Fund Series F	2.6	1.6	(4.2)	9.8	(2.8)	9.5	n/a	n/a	4.4	07/17/2014
Stone Small Companies Fund Series F	6.1	6.7	3.6	8.6	(6.3)	4.7	(1.9)	2.6	(3.1)	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 February 28, 2019

CANADIAN FACTS - PEANUT BUTTER, THE PROTEIN SUBSTITUTE.

Step aside, George Washington Carver. Contrary to almost universal belief, the celebrated American botanist didn't create peanut butter. The stick-to-the-roof-of-your-mouth glory goes to Marcellus Gilmore Edson. In 1884, the Quebec chemist was awarded the first patent for peanut butter, or "peanut-candy" as it was called then. Marcellus discovered it when he found that heating the surfaces to grind peanuts to 100 degrees Fahrenheit caused crushed peanuts to emerge as a thick, chunky fluid. When the liquid-y grounds cooled, they set as a paste similar to butter. Now enter John Kellogg of the cereal empire, who marketed the creamy spread as a protein substitute for people who couldn't eat solid food. Sorry, Mr. Carver!

*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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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 Global Balanced Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities, credit risk associated with investments in bonds and interest rate risk associated with fluctuations in interest rates.

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

Stone Global Growth Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.

Stone EuroPlus Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.

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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