



JANUARY 2020

MARKET COMMENTARY & FORECAST

For the second half of 2019 we advised our concern about stock markets trading at lofty valuations and that any disappointment on the economic news, geopolitical events or corporate earnings could cause a sell-off of global equities until multiples reset to more reasonable valuation metrics. The catalyst for the recent market sell-off came from Wuhan, China as the threat of the 2019-nCoV (coronavirus) shifted from an epidemic to a potential pandemic.

The results have been unfortunate with 20,500 cases confirmed worldwide and at least 427 deaths, of which two are from outside of China. The markets have been unnerved by the news and have taken a risk-off approach. The direct impact of the virus will hit suppliers and consumers in China as they celebrate the new year, so we expect holiday travel in China, global air and cruise ship travel and the global movement of goods to negatively react to the threat of contagion. It has forced many multinational companies to make hard decisions with the limited information they have. For example, Starbucks and IMAX theatres were both forced to close thousands of stores and venues while airlines have suspended flights to and from China to deal with this serious issue. The Baltic Exchange Index, which measures the cost of shipping raw materials and goods, has plummeted 70% from December 2019 levels (and now at four-year lows) as the spread of the coronavirus begins to negatively impact spreads on global trade.

The global markets started the year setting record highs on the excitement of the mid-January signing of the Phase 1 trade

deal between China and the US, only to sell-off aggressively at the end of the month on the coronavirus threat. Even good news on trade would not support the markets marching higher. The markets looked like they were seeking any excuse to have a sell-off. Yet, referencing early February market activity the sell-off appears to be shallow and short term, with corporations delivering solid earnings; perhaps GOOGLE should use their search engine to find a solution on how to hit their revenue estimates.

Volatility has spiked as measured by the VIX jumping 31% from 13.8 to 18.1. Many are bracing for more swings in stocks as investors assess the impact of the coronavirus on the global economy and as the US presidential season ramps up. Meanwhile, given the flight to safety, the yield on the benchmark US 10-year Treasury dropped by 36bp to 1.56% as investors flocked to the safety of fixed income investments.

There is good news for the markets - earnings and the Federal Reserve. The S&P 500 Q4/19 earnings season is off to a decent start. Of the 249 companies that have reported thus far, 69% have reported earnings above consensus and 64% of companies beat revenue forecasts. Refinitiv estimates that earnings for companies in the S&P 500 will grow by 8.7%, down 1.0% from the beginning of the year estimates in 2020. These are lofty assumptions given that profit margins have recently been under pressure with labour costs rising on the record low unemployment rate of 3.5% and the ongoing anxiety and uncertainty around the coronavirus risk. Earnings were only up

1% for 2019 while the stock market rose 28.9%. Past performance is not indicative of future performance and while the earnings news is solid, valuations are not cheap. These growth assumptions imply a forward PE multiple of 18.4x for the S&P, 15% higher than the historical average of 16x. Any disappointment on the economic or corporate earnings side could bring this rich multiple back to more reasonable levels.

The Federal Reserve did meet and elected to keep interest rates the same, however Chairman Jerome Powell was more dovish than in prior speeches. His comments around the lack of inflation and coronavirus concerns may have put a potential 2020 rate cut back on the table.

Concerning coronavirus, with 50+ days into the outbreak a review of the numbers points to peak infection sometime before the 100-day mark. Trend lines based on slowing growth rates point to peak cases between February 19th and March 4th; we are now detecting a trend in terms of slowing growth rates in new cases (*source: Globe Themes, Jefferies, Simon Powell, Equity Strategist*).

MARKET PERFORMANCE

Market	Change	Return (%)*
MSCI World Index	↓	0.7%
S&P 500 Index	↓	0.2%
Dow Jones Industrial Average	↓	1.0%
Nasdaq Composite Index	↑	2.0%
S&P/TSX Composite Index	↑	1.5%
Hang Seng Index	↓	6.7%
Shanghai Index	↓	2.4%

*In US dollar terms as at January 31, 2020

The Canadian dollar pulled back 1.8% reversing some of the 5% gain in 2019 on more dovish talk from Bank of Canada Governor Poloz. Lower energy prices and modest GDP numbers did not help the Loonie.

One cannot pass up the opportunity to chat about impeachment, where the Senate with the full support of Congress is only strengthening the divisive environment among

US citizens. The subject of US politics is a no-win discussion for those who have the courage to discuss the issues. For change to take place the Democrats really must put forward a candidate who can earn full support of the party and sell their progressive concepts to the US voters. As of today, this appears to be a herculean task. Yet, it can be done, just look at the results of the last two elections in Canada. And now back to Brexit, where after three and half years of headlines the real entertainment will begin when the Prime Minister begins to negotiate a trade agreement with the EU. I'm sure we will have more to say about these geopolitical issues in the future; today our focus is on market valuations, the VIX and China short-term policies concerning the virus and its border.

Our Stone cash levels have stayed the same and our portfolios have made subtle shifts within our technology, healthcare and financial services, adding to existing positions. 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.

In closing, we offer our condolences to those affected by the jetliner crash in Iran, and for those Canadians still in Wuhan, we wish for safe passage home to Canada.

Kindest Regards,



Richard Stone,
Chief Investment Officer
Stone Asset Management Limited

FUND PERFORMANCE - Series F/FF

	1 mo	3 mo	6 mo	YTD	1yr	3yr	5 yr	10yr	Since Inception	Inception Date
Stone Dividend Growth Class, Series F	2.9	5.4	8.8	2.9	18.3	9.0	6.7	8.8	9.8	07/31/2003
<i>80% Morningstar® Canada Index, 20% Morningstar® US Large Cap Index</i>	1.7	6.3	7.9	1.7	16.6	8.8	7.9	9.5	8.6	
Stone Global Sustainability Fund (Formerly Stone EuroPlus Fund) Series F	(0.4)	4.1	6.9	(0.4)	10.4	6.1	2.6	6.6	3.9	05/31/2008
<i>Morningstar® Global Markets</i>	0.7	6.2	10.0	0.7	17.2	9.6	5.9	8.1	4.2	
Stone Global Balanced Fund, Series FF	2.6	4.7	5.6	2.6	12.8	7.5	5.3	7.6	8.4	12/31/2008
<i>15% Morningstar® Canada Index, 15% Morningstar® US Large Cap Index, 30% Morningstar® Developed Markets Large-mid Cap Index and 40% Morningstar® Canada Liquid Bond Index</i>	2.2	4.9	6.8	2.2	15.0	8.5	6.9	8.4	8.9	
Stone Growth Fund, Series F	2.9	9.5	10.3	2.9	17.7	11.8	6.0	9.0	6.9	09/30/2001
<i>50% Morningstar® Canada Index and 50% Morningstar® US Large Cap Index</i>	2.0	7.0	9.2	2.0	19.3	10.8	9.1	10.1	8.3	
Stone Global Growth Fund, Series F	4.1	9.0	9.2	4.1	21.9	16.2	13.1	14.1	9.2	07/31/2003
<i>Morningstar® Developed Markets Large-mid Cap Index</i>	1.4	5.9	9.0	1.4	18.9	12.1	10.0	12.3	7.8	
Stone American Dividend Growth Fund Series F	0.2	6.2	6.4	0.2	10.8	3.6	5.1	n/a	6.8	07/17/2014
<i>Morningstar® US large Cap Index</i>	2.5	8.2	11.3	2.5	24.0	15.6	13.6	n/a	16.3	
Stone Dividend Yield Hog Fund, Series F	1.8	4.2	7.9	1.8	12.9	0.9	(0.7)	3.9	2.6	02/07/2006
<i>Morningstar® Canada Index</i>	1.5	5.9	7.0	1.5	14.8	7.1	6.5	7.7	5.7	
Stone Global ESG Strategy Fund (Formerly Stone Global Strategy Fund), Series F	2.5	6.9	5.9	2.5	10.7	4.4	4.6	8.4	4.5	09/22/2006
<i>15% Morningstar® Canada Index, 15% Morningstar® US Large Cap Index, 30% Morningstar® Developed Markets Large-mid Cap Index and 40% Morningstar® Canada Liquid Bond Index</i>	(0.8)	2.4	4.7	(0.8)	12.7	7.7	6.4	8.2	6.6	
Stone Covered Call Canadian Banks Plus Fund Series F	1.5	3.9	9.4	1.5	15.8	5.2	8.0	n/a	6.0	07/17/2014
<i>S&P/TSX Financial Services Index</i>	1.4	1.6	5.2	1.4	9.8	3.6	6.3	n/a	5.0	
Stone GaleForce Dividend Growth Pool	2.4	3.8	6.0	2.4	12.4	7.2	5.5	n/a	6.8	05/17/2012

As at January 31, 2020

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.

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CANADIAN FACTS - IGLOO: THE INGENIOUS STRUCTURE.

Engineers and architects have found few structures more intriguing than the traditional home of the Inuit peoples of Canada. As old as human civilization itself, the igloo is ideal for several reasons. Perfect in composition, an igloo is made up entirely of the substance most abundant in Canada's North—snow. Hard-packed snow cut into bricks – three feet by two feet by four inches thick – form the igloo's structure. After the first row of snow blocks has been placed, several consecutive blocks are cut to form a sloping surface. A second row is then placed on the first, and then the blocks are built up in a continuous spiral until the final one is placed at the very summit. Snow also acts as mortar to seal any cracks and prevent cold air from entering and warm air from escaping. Perfect in design, an igloo has a rounded beehive shape – known as acatenoid – that has no corners and therefore no wasted space. Nearly circular with a slight inward lean that becomes more acute as the wall rises, this shape enables the structure not only to bear enormous amounts of weight but also to become stronger as more weight is applied to it. Perfect in suitability, an igloo can be a permanent or temporary structure for one or many occupants. Those inside the structure warm it with the heat that emanates from their bodies. A small hole in the roof serves to ventilate exhaled breath from the people inside. Another small hole near the door allows fresh air to enter. Perfect in efficiency, an igloo is put together by two people in under an hour. The only tool required for the job is a long knife of bone or ivory. No wonder the igloo has lasted for millennia.

*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 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 Global Sustainability 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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