STONE
ASSET MANAGEMENT LIMITED

NOVEMBER
MARKET COMMENTARY & FORECAST

Investor sentiment ruled the day in November and market performance was a mixed picture for global markets after suffering one of the worst Octobers in years. The MSCI gained 1.1%, led by the S&P 500 up 2.0%, Dow Jones up 2.1% and the TSX up 1.4%. The European entertainment led by Italy's banking sector, Germany's politics and Macron's reshaping of France and rejection of his vision by the Yellow Jackets subdued Brexit headlines and provided a negative return of 0.91% for the MSCI Europe index. Our belief is that North American investor sentiment is overwhelmingly convinced that the markets should not only have a correction of 10% or more, but actually reach the levels of a bear market with a decline greater than 10%. They're not talking about an economic slowdown, they're calling for a recession. While a stopped clock is right twice a day, we think this call is wrong and are willing to wait three or four years for the experience of an economic recession. US productivity growth and consumer spending have picked up and driven by other positive economic fundamentals, we do not support a recession but rather a slowdown of continuing growth. Since we raised cash in September, we've been very patient watching the markets and selectively adjusting our portfolio holdings. In the last 12 months this is the second spike in volatility investors have experienced as measured by the VIX index (see chart below). We've concluded that we are entering an era of enhanced volatility, and the activity we see on the tape through North America and Europe will become a norm for investors. Volatility at this level is the best home for an active portfolio manager, where patience and timely decision making become two attributes that can benefit portfolio performance.

MARKET PERFORMANCE

Market	Return (%)*
Canada (S&P/TSX)	1.4
US (S&P)	3.1
MSCI (World)	2.0
Best (India)	12.5
Worst (Ireland)	(4.3)

*In Canadian dollar terms as at November 30, 2018

The US yield curve has been very entertaining with an inversion at the 2 and 5-year level of the curve, causing investors to run for the fire exits screaming "recession, recession, let me out". We continue to believe this is a market correction and not the start of an equity bear market. For many years, investor focus has been on growing asset values as interest rates and inflation were both benign and stimulated asset values higher. Recently however, interest rate expectations have become one of the leading headline indicators for market investor sentiment, causing the rebalancing of assets within a portfolio. It is our position that interest rates will be at the forefront of news and investor attention as short-term interest rate movements will amplify equity market volatility. For the time being, the market is trying to become familiar with all the nuances of newly appointed Federal Reserve chair Jerome Powell and his march to "normalized" interest rates. Yet US 10-year Treasuries have returned a stellar 1.8% for November as the yields dropped to 2.99%. As the Fed seeks to move rates to their defined normalization level, investors struggle to breach the 3% yield level. Fears of a recession, increased volatility, trade wars, geopolitical events in Saudi Arabia, Russia, China, Brazil and the tweeting leaders of the world have been enough to see investors chase safer assets and move back into Treasuries. Our position is that we're still in a long-term secular equity bull market, and patience and commitment to owning growth businesses will provide investors with solid returns.

Is a Canadian market commentary really a market commentary without a discussion about oil? Oil prices have had a volatile ride, dropping 22.2% in the month of November alone. We can't provide any additional insight that you could not have learned by paying attention to the media and industry pundits over the last month. The anguish in Alberta is real and elicited an unprecedented intervention from the provincial government to force production cuts of 325,000 barrels per day from producers. Throw in the recent OPEC meetings and decision on a 1.2M b/d production cut to fix the global oversupply, and this makes for an even more volatile environment. Our view is to be a patient investor and let the oil markets work out their supply/demand issues over the near future. Oil is more a speculator's trade than an investor's holding, and we're content to stay underweight and watch.

Looking for yield? In Canada, that's no longer a simple task. While the financial sector, in particular the banks, provides high yields, the TSX Financial index is down 8.8% year to date and as measured by listed ETFs the Canadian preferred share market has declined 15% from their November highs. The recent pullback in the 5-year GoC bond from 2.40% in early November to 2.0% has resulted in a reset of high yield assets causing income portfolios to decline in the principal value. The new world of volatility is now impacting all asset classes – bonds, equities, soft and hard commodities and real estate. Investors will continue to feel overwhelmed with geopolitical news and with that increased market volatility. Now is a time for investor patience and commitment to one's long-term goals.

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 goal of providing investors with Growth Over Time®. As portfolio managers we hope that December is a more peaceful investing environment, for ourselves and more importantly for our clients.

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.

On behalf of everyone at Stone, I wish you and your family a happy holiday season and a successful 2019.

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	2.3	(3.6)	1.3	4.9	4.9	6.6	6.4	9.3	9.5	08/01/2003
80% S&P/TSX Composite, 20% S&P 500 C$	*1.7*	*(5.2)*	*(2.0)*	*(0.7)*	*(0.2)*	*8.3*	*7.8*	*9.7*	*8.1*	
Stone EuroPlus Fund, Series F	4.2	(5.8)	(4.7)	(7.0)	(8.5)	(0.7)	3.8	7.3	3.3	05/02/2008
MSCI Europe $C	*0.2*	*(6.5)*	*(5.9)*	*(5.2)*	*(6.6)*	*2.7*	*5.4*	*8.0*	*3.3*	
Stone Global Balanced Fund, Series FF	1.5	(5.4)	(2.7)	0.1	(1.3)	3.3	5.6	n/a	8.0	01/05/2009
15% S&P/TSX Composite, 15% S&P 500 C$, 30% MSCI World C$ and 40% FTSE TMX Canada Universe Bond	*1.8*	*(2.7)*	*0.6*	*2.7*	*1.9*	*6.7*	*7.2*	*n/a*	*8.5*	
Stone Growth Fund, Series F	2.1	(5.1)	2.6	15.4	14.0	3.5	9.3	9.5	6.6	08/01/2003
50% S&P/TSX Composite and 50% S&P 500 $C	*2.3*	*(4.2)*	*0.9*	*3.8*	*3.5*	*10.0*	*8.8*	*10.2*	*7.8*	
Stone Global Growth Fund, Series F	0.6	(9.8)	(4.4)	6.2	3.3	8.3	12.9	14.1	8.5	08/01/2003
MSCI World $C	*2.3*	*(4.0)*	*1.0*	*4.9*	*3.3*	*8.4*	*11.6*	*11.7*	*7.3*	
Stone Select Growth Class, Series F	0.5	(6.9)	(11.3)	(16.6)	(18.0)	(4.7)	n/a	n/a	(15.0)	09/01/2014
50% S&P/TSX Capped Energy, 50% S&P/TSX Capped Materials	*(5.1)*	*(15.3)*	*(20.2)*	*(16.6)*	*(14.3)*	*3.8*	*n/a*	*n/a*	*(8.2)*	
Stone GaleForce Dividend Growth Pool	2.6	(2.5)	1.3	5.2	5.1	6.0	6.3	n/a	6.3	05/17/2012

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 November 30, 2018

CANADIAN FACTS

The really big show.

Moviegoers want to be amazed continually by what they see, and moviemakers try to keep up and even get ahead by creating bigger, wider, clearer pictures. Today's truly big picture is IMAX. Before this system, filmmakers couldn't use the bigger film stock required to display images that would fill a viewer's field of vision. Seventy-millimetre film, which is ten times larger than regular film, would shake when run through a camera and projector, distorting the image these machines tried to capture and display. Created in 1971 by five men working in Toronto – Ron Jones, William Shaw, Roman Kroitor, Robert Kerr, and Graeme Ferguson – IMAX solved this problem by running the film sideways in a wave-like action called a rolling loop. This method produces a steadier (five times more than conventional systems), clearer (more than 17 million pixels per frame), and bigger image (ten times the size of commercial 35-millimetre film, or eight stories high). Now that's seeing the big picture.

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

Sleep well

Knowing you'll have the financial resources to live well.

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