SEPTEMBER
MARKET COMMENTARY & FORECAST

It seems like Canada has been hanging on a series of strings when it comes to major trade agreements or corporate projects. After giving up all its equity gains for the year on concerns about the ongoing NAFTA negotiations and corporate projects such as the TMX pipeline rejection, we are now hopeful that some recent transaction developments may lead to more positive domestic and international equity investing. We believe this is critical since global investment sentiment towards Canada is at a multi-year low.

Facing a September 30 midnight deadline, both the Canadian and US trade officials were able to pull a rabbit out of the hat and rewrote the NAFTA agreement, now called the US, Mexico, Canada Agreement or "USMCA" – sounds more like the Village People song YMCA. Although Canada had to concede on its dairy supply management by providing a small increase in US dairy export quota, we view the trade deal as a positive for all three countries involved. Fortunately, Canada's auto sector will not face new tariffs, Canada gets to keep its dispute resolution Chapter 19 clause, Canada preserves the cultural exemption on artistic content and Canadian online shoppers can now buy $40 free of tax and duties, a 100% increase from $20 – yippee!

And now, some comments about the Canadian energy market. Canada may also get a boost as Shell announced a positive final investment decision ("FID") for its massive $40 billion liquified natural gas ("LNG") terminal in western Canada, called LNG Canada. Not only has Canada been getting a discount on its oil prices (to be discussed later), but Canadian natural gas prices are materially lower than US and global gas prices because of a supply glut and a lack of sales to the international markets, ex United States. Exporting LNG from Canada to the Asian markets would garner prices triple the levels today for Canadian producers. The FID decision came on the heels of the Canadian Federal Government giving LNG Canada a break on import tariffs while Shell's other partners, Petrochina 15% and Korea Gas 5%, had formally approved their

MARKET PERFORMANCE

Market	Return (%)*
Canada (S&P/TSX)	(0.9)
US (S&P)	(0.5)
MSCI (World)	(0.6)
Best (Mexico)	2.5
Worst (India)	(9.1)

*In Canadian dollar terms as at September 30, 2018 participation in the project. This could become the largest energy investment in Canada's history. We expect it will help return some energy risk investment capital back into the Canadian energy market. A positive FID sends a great signal to the international markets for the business investment climate in Canadian energy. Could this lead to a broad sentiment-driven investment rally? We hope so and if so, one could expect changes to our portfolio holdings. We believe this should benefit natural gas companies who will participate in supply agreements with LNG Canada. On the back of the LNG Canada announcement, other related projects and contracts have begun moving forward. TransCanada's Coastal GasLink Pipeline project valued at $6.2 billion, which includes pipeline construction from gas projects to the west coast LNG terminal, has awarded contracts to Aecon and Fluor Corp for engineering, procurement, fabrication and construction. The LNG Canada approval could also open the door for additional LNG projects here in Canada. Other projects with potential include Exxon's WCC LNG and Chevron's Kitimat LNG. There is an advantage to developing LNG projects on Canada's west coast including higher commodity prices, shorter travel days to Asia, lower liquefaction costs, and cheaper power costs.

We have written extensively on how cheap Canadian energy companies are trading given the big discount that Canadian oil gets compared to West Texas Intermediate ("WTI"). Canadian heavy oil is trading at a discount of $40/barrel, a whopping 53% discount to WTI – the highest discount in five years. This wide discount is due to increased Canadian oil production at a time when export capacity is tight. It was only a matter of time that we would see a takeover transaction in the Canadian energy market. Voila – Husky Energy is the first off the mark with a proposed bid to acquire MEG Energy for $6.4B, including debt. This equates to an $11 per share price, a 37% premium. In our opinion, this confirms that Canadian energy companies are very cheap compared to their global peers and we would expect to see additional transactions announced in the energy market.

We continue to be underweight the Canadian energy sector with select companies that have low breakeven costs to benefit from volatile energy prices. We continue to monitor developments and valuations in this sector and will make the appropriate investments with a focus on providing optimal return with minimal risk.

Cannabis stock activity has also been heating up resulting in excessive price valuations. The number of new issue deals and increased trading activity has resulted in front page news for Canada's upcoming marijuana legalization effective October 17 of this year. Horizon's Marijuana Life Sciences Index ETF is now the world's largest marijuana ETF having recently exceeded $1B in assets. Canadian company Tilray, which is listed on the Nasdaq, has had excessive US media exposure, resulting in its meteoric price rise and retreat. Even Elon Musk endorsed marijuana use by smoking a joint during a television interview and concocting a takeover tweet for Tesla of $420/share, referencing the international 4-20 date for weed day. The investor frenzy around cannabis companies has been a boom for Canadian financial institutions such as publicly traded companies GMP and Canaccord. BMO and CIBC have entered the sector offering loans and equity financings to cannabis companies. This excitement has spread to US financial institutions with Goldman Sachs, Bank of America and Cowan involved in some capacity as advisors, lenders and equity financings.

We have been past investors in the cannabis space but currently have zero weight in the sector due to the stratospheric valuations. We continue to monitor industry developments, corporate transaction activity and valuations in this sector, and will reinvest with a focus on providing optimal return with minimal risk.

The S&P 500 index price return is up 9.0%, the Dow Jones up 7.0%, Nasdaq up 16.5% while the Stoxx Europe is down 1.4%, China's Shanghai composite is down 14.7% and the Canadian S&P/TSX is down 0.84%. The US equity markets have consistently been outperforming the world markets. The US rally has prompted concerns about valuations as US stocks are trading at higher premiums to international shares. Investors credit the latest rally on optimism on the US economy which has shown fresh vigor even as growth has slowed down in emerging markets and the eurozone. US investments are behaving like safe haven assets of the world as the strengthening US dollar and international trade skirmishes force investors to seek safety. Looking forward, US companies are expected to report robust corporate earnings in Q3 with a 19% jump in profits year over year. Even with monetary fears of higher rates due to inflation, investors expect strong earnings to result in higher equity prices.

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. Our fund performance has been strong.

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	(0.4)	3.5	8.6	8.4	13.5	9.2	8.6	7.6	9.9	08/01/2003
80% S&P/TSX Composite, 20% S&P 500 C$	*(0.8)*	*0.7*	*7.3*	*3.9*	*9.0*	*11.0*	*10.1*	*8.0*	*8.5*	
Stone EuroPlus Fund, Series F	(2.7)	(2.1)	(2.4)	(3.9)	(1.1)	1.9	5.8	6.3	3.7	05/02/2008
MSCI Europe $C	*(0.6)*	*(0.8)*	*(0.1)*	*0.8*	*3.3*	*6.5*	*8.5*	*7.0*	*4.0*	
Stone Global Balanced Fund, Series FF	(1.4)	0.6	2.8	4.4	7.6	5.7	7.4	n/a	8.6	01/05/2009
15% S&P/TSX Composite, 15% S&P 500 C$, 30% MSCI World C$ and 40% FTSE TMX Canada Universe Bond	*(0.7)*	*1.4*	*4.6*	*4.8*	*9.3*	*8.2*	*8.6*	*n/a*	*8.8*	
Stone Growth Fund, Series F	(1.0)	4.3	13.4	20.4	27.2	6.9	12.6	7.7	7.0	08/01/2003
50% S&P/TSX Composite and 50% S&P 500 $C	*(0.6)*	*2.7*	*8.9*	*7.7*	*13.9*	*12.5*	*11.0*	*8.4*	*8.1*	
Stone Global Growth Fund, Series F	(1.1)	3.0	9.2	16.4	22.1	13.9	16.9	13.4	9.3	08/01/2003
MSCI World $C	*(0.4)*	*3.3*	*7.2*	*8.9*	*15.3*	*12.2*	*14.4*	*10.7*	*7.6*	
Stone Select Growth Class, Series F	1.2	(3.4)	(2.4)	(9.3)	(2.7)	(1.9)	n/a	n/a	(13.8)	09/01/2014
50% S&P/TSX Capped Energy, 50% S&P/TSX Capped Materials	*(1.7)*	*(9.4)*	*14.3*	*(3.1)*	*0.3*	*11.5*	*n/a*	*n/a*	*(5.1)*	
Stone GaleForce Dividend Growth Pool	(0.4)	2.7	7.1	7.6	11.5	8.1	7.9	n/a	6.8	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 September 30, 2018

CANADIAN FACTS

The friction reducer. Canada's greatest contribution to the design of modern machines is the roller bearing. Created by George Thomas of Digby County, Nova Scotia, in 1879, the bearing reduces if not eliminates the friction generated by the contact of moving machine parts with stationary ones. The device does so by housing rollers or ball bearings within a roller cage. Today, roller bearings are more important than ever. They are small yet critical components of a variety of devices – from bicycles and cars to farm equipment and industrial machinery. These friction reducers mean smooth running for the world's machines.

*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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