CELERNUS ABSOLUTE GROWTH FUND (CAGF)

CELERNUS
Investment Partners Inc.

As at March 31, 2018 **CLASS A**

WHY INVEST IN THIS FUND

- Target equity-level returns over a market cycle.
- Ability to provide protection during bear market.
- Lower volatility than broad-based indices over a market cycle.

FUND DETAILS

Manager:
Celernus Investment Partners Inc.

Inception Date: May 2012

AUM: 18.2 million

Minimum investment: $25,000

Advisory fee: 0.85%

Performance fee:
20%, after 6% hurdle

High water mark: Yes

Subscriptions: Weekly

Redemptions: Weekly

Prime Broker:
National Bank Independent Network (NBIN)

Auditor: BDO Canada LLP

Administrator:
Convexus Managed Services Inc.

Lawyer: WeirFoulds LLP

Eligible accounts:
RSP, RESP, RRIF, TFSA, cash

FUND CODES

CIP100A – No Load

INVESTMENT TEAM

Chris Grant, CFA
Senior Partner

**Full Bio can be found at www.celernus.com/people*

FUND OVERVIEW

The Celernus Absolute Growth Fund (CAGF) aims to provide long term growth of capital with below average volatility. The fund seeks to actively protect capital and manage risk. Equity selection combines a value-orientation with a robust quantitative framework. Net equity and currency exposure are dynamically managed to further mitigate risk.

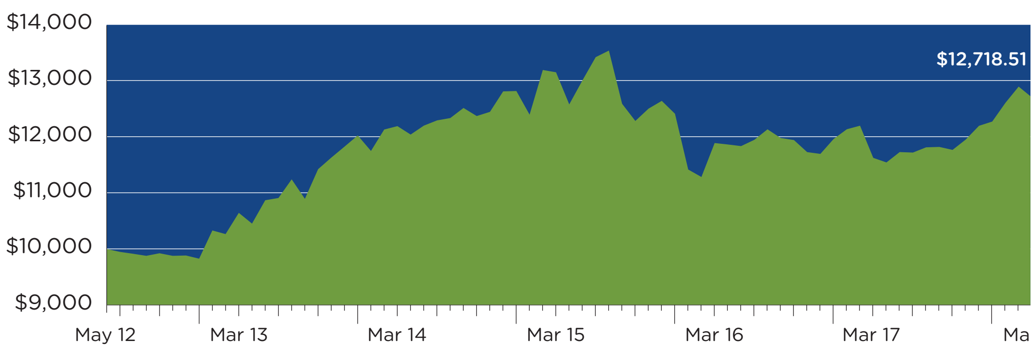
COMPOUND RETURNS (%) CLASS A

1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS	INCEPTION
-1.50	3.53	8.00	9.32	-1.15	3.65	4.21

MONTHLY RETURNS (%) CLASS A

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2018	2.73	2.30	-1.50	-	-	-	-	-	-	-	-	-	3.53
2017	1.46	0.53	-4.72	-0.70	1.61	-0.08	0.80	0.06	-0.45	1.58	2.06	0.63	2.62
2016	-8.08	-1.06	5.43	-0.22	-0.24	0.94	1.67	-1.36	-0.31	-1.80	-0.27	2.28	-3.65
2015	-2.48	6.57	-0.39	-4.38	3.55	3.11	0.87	-7.03	-2.43	1.79	1.11	-1.83	-2.37
2014	-2.54	3.31	1.39	-1.81	1.06	0.92	-1.69	3.46	-2.08	1.56	2.95	-0.61	5.81
2013	3.17	-0.02	3.52	-1.24	3.42	0.40	3.50	-3.50	4.57	1.84	1.97	1.91	21.04
2012	-	-	-	-	-0.22	-0.32	-0.46	-0.27	0.48	-0.33	-0.11	1.00	-0.24

HISTORICAL PERFORMANCE - GROWTH $10,000



PUBLIC MARKET EXPOSURE

Long Exposure	103.2%
Short Exposure	-26.3%
Net Exposure	76.9%

PRIVATE MARKET EXPOSURE

Private Real Estate Equity	30.7%

PUBLIC SECTOR ALLOCATION

SHORT		LONG
-6.0%	Information Technology	16.8%
-2.2%	Financials	15.6%
-1.4%	Industrials	13.7%
-3.6%	Health Care	13.5%
-3.5%	Consumer Staples	11.9%
-2.9%	Consumer Discretionary	10.7%
-2.5%	Materials	9.9%
-1.4%	Utilities	6.9%
-0.6%	Telecommunication Sevices	2.2%
-1.5%	Real Estate	1.8%
-0.7%	Energy	0.0%
-26.3%	**Total**	**103.2%**

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COMMENTARY

The Celernus Absolute Growth Fund returned 3.53% for the first quarter of 2018. The fund's nearest benchmark, the HFRX Equity Hedge Index, returned 1.17% over the same period. For context, first quarter returns for the long-only S&P 500 and S&P/TSX Composite indices were -0.76% and -4.50% respectively.

The first quarter of 2018 was characterized by a return to higher levels of volatility, both implied and realized. Following the equity market highs of late January, the VIX Index spiked to 37 before settling at 20 by the end of March. Realized volatility also spiked higher, with 30-, 60- and 90-day volatility all closing well above 15% at quarter-end.

Of particular note this quarter was the revaluation of a private real estate equity asset. Following a third-party appraisal, we realized appreciation of the asset, the amount of which proved sufficient to keep the fund's returns positive even as the overall equity indices descended into the red.

We consider the level of realized volatility to be particularly important at this juncture. Higher levels of realized volatility force strategic risk-parity and systematic investors to sell assets to reduce their gross exposures. In essence, the higher levels of volatility brought on by the first sellers resulted in continued high volatility by systematic investors.

This volatility is the result of concerns about inflation and its knock-on effects. In the first quarter of 2018, the U.S. 10-year Treasury yield (a simple barometer of inflation expectations) rose from 2.40% to as high as 2.95%. Meanwhile, the U.S. 2-year Treasury yield (a simple barometer of how U.S. Federal Reserve Board ("Fed") policymakers will manipulate the Federal Funds rate) continued its grind higher from 1.88% to 2.26%. Market expectations of higher inflation have increased, as have expectations for further Fed policy intervention. With the Federal Funds target rate at 1.75%, the median expected rate by the end of 2018 is 2.125%, as calculated by the Federal Open Market Committee ("FOMC") member dot plot. This implies there may be one or two additional interest rate increases over the next three quarters.

We do maintain expectations of only modest gross domestic product growth over the next several calendar quarters. These estimates are consistent with fair U.S. 10-year bond yields in the range of 3.5% to 4.0%.

We continue to note the resilience of economic activity indicators, both soft survey indicators such as ISM Manufacturing and hard indicators such as Industrial Production. The employment situation also appears robust. We believe this will bode well for the economy into the foreseeable future.

As is the new norm, wild card factors are likely to originate from activities in the U.S. Oval Office. Most notable at present are the dynamics associated with the negotiation of new trade deals. Since a good portion of these negotiations seems to be communicated via social media, the opportunities for continued bouts of higher volatility will likely remain.

We contend that the U.S. economy remains on solid footing and that the higher levels of equity market volatility are principally a structural liquidity function. In other words, investors are selling equities not because the economy appears weak, but because of factors driven by the investors' particular strategies and mandates, with valuation and volatility-targeting being two key examples.

We remain positive toward the U.S. economy and have slightly increased our net long position in the Absolute Growth Fund. As realized volatility levels decline (a process that involves both price and/or time), market participants who were systematic sellers at higher volatility levels may return as buyers at lower volatility levels. We believe this would be constructive for equities.

ABOUT US

Celernus manages investment funds for high-net-worth individuals and institutions. Our lineup of actively managed, low-fee solutions are built to help investors achieve long-term financial success. We manage our portfolios with a lower-volatility approach while also focusing on alpha generation and absolute returns.

CONTACT US

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