

CELERNUS EQUITY NEUTRAL FUND (CENF)



As at December 31, 2017

CLASS A

WHY INVEST IN THIS FUND

- Seek to generate positive returns that are uncorrelated with those of broad-based equity markets.
- Take steps to minimize volatility of annual returns over a market cycle.

FUND DETAILS

Manager:

Celernus Investment Partners Inc.

Inception Date: February 2015

AUM: 5.7 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 Correspondent Network (NBCN)

Auditor: BDO Canada LLP

Administrator:

Convexus Managed Services Inc.

Lawyer: WeirFoulds LLP

Eligible accounts:

RSP, RESP, RRIF, TFSA, cash

FUND CODES

CIP300A - No Load

INVESTMENT TEAM



Chris Grant, CFA
Senior Partner

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

FUND OVERVIEW

The Celernus Equity Neutral Fund (CENF) is a market neutral-biased, long/short equity fund that aims to provide positive, low volatility returns that are uncorrelated with those of the broad-based market indices. The fund seeks to generate returns through the capture of quantitative alpha-generating fundamental and technical factors in the U.S. large cap space.

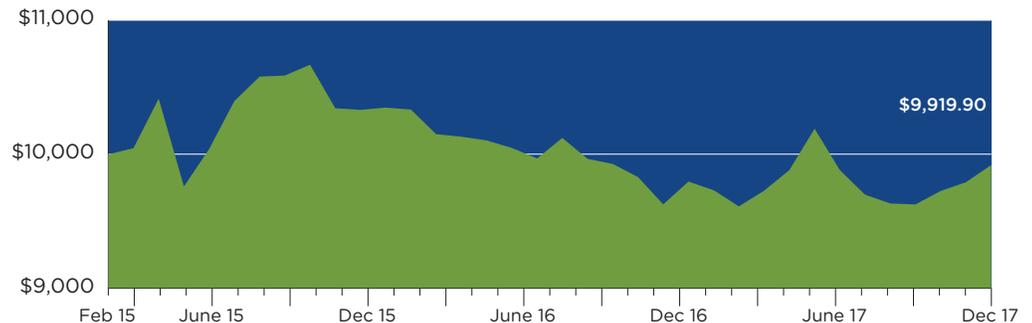
COMPOUND RETURNS (%) Class A

1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS	INCEPTION
1.31	3.07	0.39	1.26	-	-	-0.28

MONTHLY RETURNS (%) Class A

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017	-0.67	-1.24	1.22	1.59	3.13	-3.05	-1.86	-0.68	-0.07	1.05	0.67	1.31	1.26
2016	-0.14	-1.79	-0.19	-0.28	-0.55	-0.79	1.54	-1.55	-0.38	-0.98	-2.09	1.78	-5.36
2015	-	0.46	3.68	-6.32	2.87	3.59	1.73	0.10	0.77	-3.05	-0.12	0.17	3.49

HISTORICAL PERFORMANCE - GROWTH \$10,000



PUBLIC MARKET EXPOSURE

Long Exposure	141.0%
Short Exposure	-83.0%
Net Exposure	58.0%

PUBLIC SECTOR ALLOCATION

SHORT	LONG
-16.3%	Industrials 27.0%
-12.9%	Consumer Staples 24.3%
-6.0%	Materials 24.1%
-5.7%	Information Technology 21.0%
-21.1%	Financials 18.0%
-7.9%	Health Care 12.2%
-0.0%	Consumer Discretionary 11.5%
-1.6%	Energy 2.9%
-11.5%	Real Estate 0.0%
-83.0%	Total 141.0%

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COMMENTARY

The Celernus Equity Neutral Fund returned 3.07% for the fourth quarter of 2017, outperforming its benchmark, the HFRX Equity Neutral Index, that had a return of -1.02% over the same period. For context, the S&P 500 and S&P/TSX Composite returned 6.63% and 4.44% during the final quarter of 2017.

During the period, short- and mid-dated U.S. bond yields rose. The Institute of Supply Management Manufacturing Index continued to reflect positive economic activity and the U.S. unemployment rate continued to decline. Citigroup's Economic Surprise Index rose significantly during the last half of 2017, suggesting that the U.S. economy was performing better than existing estimates.

The broad-based rebound in U.S. equities contributed to the Fund's performance, as it helped to boost the performance of equities in general. A rise in lower-volatility consumer products equities over the last two months was another contributor. Individual holdings that contributed most to performance included Estee Lauder Cos. Inc., Match Group Inc. and Wal-Mart Stores Inc.

Most of the Fund's short positions detracted from its performance. Rising yields at the short end of the yield curve tend to benefit cyclical stocks and, as such, we intentionally maintain a lower relative exposure to cyclical equities, such as those in the information technology and consumer discretionary sectors. The Fund's position in CBOE Holdings Inc. was another detractor from performance.

Overall trading activity was light during the period, with only a few minor weighting adjustments made over the quarter.

We believe that the demand for U.S. equities is expected to continue into the coming period. In our view, the level of economic activity remains consistent with higher equity prices. However, higher short-term interest rates could eventually provide an attractive yield-oriented alternative to the "short volatility" trade, which does not favour equities. The yield curve is flattening and, in the past, a significantly flattened yield curve has historically proven to be a precursor to lower equity prices, with a lead-time of 18 to 24 months. There has been a notable rise in the spread between the U.S. dollar London Interbank Offered Rate and the overnight indexed swap rate, considered to be a measure of the banking system's general health. While not heavily extended at this time, this widening spread can be an early indicator of looming instabilities in the institutional funding markets. We also note that equity valuations have continued to move higher, with the S&P 500 Index appearing expensive compared to historical levels.

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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DISCLAIMER

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