CELERNUS EQUITY NEUTRAL FUND (CENF)

CELERNUS
Investment Partners Inc.

As at September 30, 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: 5.8 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.

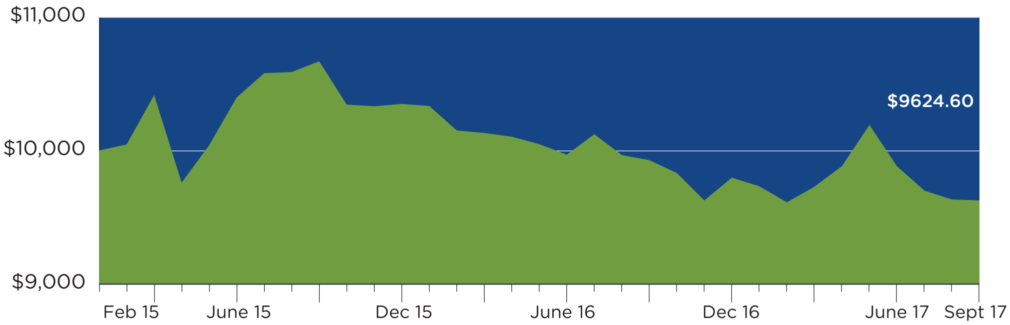
COMPOUND RETURNS (%) Class A

1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS	INCEPTION
-0.07	-2.60	-1.06	-3.05	-	-	-1.43

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	-	-	-	-1.75
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



MARKET EXPOSURE

Long Exposure	132.5%
Short Exposure	-78.8%
Gross Exposure	211.3%
Net Exposure	53.8%

SECTOR ALLOCATION

SHORT		LONG
-5.4%	Information Technology	24.8%
-5.7%	Materials	22.6%
-11.6%	Consumer Staples	21.8%
-15.0%	Industrials	20.6%
-20.1%	Financials	17.5%
-8.9%	Health Care	11.6%
0.0%	Consumer Discretionary	10.9%
-1.4%	Energy	2.8%
-10.6%	Real Estate	0.0%
-78.8%	**Total**	**132.5%**

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COMMENTARY

Over the period, U.S. 10-year bond yields rebounded sharply in mid-September to close the quarter virtually unchanged from the previous quarter's closing values. While this implies expectations of higher U.S. inflation, the year-over-year change in the core personal consumption expenditure (core PCE), which is the measure of inflation preferred by U.S. Federal Reserve Board ("Fed"), weakened significantly over the last quarter. The core PCE has approached the lows of 2015 and may reach the lows of 2009-2010. With the Fed's expectations of the year-over-year change in Core PCE for 2017 set at 1.6% and the actual change tracking at about 1.3%, we expect that it will be challenging for the Fed to maintain its optimistic view.

The U.S. dollar declined significantly over the last quarter on a trade-weighted basis, as well as against the Canadian dollar. The short end of the Canadian yield curve rose markedly versus that of the U.S. This appears to have been the key driver of the relative strength in the loonie versus the greenback. Crude oil closed the quarter above US$50 per barrel. This rally in oil prices was beneficial not only to the Canadian dollar, but also to the S&P/TSX Composite Index, which rallied significantly over the last two weeks in September.

The U.S. 2s30s yield curve slope, which tracks the difference between 2-year and 30-year Treasuries, is approximately 140 basis points ("bps"). As we consider the last five recessions dating back to the mid-1970s, we note that in each instance, the yield curve slope had flattened to less than 100 bps before the recessions occurred. While the U.S. yield curve continues to flatten, it has yet to breach the 100 bp slope that would put us on recession watch. The U.S. yield curve has had the historical tendency to lead the Institute for Supply Management ("ISM") Manufacturing Index by approximately 12 months, and the fluctuations of the ISM Manufacturing Index tend to map quite nicely to the year-over-year returns of the S&P 500 Index ("S&P 500"). So, as the slope of the U.S. yield curve flattened towards 100 bps, we would expect the currently elevated level of the ISM Manufacturing Index to decline and the year-over-year momentum in U.S. broad-based equity indices to follow suit. This does not necessarily imply negative equity returns, simply lower ones.

The mid-September "back-up" in U.S. 10-year bond yields drove the underperformance of low-volatility securities compared to higher-volatility securities. While our funds maintain positions in companies within the information technology and energy sectors, their underweight positions in these sectors was intentional. Information technology and energy, the highest-volatility sectors, led the performance of the S&P 500 this quarter. The consumer staples and real estate sectors posted negative returns

We are monitoring the 2.40% yield level of the U.S. 10-year benchmark closely. If this yield resistance holds and 10-year yields decrease, we would expect to see lower-volatility equities return to favour. The most recent ISM Non-Manufacturing Index came in at 60.8, the highest reading of the current economic cycle and the highest level seen since 2004. The dynamics of the ISM Non-Manufacturing Index have historically mapped well to U.S. equity market returns. Interestingly, we note that the average one-, three-, six- and 12-month returns of the S&P 500 following an ISM reading above 60 have been negative.

It would appear that the Trump administration's tax plan—which arguably spawned the most recent 12-month rally in equities—is coming unhinged. We question whether equity markets will give up gains resulting from optimism over tax reform. North Korea continues to be a significant unknown.

There is still significant demand for short volatility exposure. This incents equity indices to remain elevated. The "wall of worry" that the equity market climbs is well-inhabited, but demand for equities remains. Our positioning continues to be long overall with a bias towards low-volatility exposure.

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

Celernus Investment Partners Inc.

1300 Cornwall Road
Suite 204
Oakville, Ontario
L6J 7W5

289.863.1330
fax 1.855.870.7464
info@celernus.com

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