RESOURCE OPPORTUNITIES FUND

August Review

Over the course of the month the natural resource sector pulled back as market participants reacted to a higher probability of an interest rate increase in the United States later this year. The impact was particularly pronounced on account of the recent influx of capital into the space. Those that read our last update or have spoken to us recently know that we had started to position the portfolio against a rush of speculative money out of a crowded trade. This helped to protect the Fund, which was down 3.6% in August, while the S&P Metals and Mining ETF and Junior Gold Mining Index were down 11.7% and 16.6%, respectively. This brings the Fund's compounded annual return since inception t+25.7% vs. a benchmark return of -7.1%.

	Aug-16	YTD	Inception
Delbrook Resource Fund	-3.6%	125.0%	70.6%
Indices			
S&P TSX Materials Index	-9.9%	45.1%	11.5%
S&P TSX Energy Index	2.3%	19.4%	-15.6%
S&P TSX Venture Index	-1.3%	49.5%	-11.8%
S&P Global Mining Index	-10.0%	36.9%	-11.7%
CBOE VIX Index	13.1%	-26.3%	-16.3%
Commodities			
Bloomberg Commodity Index	-1.8%	5.4%	-34.5%
Gold - (US$) Spot	-3.1%	23.4%	5.4%
Silver - (US$) Spot	-8.3%	34.7%	-6.7%
WTI Crude - (US$) Sept 16	5.6%	20.7%	-46.1%

The Fund's relative out performance was driven by both the tactical asset allocation position we started to establish in July (a growing cash balance and a lower net equity exposure) and the performance of our short positions. Our asset allocation has been maintained, but we have started to selectively close a number of the short positions that paid off during the August and early September sell-off. In the short term, we continue to forecast a period of increased volatility and continue to believe it is prudent to raise liquidity to take advantage of opportunities which will surely arise as the market exits a period of complacency and asset prices revert to normality in the back half of 2016. New opportunities, on both the long and the short side of the market, continue to present themselves and should result in continued strong performance for the Fund.

Navigating a More Volatile Future

Despite the well documented geopolitical uncertainty and the historically low interest rate environment we are living in, volatility, as measured by the VIX Index, has been extremely low. The historic average for the index, dating back to 1990, is 19.8. However, at the end of August, the VIX stood at just 12.8. We agree with the author of the ETF Daily News article from early September, which points out that the accommodating monetary stance of the US Federal Reserve since the financial crisis has kept volatility lower than economic conditions would seem to warrant. Mean reversion seems more probable in a weaker market, and this is already playing out, with the VIX up 43% between the end of August and the middle of September.

Despite the correction in natural resource equities over the last month and half, we see both macro and geopolitical forces providing a floor for the sector between now and year end. Short term weakness, in our view, has been the result of a pickup in overall market volatility and a washout of overbought, low quality assets with excessive valuations. Currently, we believe there is a convincing case for continued increases in short-term volatility, which, as noted above, is driving us to equally consider opportunities on both the long and short side of the market.

While an increase in volatility is playing into our near term portfolio positioning decisions, longer term, we believe that investors will continue to shift toward hard assets. The factors that have propelled the natural resource, and specifically the precious metal, sector during the first half of the year are still very relevant, and in our opinion, unlikely to subside. The reality is that the world's largest economies are suffering from stagnant growth, historically low long term interest rates, and high levels of uncertainty, therefore making natural resources a desirable asset class for the foreseeable future.

This increasing desirability of hard assets was underscored by recent events in the European financial markets. Over the last few weeks, a number of corporations in both France and Germany sold corporate debt at negative yields. We do not consider the mass allocation of capital to primary corporate bond offerings with negative yields to be a sustainable long-term phenomenon. Rather, we view it as a short term reaction to slow economic growth and geopolitical uncertainty. Sustained low or negative yield are expected to continue to turn investors towards hard assets.

Based up on interesting piece of research from the team at GMO Research, such a return to investment in commodity equities should bolster investors' long term returns and lead to lower risk profiles for their portfolios. The team at GMO lays out a case illustrating how resource equities have actually provided "diversification relative to the broad equity market," particularly over the long-term. The team also believes that valuations as a whole are unjustifiably low in a long-term context. We agree that a balanced portfolio requires exposure to resource equities, particularly now, in the early innings of strengthening commodity cycle.

As always, please contact our office at 604.229.1450 with any questions.

Matthew Zabloski

RESOURCE OPPORTUNITIES FUND