RESOURCE OPPORTUNITIES FUND

July Performance Review

The Delbrook Resource Opportunities Fund continued to outperform in July, posting a **return of +19.8%**. Since inception the Fund has achieved a **compound annual return of +28.9%** vs. a benchmark return of **-7.0%**. We are especially encouraged by this performance because it was driven by a core component of our investment approach: security selection. This focus on security selection led to stock specific returns that more than offset the impact of asset allocation in July.

Our security selection process requires a substantial investment of time for each of our holdings in order to ensure that we are comfortable with management, financial position, and project fundamentals. As the Fund's performance in July illustrates, this measured investment approach is critical to the long-term performance of the Fund. That said, while we admittedly adjusted the Fund's tactical asset allocation too early, we are confident that the changes which were adopted last month *(increasing short positions and a growing cash weighting*) are appropriate and will ultimately enhance unitholder's returns. We believe it is prudent to raise liquidity to take advantage of opportunities which will surely arise as the market exits a summer of complacency and volatility rears its head into the back half of 2016.

The Delbrook Perspective: August

Our thesis has continued to play out as predicted; low interest rates, geopolitical instability, and concerns about global growth are fueling a flight to hard assets, specifically precious metals. The Delbrook Resource Opportunities Fund has benefited from this rush into precious metals and the corresponding increase in related securities. That said, the trade is starting to feel a bit crowded given the massive out performance (and valuations) of precious metals stocks relative to the underlying commodities. While we believe our overriding thesis will play out over the long term, for the time being, we have positioned the portfolio more defensively. In practice this means that we are increasingly focused on valuations and selectively adding portfolio hedges to profit from the short term weakness which we expect will inevitably arise.

In support of our longer- term thesis, globally, central banks continue "lower for longer" rhetoric indicating that rates will stay subdued for an unprecedented length of time. With global growth insufficient to prompt rate hikes, expectations are for global monetary policy to extend the low rate environment well into the future. Currently, the Bank of Japan (BOJ) is injecting $760 billion a year into the economy via asset purchases. In response to the Brexit vote, the Bank of England has just announced the first stage of an additional multi-year monetary easing policy (<1% probability of higher rates through 2018). The European Union, currently at a negative policy rate, is facing increased odds that further rate cuts will be necessary. Further, we believe it is highly unlikely that the US Fed will make any meaningfully commentary, let alone changes to the overnight rate, before the Federal Election in November. The market appears to agree with us here and the future implied probability of a hike by the Federal Reserve has been pushed to March 2017 with the probability of a hike before the November election only sitting at approximated 24%. As we have stated in the past, this has contributed to negative rates of return, from a real and nominal perspective, which is driving investors away from bonds and cash equivalents and into physical assets such as commodities and real estate.

In addition to putting rate changes on hold, the US Election is adding to the overall geopolitical uncertainty.

RESOURCE OPPORTUNITIES FUND

And while the US presidential election will be most closely watch by North American market pundits, globally there are a number of elections to be held over the next year, including Russia, France and Germany that could further rock the boat. Markets are well aware that geopolitical uncertainty and insecurity tend to be supportive of the precious metals sector.

When considering the combination of geopolitical uncertainty and global interest rate policies, we continue to see the natural resource sectors as a source of significant alpha for overall portfolios. We believe that we are still at the beginning of a secular bull market for precious metals and the associated equities, and that other commodity groups will begin to outperform over the next 12-24 months. But secular markets can have periods of pause or contraction.

While we are aware that the next couple of months are historically strong for gold, the recent rapid run-up in valuations of precious metals stocks has made us take pause. For example, while spot gold has increased 11% since its bottom in early June, various gold equity ETFs have moved +40 to 60%. We understand the operating leverage of small commodity price movements for equities, but believe that some single name issuers are over extended and have priced in a September – October rally in commodities into their valuation. In the face of stretched valuations, we believe management teams will (and have begun) to issue equity. In addition, returns on single name securities are mixed, setting up for a great stock picking environment (both long and short) where we thrive as active managers.

Given the views outlined above, we have shifted the portfolio slightly to monetize recent outperformance and raise liquidity to take advantage of opportunities that we anticipate will arise should volatility increase in the second half of 2016. It is our belief that the broad based market has become overly complacent during the doldrums of summer (CBOE SPX Volatility Index is < 12 vs. 30 year historic average of 20) and that September /October will see a reversal of this trend—leading to substantial opportunity for those positioned correctly.

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

Matthew Zabloski