




## September Review

The month of September saw the anticipated increase in volatility and pronounced intra-month movements in all of the indices we consider relevant when evaluating the Fund's performance. While, in our opinion, this reflected short-term macro uncertainty, rather than the realization of the longer-term fundamentals or structural catalysts, volatility was anticipated and we were positioned accordingly. The combined impact of our short-term defensive positioning and strong performance from a number of core portfolio names allowed the Fund to return +3.8%. For context, the benchmark returned +1.8% while the S&P Metals and Mining ETF returned +3.5%. This brings the Fund's compounded annual return since inception to +27.1% vs. a benchmark return of -6.4%.

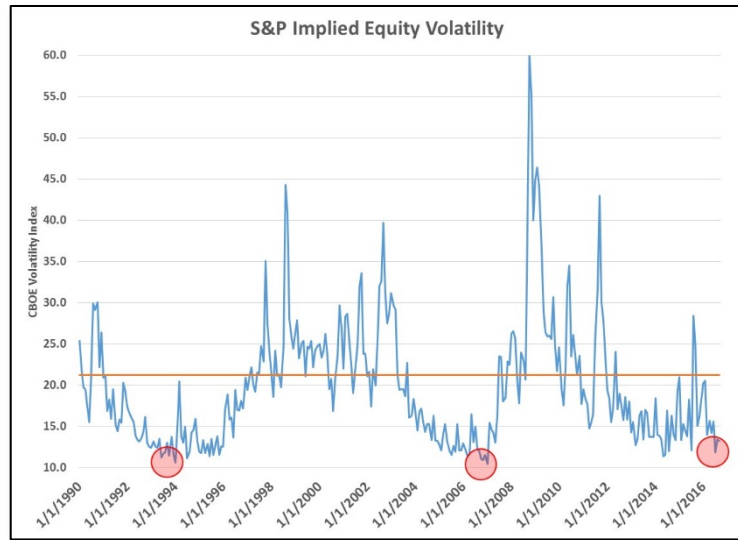
	Sep-16	YTD	Inception
<b>Delbrook Resource Fund</b>	3.8%	133.0%	76.7%
<b>Indices</b>			
S&P TSX Materials Index	2.4%	48.6%	14.3%
S&P TSX Energy Index	3.5%	23.5%	-12.7%
S&P TSX Venture Index	1.8%	52.2%	-10.2%
S&P TSX Global Mining Index	7.0%	46.5%	-5.4%
S&P Metals & Mining ETF	3.5%	76.4%	-32.1%
CBOE VIX Index	-1.0%	-27.0%	-17.1%
<b>Commodities</b>			
Bloomberg Commodity Index	3.1%	8.6%	-32.4%
Gold - (US\$) Spot	0.5%	24.0%	6.0%
Silver - (US\$) Spot	2.8%	38.4%	-4.1%
WTI Crude - (US\$) Nov 16	6.5%	30.2%	-41.7%

The Fund's asset allocation has been maintained, and as mentioned in our last update, the decision to increase cash weighting by pairing long positions and focus on thematic single name shorts has produced results. These shorts have been fundamental in nature-positions based on our belief that a company specific issues or stressed valuations would lead to price pressure in a market that lacks conviction. We still believe that the back half of 2016 will be characterized by volatility more in line with historical averages and that this will create opportunities, on both the long and the short side. In addition, with no apparent reason for the flight to hard assets to subside, we believe that the strategic asset allocation of the Fund leaves us well positioned for continued outperformance.

## Navigating a More Volatile Future

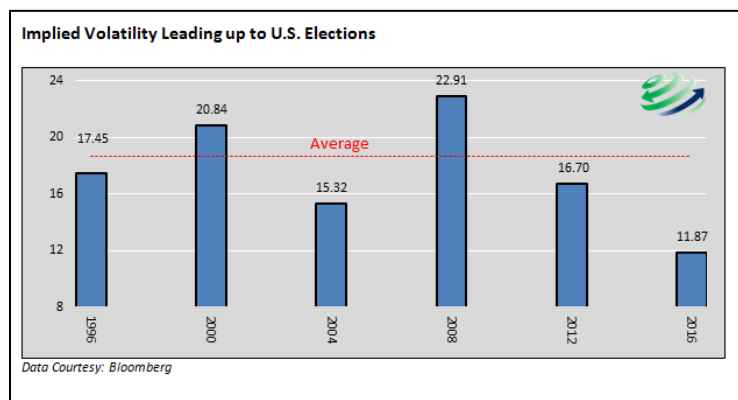
Much has been made of the pending US presidential election. However, we are not convinced that a win for either candidate will result in a definitive trajectory for precious metal stocks and indices. We imagine that in the immediate aftermath of the election, a win for the Democratic Party would be a positive for equity markets in general, thus lifting multiples. However, that same outcome would also be positive for the US dollar, which is not particularly positive for hard asset prices. And the jumble of potential issues that could flow from a Trump win, including short-term pressure on the US dollar, could conceivably exacerbate the existing conditions that are supporting a flight to hard assets, thus supporting precious metal prices.

In our opinion, trying to guess whether changes in equity multiples or precious metal prices will have a greater impact is a mug's game. We have gone through the data and the number assumptions required makes the analysis meaningless. Therefore, as we head towards the election, rather than spending manpower on data driven and anecdotal goose chases, we are ramping up efforts on security selection. From our point of view, the uncertainty regarding both the election results and subsequent market movements calls for a tactical asset allocation that prepares the Fund to take advantage of long and short opportunities, as they are uncovered or presented.



The market's myopic focus on the US presidential election leaves investors unnecessarily susceptible to downside surprises. There are other geopolitical forces at play. Markets have shaken off Brexit with relative ease and surprisingly little is being made of the pending constitutional referendum in Italy. Should the population vote against the proposed reforms, the current Prime Minister, Renzi, has promised to resign. This could open the door to political parties that are far less enamored with the Euro. A "no" vote could have repercussion that would ultimately be far more damaging to the Euro than Brexit. For further reading, we suggest a somewhat dated but still relevant Forbes article, [The Italian Referendum Could Result In The Death Of The Euro](#).

The only near term certainty, in our mind, is rebound in equity volatility which, after a brief cameo during September, is once again M.I.A. Volatility (as measured by the CBOE VIX Index) is currently bouncing around historic lows, and the longer-term average is roughly 50% higher than where we stand today. We are betting that global geopolitical uncertainty is high enough to justify a near

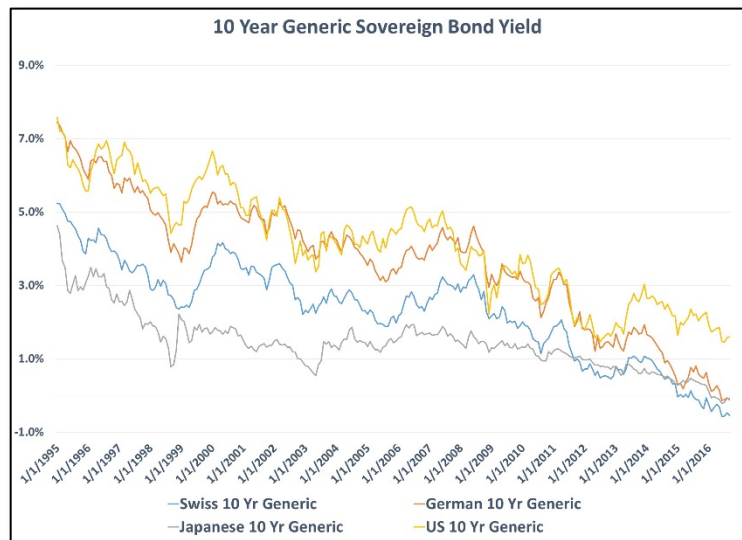


term bounce in the VIX to levels materially higher, resulting in pull back of equities and drop in the 10 year yield, a positive event for precious metals.

## Macro Picture Supports Hard Asset Valuation

The historic compression of global sovereign yields has been a topic of conversation in the financial media over the last quarter and has aided in re-inflating hard asset valuations. Recent talk of normalization of central bank rates in the United States has reversed this trend domestically, but done very little for other credits.

Rates remain at historic lows still. While we agree with many market commentators that a Fed rate hike this December seems more likely than not, we expect this to be very much a “one and done” like last December. Data such as US estimated Gross Domestic Product suggests that Q3 growth was too anemic to warrant planning for future hikes any time soon. For those interested, the [Federal Reserve Bank of Atlanta’s Centre for Quantitative Economic Research](#) provides regular updates.



Our sense is that the tail is wagging the dog. To the extent that the Fed prioritizes cues from the market, rather than fundamentals, it will prop up the US dollar for a little bit longer. But as currencies go, the USD is just the best of a bad bunch, and barring a sustained economic expansion, we expect it to weaken relative to the standard basket of global currencies. With faith in many currencies dwindling and bond yields remaining at unattractive levels, the argument for investing in hard assets over the coming months and years is sounding more sensible than ever.

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

**Matthew Zabloski**