JULY 2018

EHP Select Fund

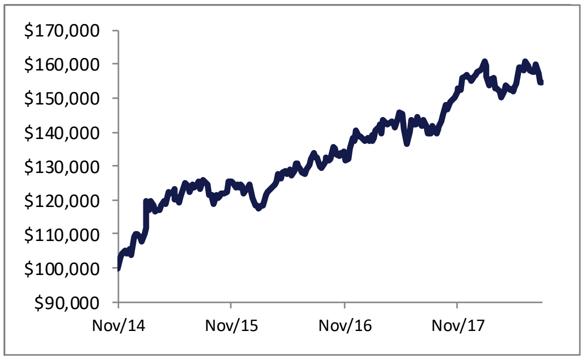
# EHP Select Fund

ehp FUNDS

## Returns (Class F units, net of all fees and expenses)

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | 1.9% | -4.4% | -0.7% | 0.2% | 4.1% | -0.5% | -1.9% | | | | | | -1.5% |
| 2017 | -0.6% | 1.7% | 2.4% | 2.1% | -4.0% | 2.1% | -2.6% | 1.2% | 4.0% | 3.6% | 3.3% | -0.1% | 13.7% |
| 2016 | -5.7% | 4.3% | 4.2% | 0.0% | 2.3% | -1.3% | 2.6% | -0.6% | 2.6% | -0.6% | 2.6% | 0.2% | 10.7% |
| 2015 | 1.7% | 4.2% | 2.5% | 3.0% | 0.2% | 0.0% | 2.1% | -4.3% | 0.9% | 3.1% | -1.0% | 0.2% | 13.2% |
| 2014 | | | | | | | | | | | 4.3% | 5.6% | 10.2% |

### Growth of $100,000 (weekly)




### Risk/Reward Analysis

| | Fund | S&P TSX |
|---|---|---|
| Annualized Return | 12.3% | 6.3% |
| Annualized Std Deviation | 9.0% | 7.2% |
| Winning Months | 67% | 64% |
| Average Monthly Gain | 2.4% | 1.7% |
| Average Monthly Loss | -1.9% | -1.6% |
| Largest Drawdown | -6.7% | -13.8% |
| Sharpe Ratio | 1.4 | 0.9 |
| Fund Correlation | | 51.6% |
| Fund Beta | | 0.63 |
| Net Exposure | 95% | |
| Gross Exposure | 154% | |

### Compound Returns (%)

| | 3 Mo | 6 Mo | 1 Yr | 3 Yr | Incep. |
|---|---|---|---|---|---|
| Fund | 1.6% | -3.3% | 10.9% | 7.0% | 12.3% |

### Source of Returns for Month

| | |
|---|---|
| Returns from Longs | -1.7% |
| Returns from Shorts | -0.3% |

## Commentary

The EHP Select Fund Class "F" units declined -1.9% for the month of July. Despite a very strong start to the month, the portfolio had losses from long positions in lumber, auto-parts and consumer stocks, which sold off aggressively during the month. These cyclical value stocks also double as "momentum" stocks currently, and were caught up in a global momentum sell-off. S&P TSX sectoral leadership in July flip-flopped versus June with last month's laggards; industrials, telecom and financials leading the market higher while healthcare (cannabis) and materials were a drag on the index.

Globally, equity markets were strong across the board in July, with U.S. and European returns amongst their best of the year. However, the market remains skittish, as advances were in the choppy and volatile pattern that we've become accustomed to this year as key U.S. trade policy continues to be delivered primarily in "tweet" form. The gains in broad market indices masked more meaningful volatility "under the hood", as evidenced by some large moves in the factors or attributes of underlying stocks and sectors. As we've written in prior letters, high-beta growth stocks have meaningfully outperformed quality, low-volatility, value stocks for the last eighteen months, making it a tough environment for long/short strategies that typically avoid or even bet against over-priced glamour stocks. July saw a reversal of this trend, with sharp moves lower in growth stocks and sharp moves higher in deep value and low volatility equities. The rotation was global in nature, in what may well have been "de-risking" by larger quantitative fund managers after some notable losses year-to-date.

So what are we to make of these volatile factor moves? We view it as yet another potential indicator of a late-stage market. There have been other similar periods of factor volatility, with some of the largest in 2007 and 1999/2000, both time periods that in hindsight were in the late innings of their respective bull markets. Whether we are at a crossroads in terms of leadership, and this is the beginning of a wholesale regime shift from growth to value, only time will tell, but for the time being, it would appear investors are becoming increasingly wary of owning the most expensive growth stocks, with little tolerance for a missed earnings report or reduced guidance. Looking past the near-term volatility, should this long overdue regime shift hold, we are well positioned to participate into a further rotation into cheap, rising and stable stocks.

Our tactical indicators remain constructive, and we enter August at the higher end of our risk range. As always, we recognize that warning signs exist, including: weak copper prices, a flattening yield curve, a worsening trade war, and Chinese growth concerns. However, given that overall equity valuations appear reasonable in the context of economic data that remains robust, it would appear that a recession in the very near term is not in the cards, leaving us comfortable in our current positioning. Regardless of our views and thoughts on the markets, as always, we stick to our knitting and follow our systematic process that dictates stock selection and overall positioning as opposed to our emotions and biases.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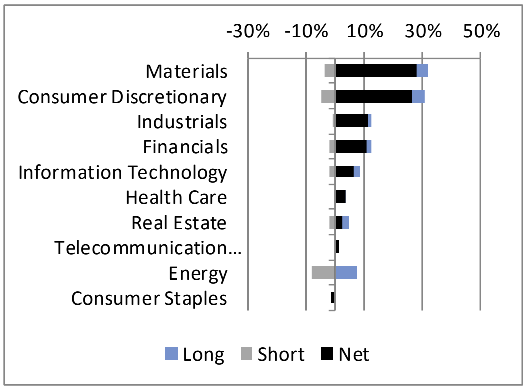
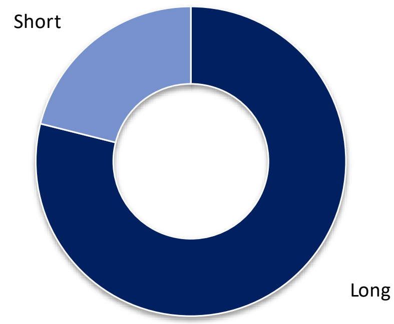
# EHP Select Fund

## Fund Structure

**Sector Allocations % of NAV**




**Capital Allocation % of NAV**




**Top 10 Equity Longs**

| | |
|---|---|
| Canfor Corp | 5.5% |
| Parex Resources Inc | 5.5% |
| Martinrea International Inc | 5.1% |
| Badger Daylighting Ltd | 4.9% |
| Transcontinental Inc | 4.8% |
| Colliers International Group I | 4.8% |
| Interfor Corp | 4.8% |
| BRP Inc/CA | 4.7% |
| Methanex Corp | 4.6% |
| Quebecor Inc | 4.5% |

**Top 10 Equity Shorts (GICS Sub-Industry)**

| | |
|---|---|
| Soft Drinks | -1.1% |
| Electric Utilities | -1.1% |
| Copper | -1.1% |
| Independent Power Producers & | -1.1% |
| Construction & Engineering | -1.1% |
| Diversified REITs | -1.1% |
| Specialized Finance | -1.1% |
| Oil & Gas Equipment & Services | -1.1% |
| Communications Equipment | -1.0% |
| Paper Packaging | -1.0% |

## Fund Information

The Fund constructs a concentrated long/short portfolio of primarily Canadian stocks by buying undervalued, rising, stable stocks and shorting overvalued, declining, volatile stocks. The Fund actively gears down risk in declining markets and tilts toward more defensive stocks and strategies to preserve capital. The Fund emphasizes a disciplined process of stock selection, risk control and liquidity. The Fund targets returns of 15%+ net of all fees.

| | | | |
|---|---|---|---|
| Portfolio Managers: | Jason Mann, Ian Fairbrother | Fund Risk Rating: | Medium to High |
| Fund Structure: | Mutual Fund Trust | Reporting Frequency: | Weekly |
| RSP Eligible: | Yes | Fund Codes: | $CAD: EHP200A / EHP200F |
| Fee Structure: | A, UA: 2% Mgmt Fee, 20% Perf Fee | | $USD: EHP200UA / EHP200UF |
| | F, UF: 1% Mgmt Fee, 20% Perf Fee | High Water Mark: | Yes, Perpetual |
| Subscription Amounts: | $25,000 Minimum | Fund Administrator: | SS&C CommonWealth |
| Subscriptions: | Weekly, Friday 4pm deadline | Prime Broker: | BMO |
| Redemptions: | Weekly, 1 day notice A/F, 2 day UA/UF | Legal / Auditors: | McMillan LLP / KPMG LLP |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