MARCH 2018

EHP Guardian International Fund

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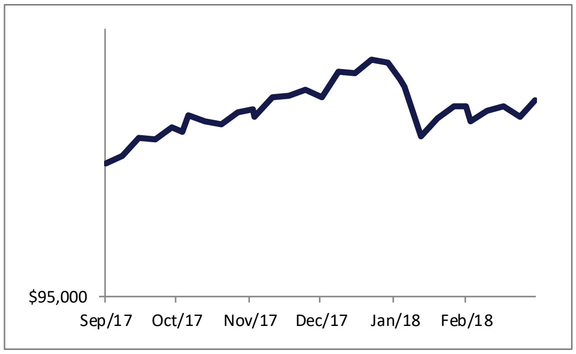
# EHP Guardian International Fund

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

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | 0.7% | -1.0% | 0.2% | | | | | | | | | | -0.1% |
| 2017 | | | | | | | | | | 1.2% | 0.8% | 0.4% | 2.4% |

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




**Risk/Reward Analysis**

| | Fund | MSCI EAFE |
|---|---|---|
| Annualized Return | | |
| Annualized Std Deviation | | |
| Winning Months | 83% | 50% |
| Average Monthly Gain | 0.7% | 1.8% |
| Average Monthly Loss | -1.0% | -2.0% |
| Largest Drawdown | -1.0% | -5.4% |
| Sharpe Ratio | | |
| Fund Correlation | | 84.6% |
| Fund Beta | | 0.23 |
| Net Exposure | 26% | |
| Gross Exposure | 104% | |

**Compound Returns (%)**

| | 1 Mo | 3 Mo | 6 Mo | 1 Yr | Incep. |
|---|---|---|---|---|---|
| Fund | 0.2% | -0.1% | | | |

**Source of Returns for Most Recent Month**

| | |
|---|---|
| Returns from Longs | 0.0% |
| Returns from Shorts | 0.3% |

## Commentary

The EHP Guardian International Fund increased 0.2% for the month of March, versus a loss of -2.2% for the MSCI EAFE Index. Gains came predominantly from our short equity positions, with the UK and Japan having the best relative performance for the fund. All equity markets we trade globally are now “risk off” and most are in correction territory, down 10% or more from their highs. Our Credit Momentum strategy posted gains as we rotated from cash to a long position in 30-year U.S. treasuries. Long-dated U.S. treasuries, which traditionally acts as a global flight-to-safety asset, are finally responding to equity market stress as we expected they would, despite the strong narrative that interest rates can only move higher in the medium term. Indeed, short-terms rates are likely to move higher as the Fed continues hiking, while a flattening of the yield curve in classic late-cycle fashion can have investors discounting the next recession, and causing 30-year rates move lower at the same time.

March was a challenging month for equity investors as not only did global markets trade down, but they did so in whipsaw fashion, with massive swings taking place and with leadership shifting across investment styles and between sectors. A whole new series of concerns emerged in March, taking markets lower from a mid-month bounce, with the current fears being protectionist rhetoric from Washington and the potential for ensuing global trade wars. In the Eurozone, the pace of growth is moderating, and economic numbers have been disappointing of late, as evidenced by the Citi Economic Surprise Index falling rapidly from 7-year highs in November to lows not seen since 2013. Tech stocks were also topical, driven by data-privacy and regulatory concerns on marquee U.S. stocks like Facebook and Amazon. While international markets have less of the “FAANG” phenomenon, growth stocks in general have been market leaders, achieving new highs after the February lows. We have written extensively about the dangers of high-priced growth stocks in late cycle environments, and the last few weeks in March saw the first meaningful signs of cracks in the crowded bet. While likely too early to call an end to the “growth at any price” trade that has dominated market leadership for the majority of the last fifteen months, we are encouraged to see the early signs of a return to an environment where valuations may actually matter.

Fund flows are also becoming a troubling narrative, with some of the largest equity inflows on record coinciding with the market top in January, followed by the largest weekly outflows in history during the February sell-off, followed by huge inflows in March as investors bought the rally, only to have markets once again punish those same buyers on the renewed market sell-off. Is passive investing becoming active panic? This behavior can make it more difficult to find a market bottom as the twin mantras of “FOMO” (fear of missing out), and “buy the dips” dissipates and trapped short-term buyers look to sell rallies. In another sign of a worsening correction, for the first time in many months, low volatility strategies outperformed all others as investors rotated toward defensive bond proxy sectors and away from high-beta stocks.

We enter April maintaining our “risk off” positioning, and with exposures and betas for each of our funds at the lower end of their targeted ranges. As a reminder, our gearing process is designed to allow us to participate in bull markets, but more importantly to protect investors during extended drawdowns. Whether this is one of those periods, only time will tell, but we will stick to our discipline which currently has us conservatively positioned and will remain so until those conditions change.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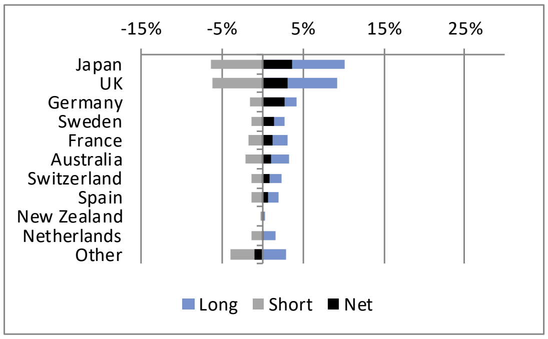
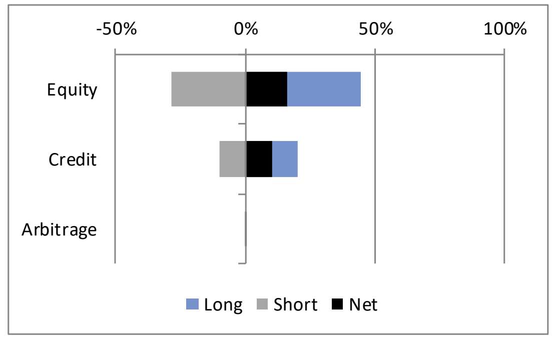
## Fund Structure

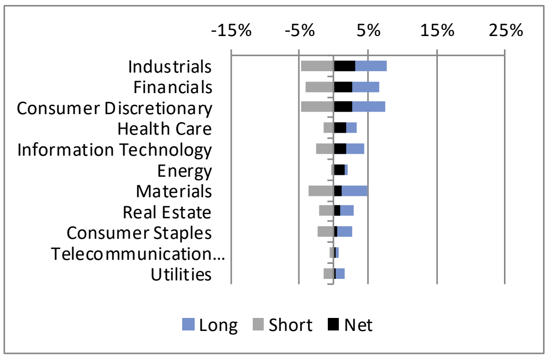
### Country Allocations % of NAV



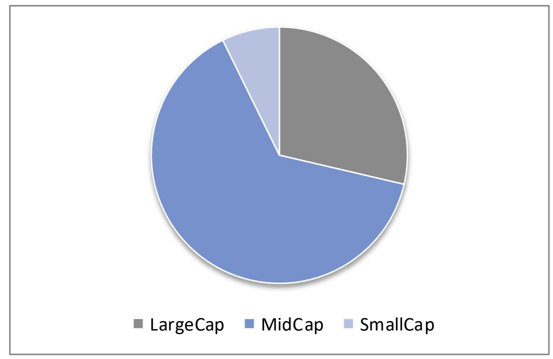

### Capital Allocations % of NAV




### Sector Allocations % of NAV




### Market Cap Allocations




### Top 10 Equity Longs

| | |
|---|---|
| Nolato AB | 0.5% |
| ERG SpA | 0.4% |
| BE Semiconductor Industries NV | 0.4% |
| VAT Group AG | 0.4% |
| Papeles y Cartones de Europa S | 0.4% |
| Fiat Chrysler Automobiles NV | 0.3% |
| Softcat PLC | 0.3% |
| Sligro Food Group NV | 0.3% |
| Ferrari NV | 0.3% |
| HBM Healthcare Investments AG | 0.3% |

### Top 10 Equity Shorts

| | |
|---|---|
| RWE AG | -0.3% |
| Virbac SA | -0.3% |
| Siemens Gamesa Renewable Energ | -0.3% |
| E.ON SE | -0.2% |
| BinckBank NV | -0.2% |
| Telepizza Group SA | -0.2% |
| Deutsche Wohnen SE | -0.2% |
| Orange Belgium SA | -0.2% |
| Glanbia PLC | -0.2% |
| Leonardo SpA | -0.2% |

## Fund Information

The Fund constructs a long/short portfolio of International equities and income-producing securities by buying quality, high yielding, rising stocks and shorting overvalued, declining, volatile stocks. The Fund actively hedges equity and interest rate risk to preserve capital in declining markets or rising interest rate environments. The Fund emphasizes a disciplined process of stock selection, risk control and liquidity. The Fund targets annual returns of 6-8% net of all fees.

| | |
|---|---|
| Portfolio Managers: | Jason Mann, Ian Fairbrother |
| Fund Structure: | Mutual Fund Trust |
| RSP Eligible: | Yes |
| Fee Structure: | A, UA: 2% Mgmt Fee, 20% Perf Fee |
| | F, UF: 1% Mgmt Fee, 20% Perf Fee |
| Subscription Amounts: | $25,000 Minimum |
| Subscriptions: | Weekly, Friday 4pm deadline |
| Redemptions: | Weekly, 1 day notice A/F, 2 day UA/UF |

| | |
|---|---|
| Fund Risk Rating: | Low to Medium |
| Reporting Frequency: | Weekly |
| Fund Codes: | $CAD: EHP400A / EHP400F |
| | $USD: EHP400UA / EHP400UF |
| High Water Mark: | Yes, Perpetual |
| Fund Administrator: | SS&C CommonWealth |
| Prime Broker: | Bank of Nova Scotia |
| Legal / Auditors: | McMillan LLP / KPMG LLP |





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