PRIMEVEST CAPITAL

Primevestfund™ Manager Report **September 2017**

As expected the summer time was slow, and it was obvious that many capital markets participants took time off. There were some notable developments, such as a 50% upside move for base metals producers over a handful of trading days in August, driven by low liquidity and speculative futures contracts purchases originating out of China. By a handful of days in September, a downtick of 25% occurred in those same stocks with realization of the speculation but still driven by low liquidity. Volatility: get used to it, it's the new normal in the markets for the foreseeable future.

Throughout the summer, we have continued positioning the portfolio in the same manner as at the beginning of the year. That is, taking highly concentrated positions in mid-sized companies that have broad institutional appeal rather than a number of smaller positions in companies of different sizes. When the broad markets realize the strength of the fundamentals of the various commodities and in the particular unique value propositions of our individual holdings, they will clamber for exposure to these stories, driven by the need to sector rotate. It is coming - the environment is ripe for it, given the synchronized global growth and the late stage nature of commodities strength, the high-valuations of the US market, and the general aversion to the sector manifested by under-allocations to portfolios.

One area of concern is energy equities with Canadian asset bases (excluding the demand-rich condensate producers and other special situations). The market participants may be undergoing a structural change that could result in permanent multiple discounts for the sector. These changes appear to be driven by the following factors. US institutional investors who have traditionally aggressively allocated to Canadian small and mid-capitalization companies are now less interested because the US shale revolution has resulted in many new small and mid-cap opportunities listed in the US. Recently, we have also seen a number of Canadian institutions follow suit. One may argue that as a result of the cross-border value arbitrage, US companies would find it attractive to make accretive acquisitions. However, the decreasingly favourable regulatory and political environment in Canada along with constrained take-away capacity for our hydrocarbons is making Canada riskier for foreign investors and decreasing the appetite for US companies to transact. We will continue to watch the dynamics here to understand how these issues are playing out and what the implications are for an investment strategy for the sector.

Electric Vehicles seems to be highly topical subject these days. And while it may have long term negative implications for oil, the most realistic forecasts top out at 10% of the market for EVs in the next five years. There are a number of minor metals that will benefit from the change (which we have some exposure to) but the surest way to play the theme is through exposure to copper. EVs use significantly more copper content than the comparable combustible engine vehicle. Copper also benefits greatly from the general electrification advancement. We correctly forecasted the investment case for zinc a few years ago and believe that mid 2018-2019 will see a fundamentally strong copper market. To keep with our above surgical strategy, we have identified a particular copper company that should become a core holding in the portfolio in the next quarter to express this trend over the next couple of years.

At the end of the quarter, the Fund holds 0% cash and 23% in short positions.

Ryaz Shariff - Portfolio Manager, Primevestfund