Dear Unitholder,

The Cowan Income Opportunities Fund finished its inaugural year in much the same way it started it: quite well. From October through December the Fund posted a 4.2% return, bringing its full-year return to 19.3%.[1] That's a pretty snazzy number. But while we're pleased with this performance, we need to caution you against expecting similar returns in the future. In our opinion, a sample size of 12 months is not nearly long enough to judge the performance of any investment.

During the year, the Income Opportunities Fund benefited from three occurrences. First, low oil prices in January and February proved to be contagious by causing the entire high-yield bond market to sell-off. This created an excellent buying opportunity for us just as the Fund was launching. Second, we bought a number of convertible bonds issued by companies that were subsequently acquired at premiums to their equity market prices. Third, earlier in the year we believed that sentiment in the preferred share market was overly negative, so we decided to buy these types of shares more aggressively; the sentiment reversed before year-end, boosting the shares' prices.

While attractive opportunities like these do occur from time to time, they are unpredictable. Consequently, our expectation for a typical year is that the Income Opportunities Fund will earn a respectable level of income while also realizing some capital appreciation.

Gross Performance Summary

	Q4 2016	Full-Year 2016	Since Inception (annualized)
Absolute Return Fund	1.2%	14.6%	8.3%
Income Opportunities Fund	4.2%	19.3%	19.3%

The Absolute Return Fund was established in January 2014. The Income Opportunities Fund was established in January 2016.

On the equity side, the Cowan Absolute Return Fund limped to the finish line by generating a return of 1.2% in the fourth quarter. The Fund struggled to keep up with the overall market in the wake of the U.S. election, as investors gravitated towards riskier assets. That said, the full-year return was a strong 14.6%.

The Absolute Return Fund is a global value fund managed for Canadian investors. The flexibility to invest outside of Canada's borders provides us with a much larger universe from which ideas can be drawn. It also provides added diversification by being exposed to different economies and currencies. We believe that this strategy will help protect and grow your investment capital over the long term. However, in 2016, a Canadian equity investor would have been better served by staying close to home: rebounding commodity prices resulted in Canada having one of the best-performing markets in the world. Also, the Canadian dollar appreciated versus many other currencies, which hindered the performance of securities denominated in foreign currencies. Nonetheless, we would gladly take the Fund's 14.6% return in any year.

[1] All fund return figures are presented on a gross basis.

More notably, 2016 represented the Absolute Return Fund's third year of operations. Since we believe that three to five years is a suitable length of time to evaluate the performance of an investment, we now have our first opportunity to fairly assess how the Fund has done.

Since inception, the Absolute Return Fund generated an annualized return of 8.3%. Given the ups and downs in the world economy over the last three years, we're pleased with this result, especially when we consider it on a risk-adjusted basis. As the name of the Fund implies, we are focused on absolute, not relative, returns. In other words, we are focused on increasing our clients' purchasing power. And as Canadian inflation increased at an annualized rate of 1.6%, we believe our goal of increasing clients' purchasing power was achieved.[2]

> *We'd much rather realize opportunity costs than realize permanent impairments of your investment capital.*

If you need a reminder of why we don't judge ourselves based on relative performance (i.e., how the Fund's performance compares to that of major indices), many of our past letters contain in-depth discussions. In a nutshell, we believe it creates perverse incentives for portfolio managers if they are rewarded to beat the returns of an arbitrarily-formed collection of securities. And in the case of the Fund, its unique mandate would make it difficult to find an appropriate index to which its performance could be compared. Furthermore, absolute returns will help our clients put food on the table, but they can't eat relative performance.

Today's Markets

Investor Sir John Templeton said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." The origin of today's bull markets can be traced back to one of the most pessimistic times in memory: the global financial crisis. Since then, markets have grown on a great deal of skepticism about whether the worst is actually behind us. For example, you could hardly go a single day without hearing talk of a "double-dip recession" in the years following 2008.

At this point, it's hard to tell how close we are to the defining line between optimism and euphoria. Economic data suggest that investors should be optimistic, but market valuations suggest that these same investors are feeling euphoric. Specifically, high valuations of some technology companies are questionable, even after accounting for the many attractive growth opportunities that lie ahead.

Granted, this discussion does not help us perform a fundamental analysis of either market valuations or economic health. John Templeton's words do not allow us to determine when each part of a bull market cycle ends and when the next begins. But it does help communicate how we are currently thinking about the markets. Because we are worried that markets are bordering on euphoria, we are carrying a higher cash balance in our funds than we would if there

[2] Canadian CPI increased by 1.6% annualized from December 2013 to November 2016, the most recent data available as of the time of this writing.

were more bargains available. Although cash does provide a drag on performance when markets rise rapidly, it also offers a comfortable safety buffer for when bull markets eventually end.

Samsung SDI

A company we recently evaluated offers a good example of how we think about protecting the downside versus participating in rapid price increases. Samsung SDI Co Ltd (006400-KRX), a manufacturer of batteries and electronic components, just had a rough autumn. Samsung SDI was a battery supplier for the Samsung Galaxy Note 7 phones that began exploding unexpectedly because of battery problems. Within the realm of multi-national commerce and high finance, exploding telephones are considered bad. In this case, the markets responded by sending Samsung SDI's shares down almost 30% from August to December.

We surmised that this selloff was too drastic. The company has a valuable investment in a private electronics manufacturer by the name of Samsung Display Co Ltd. Samsung Display makes organic light-emitting diode ("OLED") screens. If you were TV shopping over the holidays, you likely heard that OLED is considered to be the successor to liquid-crystal displays ("LCD"). Without spending an excessive amount of time describing the technology, what is important to know about OLED is that it offers the following over and above LCD: slimmer form factor, sharper images, and faster response time.

What if our government legislated that only Canadians could play for the Toronto Blue Jays?

Its design flexibility makes OLED somewhat attractive for TV manufacturers, but even more attractive for mobile phone manufacturers. Samsung Electronics Co Ltd (005930-KRX) has used OLED exclusively since 2011 in order to differentiate its phones (the curved screen edges, for example). Additionally, Samsung Display signed an OLED panel supply agreement with Apple Inc (AAPL-NASDAQ) in April of last year. The agreement has Samsung Display providing Apple with OLED panels beginning this year. Longer-term, there's talk of foldable displays becoming mainstream. This represents an encouraging new growth opportunity for OLED and Samsung Display.

But like most new technologies, especially those in the display industry, there are many questions whether OLED actually represents the next generation tech. CEOs of other OLED manufacturers have openly questioned whether OLED will displace LCD, or whether LCD will continue to stick around. Manufacturing advancements, cost of raw materials, and growth in consumer demand are just a few of the many considerations that have to be taken into account in order to predict how this industry will evolve.

Predictions like this can be very difficult to make. Take curved TVs for example: four years ago both Samsung Electronics and LG Electronics Inc (066570-KRX) introduced curved TVs by advertising how immersive they were when compared to flat screens. Consumers never bought into it, however. Curved TVs only ever peaked at 4% of the global TV market. As a result, LG recently decided to exit the curved TV market altogether. Three-dimensional TVs suffered a similar fate in the past year. But it is only with the benefit of hindsight that anyone could have seen how these technologies were destined to fail.

In the end, we didn't buy into the hype by purchasing Samsung SDI equity. In the short-term and with the benefit of hindsight, this decision has stung a little. The company's shares rallied 22% in mid-December, while two of its competitors were up over 30%. Although it is unpleasant to miss out on a stock's rally, this is simply the opportunity cost of our decision. We'd much rather realize an opportunity cost than realize a permanent impairment of your investment capital.

Brexit, Trump, and Protectionism

Our ability to consider buying South Korea-based Samsung SDI reminds us just how integrated markets around the world have become. But it's not just us and our clients who benefit from globalization: for centuries, the movement of capital, trade, knowledge, and people across borders has resulted in countless net economic benefits around the world.

Unfortunately, the last year has seen a number of developed countries embrace the tightening of their borders in order to undo some of the effects of globalization. The Brexit vote was the first major instance of this, seemingly as a response to concerns surrounding immigration to the U.K.[3] Since winning the U.S. election in November, President-elect Trump has discussed placing a new tax upon manufacturers who have operations outside of the country.[4] Additionally, multiple times the President-elect has been vocal in taking credit for "bringing back" jobs to the U.S. from other countries.[5]

We understand why voters find protectionist messages like these appealing. Unemployment can be devastating for both individual workers and their communities. This is one of the reasons why a great deal of Trump's support came from the Rust Belt. But these protectionist messages focus only on one side – the negative side – of globalization. That is, it mentions only the loss of jobs for those supplying labour to specific industries. But these messages make no mention of one of the big the benefits of globalization: how the cost and quality of goods and services supplied to consumers has continually improved over time.

These two opposing forces, the costs to workers versus the benefits to consumers, must be weighed together if an honest analysis of free trade is to be made. For example, in the U.S. there are 934,000 people employed in automobile manufacturing.[6] But there are also 191 million licensed drivers in the U.S.[7] If we assume each person employed in the automotive industry supports a family of four who are all licensed drivers, there would be 3.7 million people in the U.S.

[3] https://www.ipsos-mori.com/researchpublications/researcharchive/3748/Concern-about-immigration-rises-as-EU-vote-approaches.aspx
[4] https://twitter.com/realDonaldTrump/status/817071792711942145
[5] http://www.nytimes.com/2016/12/28/us/politics/donald-trump-sprint-jobs.html
[6] https://www.bls.gov/iag/tgs/iagauto.htm
[7] https://www.fhwa.dot.gov/ohim/onh00/bar7.htm

whose household income depends on the automotive industry. But this also means there would be over 187 million drivers in the U.S. who derive no income from the automotive industry. This 187 million would, however, benefit significantly from a decline in new car prices.

It may sound like a heartless argument to make: pointing out how some people save some money, or get a better quality product, because some of their fellow countrymen lost their jobs. But it is, indeed, important to consider the net economic impact of sweeping policy proposals like this. What if, in the late 1800s, policies were put in place to protect workers in the American-made horse-and-carriage industry, while stifling the development of the automotive industry? Your commute to work would look quite different today. Or what if every laptop now sold in the U.K. had to be manufactured domestically by workers earning wages multiple times higher than the workers currently building them? Low-income Brits would not be able to afford computers for their children. Or what if our government legislated that only Canadians could play for professional baseball teams based in the country? Attendance at Blue Jays games would probably be limited to the grounds crew.

But it's not just consumers who benefit from globalization. Millions of workers have too. Many Canadians working in the automobile manufacturing industry owe their jobs to globalization. Historically, it has been cheaper for American car companies to move some of their manufacturing to our country. As a result, the Canadians who landed jobs in the industry and are now being paid higher wages than they would receive in their next-best employment option.

Similarly, many companies in developed countries outsource their labour to developing countries where the wages are lower. In the vast majority of cases, the workers in these developing countries are being paid more in these jobs than they would in their next-best employment option. As a tangible example, a study has shown that when the U.S. lowered its import barriers with Vietnam in late 2001, the incidence of poverty decreased faster in the regions of Vietnam that had more workers employed by industries that benefited from the increased trade. Moreover, between 2002 and 2004 the average annual drop in Vietnam's poverty was 31%.[8]

In summary, globalization does not benefit everyone all the time. Undoubtedly, there have been people whose careers were devastated because of it. But we do want to draw your attention to the nuances that necessitate consideration. Unfortunately for the economy – though fortunately for President-elect Trump and the Brexit supporters – nuance doesn't translate via sound bites.

Chickens and Trucks

For an example of the real-world consequences of protectionist trade policies, we'll bring your attention to how a tax on poultry helped make the Ford F-Series the best-selling American vehicle of all time. Thanks to advances in farming techniques, the cost to farm chickens in the U.S. plummeted following World War II. With this low-cost advantage, American farmers increased their exports to Europe to the point that they were the dominant chicken supplier in the

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[8] This figure is an average at the provincial level. From: http://www.cid.harvard.edu/neudc07/docs/neudc07_s4_p06_mccaig.pdf

region by the early 1960s. Subsequently, to protect their domestic farmers, European countries implemented tariffs on the chickens imported from the U.S. This then caused U.S. chicken exports to Europe to decline by 25%.

In retaliation, President Lyndon B. Johnson implemented a 25% tax on U.S. imports of potato starch, dextrin, and brandy: products that were all European exports. Oh, and at the last minute he was convinced by an auto workers' union (who wanted to protect the jobs of its members) to include light truck imports on the new tariff list too.[9] This "chicken tax" was implemented in 1963 and is still in place today. The result? Have you ever seen a Volkswagen Amarok on streets in the U.S. or Canada? What about a Mitsubishi Triton? How about a 2016 Ford Ranger? No, you haven't seen any of these trucks here because they are manufactured internationally and would be prohibitively expensive to sell in North America. As a result, truck buyers here are faced with the same limited, overpriced truck options year after year.

Source: volkswagen-vans.co.uk, mitsubishi-motors.com.au, fordeumedia-d.ford.com

Pictured: What the chickens are keeping away from us.

Why We Care About Protectionism

Globalization and free trade aren't simply academic concepts that have abstract impacts on the economy. The recent speculation about the U.S. increasing import tariffs has had a tangible impact on one of the equities we hold in the Absolute Return Fund. Martinrea International Inc. (MRE-TSX) is a manufacturer of parts for the automotive industry. The supply chain for this industry is so tightly integrated between Canada and the U.S. that an individual component may cross the border multiple times before the finished vehicle is purchased by a consumer. On November 9th, one day after the U.S. election, Martinrea's share price had fallen to its lowest level in four years.

We don't have unique knowledge that allows us to predict how future U.S. trade policies will evolve. But in mid-November we concluded that it was unlikely the Trump administration would implement policies that lowered Martinrea's profitability to the degree that the markets were expecting at that point in time. First, if tariffs were implemented to raise the cost of imported Canadian auto parts, this would make vehicles more expensive for American consumers. Second, redesigning the automotive industry's supply chain to become all-American would take an extensive amount of time, effort, and expense. Thus, we decided that the market had overreacted to the potential

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[9] https://en.wikipedia.org/wiki/Chicken_tax

political disruption facing Martinrea and added to our position at that time. In the short-term, this has proven to be a wise decision as the stock is up over 30% since November 9th.

The potential for far-reaching changes to government policy is one of the many reasons why 2017 is shaping up to be an interesting year. Whether or not we agree with the potential changes, we will welcome any market volatility that makes it possible for us to add new securities to either of our funds at bargain prices.

Sincerely,
Cowan Asset Management Investment Team