Fund Facts

Fund Unit Value:
December 31, 2014
$23.7748

Inception Date:
June 4, 2010

RRSP Eligible:
Yes

Seymour Investment Management was founded in 2010 with a vision of creating an employee-owned, client-focused investment boutique with a unique service offering. Seymour provides fee-based discretionary investment management services to both individual and institutional clients.

The Seymour Performance Fund

The investment objective of the Seymour Performance Fund is to achieve superior risk-adjusted investment returns by investing primarily in small- and mid-capitalization Canadian equities. The Performance Fund holds a concentrated portfolio of 20-30 core names. In addition to owning a core group of equities, a small portion of the Performance Fund may be invested in event-driven transactions and initial public offerings. The Performance Fund should be viewed as more aggressive (higher risk) than more conventional equity investments such as the Seymour Canadian Equity Fund.

The fee structure for the Performance Fund is based on an annual management fee of 1% of the net asset value, with an annual performance fee of 10% of any annual return over the hurdle rate of 7.5%.

PERFORMANCE

AS AT DECEMBER 31, 2014

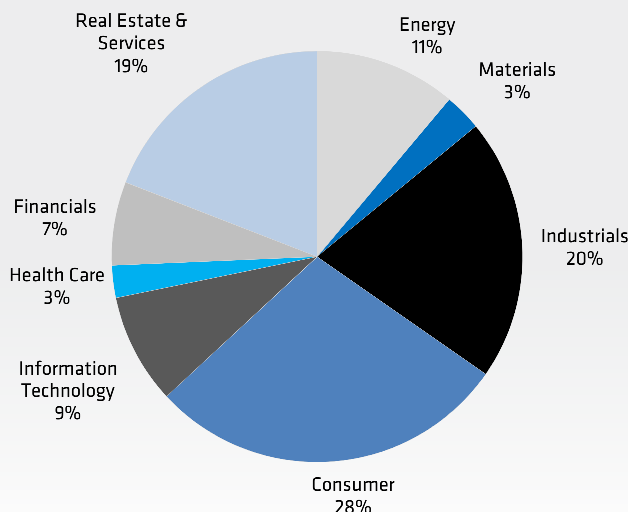
Total Return for the Period (%)[1]	3 MO	1 YR	3 YR Annualized	Since Inception[3]
Seymour Performance Fund[2]	**-2.9%**	**12.1%**	**24.7%**	**24.4%**
S&P/TSX SmallCap Total Return Index	-8.7%	-2.3%	0.9%	3.0%
S&P/TSX Composite Total Return Index	-1.5%	10.6%	10.2%	8.4%

1 The indicated rates of return are the total returns for the period indicated, including changes in security value and the reinvestment of all distributions and do not take into account income taxes payable that would have reduced returns. The funds are not guaranteed; their values change frequently and past performance may not be repeated.

2 NAV performance is shown net of fees and expenses

3 Annualized since inception date of June 4, 2010

EQUITY SECTORS



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CARL HOYT, CFA
PRESIDENT

Carl Hoyt began his career in the investment management industry in 1985 in equity research with Pemberton Securities, a Canadian investment dealer. In 1989, Carl joined Goepel Shields & Partners as an equity research analyst and became a director of the firm. Carl co-founded Cypress Capital Management in 1998, and as Chief Investment Officer, he was instrumental in the firm's growth from its inception to over $4 billion in assets under management.

KELLY WOODALL, CFA
PARTNER

Kelly Woodall began her career in high net worth private client investment management in 1997. Beginning in 2000, Kelly spent seven years working in sell-side equity research. During this time, she covered a number of different stocks and industries. In 2006, Kelly left the sell side and returned to investment management. In recent years, Kelly has been a lead portfolio manager on various small capitalization and equity income portfolios, accounting for approximately $2 billion in assets under management.

KYLE HARRISON, CFA
PARTNER

Kyle Harrison began his career in the investment industry in 1992 with investment dealer Marleau, Lemire Securities which focused on small capitalization Canadian equities. Kyle was responsible for institutional sales in New York and subsequently moved to Vancouver to develop the U.S. West coast. In 1996, Kyle joined CIBC World Markets and attained the position of Managing Director with responsiblity for institutional equity sales in Western Canada and the United States. In 2013, Kyle obtained the Family Enterprise Advisor™ certification.

Only accredited investors or investors who satisfy the minimum amount investment as defined by applicable securities legislation may invest in the Seymour Performance Fund. These materials are for information only and do not constitute an offer to sell or a solicitation to buy units of this Fund.

Q4 Commentary: Seymour Performance Fund

Canadian equities came under pressure in the fourth quarter, and small-cap equities performed poorly. The Seymour Performance Fund declined 2.9%, outperforming the S&P/TSX SmallCap Total Return Index (-8.7%), reflecting the Fund's lower resource weighting and the positive contribution of individual security selection. For the year, the Fund returned +12.1% after fees, significantly outperforming the SmallCap Index's -2.3% return.

Crude oil prices fell sharply in the quarter, triggering a sell-off in the shares of Oil & Gas companies and those in related industries. While historically price declines of this magnitude have typically occurred in times of economic recession, the recent decline has primarily been triggered by record oil production, which has led to a supply glut and a battle for market share. Although the Fund does not have any Oil & Gas Producer holdings, its Energy Services holdings experienced share price declines of between 23 – 72% reflecting expectations of lower activity and pricing, and its non-energy holdings with geographic concentration in Alberta were also impacted. Following the sell-off, the Fund's Energy weighting has been significantly reduced and we have selectively added to core holdings.

Rifco Inc., an Alberta-based non-prime auto lender whose loan book is roughly two-thirds exposed to consumers residing west of Ontario, declined 37.2%. Concerns over Rifco's Alberta exposure have been compounded by a recent uptick in delinquency rates; media reports highlighting a loosening of credit standards in the non-prime sector; and the release of the Bank of Canada's *Financial System Review*, which highlighted increased sub-prime auto lending as a modest concern. If we assume that an uptick in Alberta unemployment could cause Rifco's delinquency rates to approach those experienced during the credit crisis, then it would appear that the downside risk to earnings has largely been discounted in the stock's valuation.

Dream Unlimited Corp., a real estate developer and asset manager whose land and housing development business is concentrated in Alberta and Saskatchewan, also performed poorly (-22.4% from our entry point). We recently initiated a position in Dream after the company's share price had corrected seemingly on concerns over lumpiness in the company's quarterly earnings (which we think are of limited value because of the cyclical, lumpy nature of the land development and homebuilding business). We expect Dream's management team, led by CEO Michael Cooper, a highly-regarded real estate executive that is well-aligned through his 30% ownership position, will realize significant value over the long-term by developing the company's large, well-located land base and by increasing assets under management. Although difficult to value, we think the company's current valuation reflects a discount to the underlying value of its raw land, without assigning any value to the company's asset management operations or other assets.

The impact of lower crude oil prices will be felt throughout the energy patch and the broader economy as producers' hedges roll off and profits decline. The good news is that as economic theory would dictate, low oil prices tend to be self-correcting. Capital spending budgets, which have already been revised lower, will see further cuts as borrowing bases are reevaluated. Drilling will slow and marginal projects will be delayed or shelved. Eventually production will decline. At the same time supply is declining demand will rise, as lower gasoline prices and lower energy costs encourage greater consumption. The same speculators that helped drive crude oil prices lower will take long positions, helping to drive prices higher. Cycles are inevitable and we'll need to wait for the current down cycle to play out.

The Fund's best-performing holding (which is also its largest holding) was Cargojet Inc. (+29.3%), the leading dedicated provider of time sensitive overnight air cargo services in Canada. Cargojet generates steady cash flows under long-term contracts, with the bulk of its revenues derived from fixed capacity commitments. The company reported very strong third-quarter earnings, reflecting strong pricing and volume trends. Notably, Cargojet is preparing for the launch of its recently-awarded Canada Post business, which is expected to nearly double the company's revenue base. The new business will allow Cargojet to realize operating leverage and provides opportunities for fleet optimization, which in turn should lead to new growth opportunities.

Linamar Corporation (+22.8%), a leading auto parts supplier, continues to benefit from the ongoing cyclical recovery in auto sales as well as secular drivers. The company's auto parts division is in the midst of launching ~$3.3 billion of new business over the next few years, and its Skyjack division is enjoying strong growth as U.S. nonresidential construction activity recovers. The company released third-quarter earnings that greatly exceeded analysts' revenue growth and profit margin expectations. The company currently has booked business of $5.8 billion for 2018 (up from $4.2 billion in 2013), and Management guided to higher normalized profit margins going forward.

We think DirectCash Payments Inc.'s strong performance (+20.4%) in part reflects short covering. DirectCash is the largest independent provider of ATM terminals and processing services in Canada and more recently has expanded through acquisition into Australia, New Zealand and the United Kingdom. Although the use of cash as a payment method continues to shrink, it still accounts for a significant share of total payments. With little cost associated with the company's ATMs, payback periods are less than two years and DirectCash generates very strong free cash flow, which it uses to pay a healthy dividend and complete accretive acquisitions. We believe the company is very well managed and the co-founder/CEO is well-aligned through his share ownership.

Although market volatility is unsettling and the near-term outlook for the Energy sector is challenging, the Fund also holds investments in a multitude of reasonably-valued, non-energy companies that will continue to generate strong and steady earnings growth regardless of the commodity outlook. Patient investors that take a long-term outlook should ultimately be rewarded with capital appreciation commensurate with earnings growth.