AVENTINE
ASSET MANAGEMENT

Aventine Canadian Equity Fund

Q4 2017 Commentary

Fourth Quarter Performance

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Executive Summary

The ACE Fund units ended the fourth quarter up +6.7% bringing the Fund's 2017 year to +17.0%. This compared to the S&P/TSX Composite Total Return Index which increased 4.5% in the fourth quarter, bringing its 2017 year to a return of 9.1%.

We are pleased to note that this performance was ranked as being in the top 1% of all Canadian Equity funds by Morningstar. Our Fund has maintained its Morningstar five star ranking since last March when we celebrated our three-year anniversary.

Fund Performance and Commentary

	Performance, Net of Fees			*Periods > 1Yr. are annualized*			Risk		*Annualized*
	1Mo.	3Mo.	6Mo.	1Yr.	3yr.	Incep.*	Vol.	Beta	Corr.
ACE	**2.6%**	**6.7%**	**9.8%**	**17.0%**	**11.8%**	**11.1%**	**10.3%**	**0.71**	**0.53**
BM	1.2%	4.5%	8.3%	9.1%	6.6%	6.4%	7.5%	1.00	1.00

The Aventine Canadian Equity Fund was launched on March 31, 2014.

"ACE" is the Aventine Canadian Equity Fund. "BM" is Benchmark. The Benchmark is the S&P/TSX Composite Total Return Index. Volatility is calculated as the annualized standard deviation of monthly total returns. Beta and Correlation of the Fund are calculated against the Benchmark.

Q4 2017

We were well positioned for the fourth quarter of 2017. It was a great time to stay invested in the Canadian market with every sub-sector showing positive returns. We are happy to say that in addition to riding these positive forces by remaining over 90% long throughout this period, we had several positive stock specific catalysts which helped propel our strong quarterly gain. The most dramatic of these was the announcement in early December that Napec (NPC.TO), the electrical engineering and infrastructure construction company we discovered in March 2017, agreed to be acquired for a 35% premium to market. Better still this represents a premium of 70% to our cost base.

As with past "go private" transactions within our portfolio, while we are excited by the short-term bump to the Fund's unit price, we are also sad to lose what we thought was a great company with phenomenal prospects for additional growth over the next few years. We do believe, however, that our investment style as well as our diligence process tends to uncover companies that are not yet fully recognized by the public markets but which private equity executives would view as valuable given their various market strengths, financial well-being and their competitive positioning. We believe we still own quite a few of these in our portfolio.

The downside of investing in a bull market is that sometimes "frenzies" break out within certain sectors and we most definitely saw this throughout the quarter with crypto-currencies and cannabis companies. We witnessed firsthand companies whose valuations seemed to move from some reasonable basis of future profitability to an extreme valuation that is quite simply untethered with reality. This has continued this year as even an ancient Eastman Kodak's stock went up 350% on simply announcing that they were launching a bitcoin mining piece of hardware.

Downside Protection

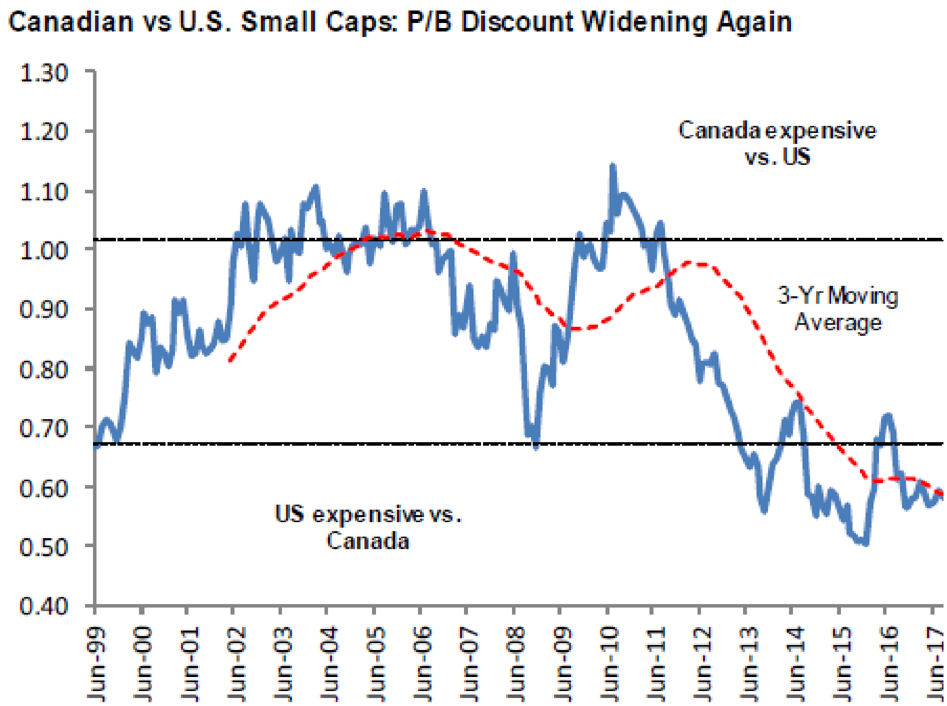
While we tend to sell short the stocks (thereby making money from a declining price) of companies whose valuations are unreasonable, whose business model or current results are unsustainable, or based on many other red flags, we unfortunately had to relearn a valuable lesson about shorting stocks this fall. When sectors become "frenzied" it's better to simply walk away from what will almost certainly become a wasteland littered with corpses than try to bet against irrational investors making blind dashes into hot new sectors based on speculation rather than financial analysis. To quote a line from the 1983 movie 'War Games': "The only winning move is not to play".

As investors who put a decent amount of weight on momentum, we can reassure our investors and followers that we always think of ourselves as stewards of our investors' savings and therefore put just as much weight on value. This means we will over the years miss parties such as the ones that happened in certain sectors this year, but as we noted off the top, we have a ranking in the top 1% of all Canadian Equity funds this year so it seems our boring party was not so bad after all.

2018 – Are We In A Bubble Yet?

Last quarter we wrote about valuation concerns for North American equities which appeared (and still appear) quite lofty by historical metrics. But we balanced those concerns with some observations about "globally synchronized growth" and how, for the first time since 2007, all the OECD countries were demonstrating some degree of positive growth. Since that commentary, the Republicans were able to get their tax plan passed and despite the concern as to how this will impact the U.S. deficit, the positive effect this has had on stock prices and the growing comfort with strong (after tax) EPS growth projected into 2018 has kept equity markets on both sides of the border strong into the first couple of weeks of 2018 as well. A further consequence of the strong activity in the U.S. is a heightened level of M&A which we discuss in more detail below. This could very well be one of the last years with a combination of growing earnings, accelerating economic data and still easy financial conditions.

Like last year, it is prudent to be cautious given we are in the later stages of the market cycle, but we continue to put significant weight in our risk model which continues to indicate a moderate risk environment from a financial condition, volatility and trend perspective. In addition, for the first time in quite some time we have a backup of possible additions to the portfolio as cyclicals in Canada continue to trade at a large discount to their developed market peers. Looking at the U.S. specifically, if you believe in valuation mean reversion then this chart should excite you to invest in Canadian stocks as they are still trading at the deepest relative discount to U.S. stocks in over 20 years on a price-to-book basis:



Source: Scotiabank GBM Portfolio Strategy, Morningstar CPMS, Bloomberg

Circling Back to the Potential for More Take Outs in 2018

It may be instructive to review our investment style and valuation process. We tend to often unearth companies that other acquirers – be they private equity firms or strategic acquirers within the same industry – might also find attractive.

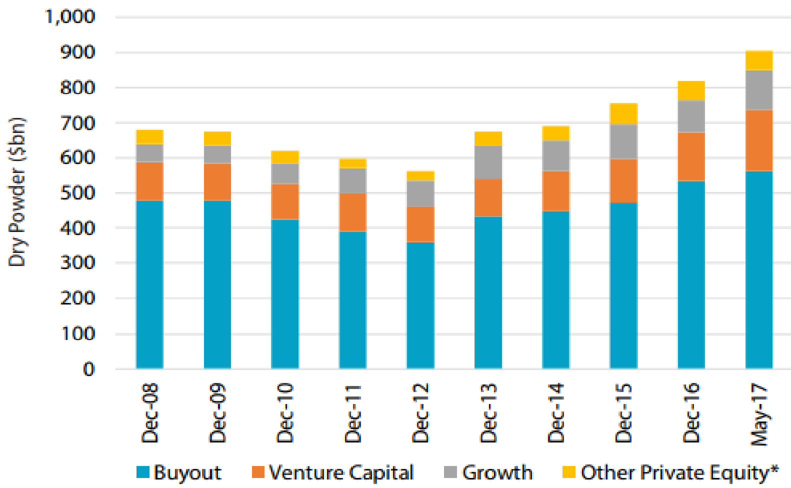
During the year we noticed that six companies that we either had a position in at the time, or had previously held a position in over the previous twelve months, were acquired:

1. RDM – deal to be acquired by U.S. Competitor: Feb 2017
2. Halogen – deal to be acquired by U.S. Competitor: Feb 2017
3. Sandvine – deal to be acquired by U.S. Private Equity: June 201
4. Pacific Insights – deal to be acquire by U.S. Competitor: August 2017
5. Aecon – deal to be acquired by Chinese Competitor: Oct 2017
6. Napec – deal to be acquired by U.S. Private Equity: Dec 2017

Fortunately, our Fund benefited financially from four of these six take outs this past year (we sadly closed our positions in Sandvine and Pacific Insights a little too early as it turned out!).

The point we would make from these observations is not to blow our own horn as predictors of companies "which might" be takeover candidates, but to simply observe that 1) we know from historical data that M&A activity picks up towards the end of a business cycle, 2) we believe the new U.S. tax plan noted above could/will likely create a fury of M&A as U.S. companies repatriate cash back the U.S., and finally 3) private equity has never seen as much cash as they have right now (see chart below showing just under $1 Trillion sitting there).

Fig. 29: Private Equity Dry Powder by Fund Type, 2008 - 2017



Source: Preqin Private Equity Online

This along with a weak Canadian dollar (relative to a few years ago) creates an environment where we believe our investment universe - and hopefully our holdings – will indeed be fortunate to continue to benefit disproportionately from this next year. Certainly we can not anticipate takeovers with accuracy, but something that we consider in our evaluation of companies is the "structural likelihood" of the company being acquired by others. For example we would consider a company with a controlling founder/shareholder in their late eighties whom had no family members involved in the business as leading to a higher "likelihood" that a potential acquirer's advances might fall on more open ears (either now or within the next several years).

Is it <u>Still</u> a Good Time to Invest in Canadian Equities?

Last quarter we finished our commentary with a paragraph entitled "Canada Looking Attractive" in which we mentioned that we would answer the question whether now was a good time to invest in our Fund and allocate more capital into a Canadian Equities focused investment vehicle. And we answered "YES" in capitals (before we our unit price advanced 6.5% in that quarter). Again, while we would continue to caution investors that past performance is no indication of future results and predicting markets over short periods of time is almost impossible to do, we ourselves would still answer the question "in capital letters" and are still personally investing additional assets in our Fund this quarter as we hope to take advantage of the current environment.

As always, we thank you for your continued support of Aventine and we want to wish you and your families a very prosperous and happy 2018.

Best wishes,

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