STEPHENSON & COMPANY
Capital Management

# NORTH AMERICAN OPPORTUNITY FUND LP

As at October 31st, 2014

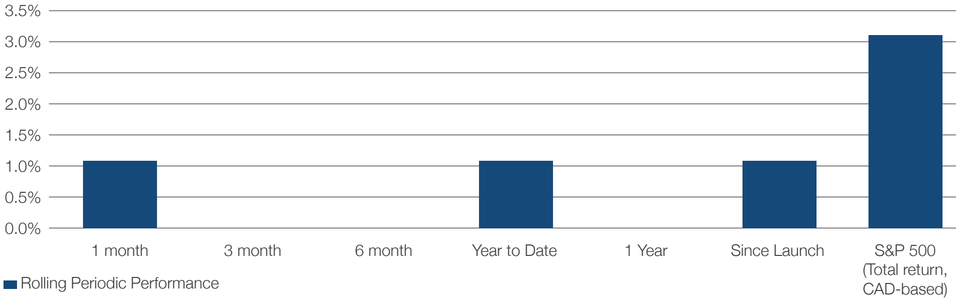
## Fund Details

| | |
|---|---|
| Fund manager | John Stephenson |
| Launch date | 01 October 2014 |
| Liquidity | Monthly |
| Opening NAV | $100 |

## Fund Objective

The investment objective of the Partnership is to provide consistent long-term capital appreciation with attractive risk-adjusted rates of return through market cycles, with a focus on risk management and capital preservation. The Partnership aims to provide investors with higher returns, lower volatility and lower correlations to North American equity markets than a traditional long only portfolio. The Partnership's portfolio investments will consist primarily of equity securities of North American issuers, but may also include global securities of all types.

## Net Fund Performance




## Performance Statistics *

| | |
|---|---|
| 1 month | 1.03 % |
| 3 months | N/A |
| 6 months | N/A |
| Year to Date | 1.03% |
| Last calendar year | N/A |
| 1 Year | N/A |
| 2 Years | N/A |
| 3 Years | N/A |
| 5 Years | N/A |
| Since Launch Date | 1.03 % |
| Annualized volatility | 6.2 % |

## GICS Sectors [1]

| Sector | Weight |
|---|---|
| Energy | 4.7% |
| Materials | 5.4% |
| Industrials | 10.4% |
| Consumer Discretionary | 12.7% |
| Consumer Staples | 6.0% |
| Health Care | 9.9% |
| Financials | 31.9% |
| Information Technology | 12.9% |
| Telecommunication Services | 2.3% |
| Utilities | 3.9% |

[1] Absolute Value of Gross Exposure by GICS Sector.

## Geographic Distribution

| Region | Weight* | CCY |
|---|---|---|
| Asia & Australasia | 0 % | |
| Eastern Europe & MENA | 0 % | |
| Latin America | 0 % | |
| Canada | 30.4 % | 30.4% |
| United states | 69.6% | 69.6% |
| Western Europe | 0 % | |

*By country of domicile.

## Risk Metrics

| | Metric |
|---|---|
| Net market exposure (longs-shorts) | 66.6% |
| Beta of the Fund | 0.92% |
| Volatility of the Fund (Annualized) | 6.2% |
| Volatility of the SP 500 (Annualized) | 20.4% |
| Maximum Monthly Drawdown | 0.67% |
| Sharpe Ratio | 2.10 |

## Net Track Record


*The performance data is based on the reporting share class of the Fund (shown in blue in the NAV table) and may be calculated using a different management fee to that shown in the Fund details. Share classes may be closed to new subscriptions. Annual returns presented are based on an investor being invested from the beginning of the fiscal year of the Fund. Returns will vary for investors who invested at other times. Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.

Please refer to important information at the end of the document.

# Monthly commentary

## Market Developments:

- The Fund was up 1.03% (net of expenses) for the month of October, with US long positions up +1.01%, while Canadian dollar long positions were down -0.50%. US short positions were down -0.26%, while Canadian dollar short positions were up +0.58% and the US cash balance of the Fund contributed +0.44% to performance, over the period, on a pre-expense basis.
- October saw the return of volatility and uncertainty to markets in a very dramatic fashion. Markets were whipsawed by changing views on global economic growth and central bank policy. Early in the month, investors fled risky assets and piled into the relative safety of U.S. government bonds, which sent the Dow tumbling as much as 460 points on a single day, as both trading volumes and volatility rose to their highest level in three years.
- Volatility spiked during the month with the VIX Index hitting a high of 26.25 on October 15th, but volatility subsided as the month drew to a close, with the VIX finishing the month at 14.03.
- During the month China reported a sudden drop in steel demand, while Germany experienced a sharp pullback in exports.
- Oil price tumbled by more than thirty per cent since mid-June, sinking to its lowest level in nearly four years. The tumble in crude oil prices was triggered by weak demand growth and rising supplies that gathered steam over the month as it became clear that leading members of the OPEC oil cartel had no intention of cutting production before the group meets in Vienna in November.
- The last trading day of the month capped off a tumultuous period for stocks as markets that were roiled initially by fears of slowing global growth, surged on a surprise announcement by the Bank of Japan (BoJ). The BoJ sent shock waves through the market by announcing that it will increase its bond-buying program. The announcement called for a major expansion of the monetary base—the purchase of an additional 30-trillion yen ($300.9 billion) of government bonds annually. The government will also boost its holdings of equities, real estate funds and longer-term debt.
- On the same day that Japan roiled markets, Russia surprised markets with a huge 1.5 percentage-point increase in its interest rate (to 9.5 per cent) in an attempt to slow surging inflation and bolster the sagging ruble, while the Euro Zone reported a dismal unemployment rate of 11.5 percent and a dangerously low inflation rate of just 0.4 per cent. A day prior the United States reported a third-quarter GDP growth estimate of a stronger than-expected 3.5 per cent.
- The S&P 500 rose 1.1 per cent in the last day of trading in October to close the month at 2,017, or a weekly gain of 2.7 per cent and a rise of 2.3 per cent for October (in USD). The S&P's latest advance completed a dramatic turnaround since the middle of the month, when a bout of extreme market volatility, largely sparked by concerns over the wobbly and uneven global economic recovery coupled with geopolitical uncertainty and the Ebola scare, drove the US equity benchmark as low as 1,820. That marked a near 10 per cent retreat from its record high.

## Fund Performance:

The Fund performed reasonably well in an extremely volatile month and managed to outperform the S&P/TSX, which was down –2.13% on a total return basis, but underperformed the S&P 500 which was up +3.08% in Canadian dollar terms. The Sharpe Ratio for the Fund was strong at 2.1 for the month of October.

The top four performers for the Fund during the month were a short position in Twitter Inc. (TWTR - NYSE), which contributed a positive variance of +0.44%, a short position in Aurico Gold Inc. (AUQ - S&P/TSX), which contributed a positive variance of +0.34%, over the period on an unrealized basis. The other top contributors to Fund performance was a short position in Centerra Gold (CG - S&P/TSX), which contributed a positive variance of +0.32% and a long position in MetLife Inc. (MET - NYSE), which contributed a positive variance of +0.29% to the Fund on an unrealized basis.

The bottom four performers for the Fund include a long position in Horizon North Logistics Inc. (HNL - S&P/TSX), which contributed a negative variance of -0.68%, over the month. The company reported disappointing quarterly results and while the fundamentals remain attractive, we exited our position in this name. A short position in Dr. Pepper Snapple Group Inc. (DPS - NYSE) contributed a negative variance of -0.17%, over the period, while a short position in FirstEnergy Corp (FE -NYSE) contributed a negative variance of -0.16%, on an unrealized basis to the Fund. A short position in Consolidated Edison (ED - NYSE) contributed a negative variance of -0.15% on an unrealized basis, over the period.

During the month we reduced our short weighting toward Utilities and increased our short weighting toward Materials companies, particularly gold producers. We also reduced our short weighting toward to Consumer Staples as the market volatility drove investors toward more defensive equities and away from more cyclical equities, over the month.

## Outlook:

Consumer confidence, jobless claims and US ISM data are all pointing toward a recovery in the Cyclical sectors of the market and we continue to weight our longs toward these cyclical names, particularly the Financials. The Financials are the highest beta sector of the S&P 500 and most investment managers have sizeable underweight positions toward the sector, which began in 2009. The combination of the sector's high beta and fund managers' underweight positions present, in the view of the manager, an asymmetric opportunity set for the Fund.

The rise in volatility and the weak economic growth in China and the Euro Zone have likely extended the period of extraordinary accommodation that we've seen in North America. As such, we have reduced our short weighting toward electric utilities until there is greater visibility on Fed tightening.

The U.S. dollar recently touched a four year high against a basket of currencies. A strengthening U.S. dollar is negative for gold and commodities generally. As such, the manager has increased the short weighting of the Fund toward gold mining companies.

## NAVs - Unrestricted Classes [2]

| Class | CCY | NAV |
|---|---|---|
| A | CAD | 100.836 |
| F | CAD | NA |
| I | CAD | NA |
| S | CAD | 101.0271 |

## Historical Performance [3]

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD [4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2014 | | | | | | | | | | 1.03% | | | 1.03% |

[2]The share class in blue in the table above is the reporting share class for the Fund and may be closed to new subscriptions. Performance of other share classes shown may vary. [3]Source: SGGG Fund Services Inc. Past performance is not a reliable indicator of future results. [4]When 12 months of performance data is unavailable for a calendar year, partial year to date is shown.

# Important notes

Source: Stephenson & Company Capital Management and Bloomberg

There are inherent limitations in any comparison between a managed portfolio and a passive index. Indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with a private fund. There are risks inherent in hedge fund investing programs.

Note to Investment Professionals: The information in the Monthly Report is being provided to current investors in the Fund and is being provided to their registered dealers for informational purposes only.

This is not sales literature and cannot be used as such.

The Fund is not a trust company and does not carry on business as a trust company and, accordingly, the Fund is not registered under the trust company legislation of any jurisdiction. Units of the Fund are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under provisions of that Act or any other legislation.

No securities regulatory authority has expressed an opinion about this Fund and it is an offence to claim otherwise. This Fund has not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold in the United States or to U.S. persons except pursuant to an exemption from the registration requirements of those laws.

Indicated rates of return are the historical annual compounded total returns, including changes in unit value and do not take into account sales, redemption, distribution or optional charges or income taxes payable by an investor that would have reduced returns. Performance is calculated net of all fees.

This document may contain forward looking statements which are based on expectations, estimates, and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Other events which were not taken into account may occur and may significantly affect the returns or performance of the Fund. Neither Stephenson & Company Capital Management nor the Fund undertakes any obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by law.

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