There is no question that 2015 was a year of increased market volatility. We saw unrest in the Middle East, tensions in Europe, a slowing Chinese economy, and a guessing game over what the U.S. Federal Reserve (Fed) would do with interest rates. Combine that with myriad headlines from U.S. politicians running for president, and markets remained fearful, investors continued to be on edge, and the press continued to tout a low-growth environment exacerbated by perma-bears everywhere.

In particular, Canadian investors took it on the chin. From a dismal Canadian economy and struggling energy producers, to low interest rates and a potential housing bubble, Canada was one of the worst global equity markets in for 2015, with only Greece and Singapore turning in lower returns. The heavy commodity bias of our economy, along with low growth projections in the coming year, have made Canada an investing pariah.

Laurus Enterprise Small Cap Fund
Total Time Weighted Rates of Return
Measured to December 31, 2015

	4th Quarter 2015 (%)	Six Months (%)	One Year (%)	Two Years (%)	Three Years (%)	Four Years (%)
Enterprise Fund	**3.77**	**-6.27**	**- 1.33**	**2.71**	**12.61**	**12.23**
Quality Peer Group	1.05	-10.36	-8.06	-1.47	9.93	12.18
S&P/TSX Composite Index	-1.40	-9.14	- 8.32	0.68	4.62	5.26
S&P/TSX Small Cap Index	1.12	-14.22	-13.31	-7.99	- 3.06	-2.85
Value Added (Enterprise minus TSX Comp.)	**5.17**	**2.87**	**6.99**	**2.03**	**7.99**	**6.97**

Laurus Investment Counsel Inc. [an entity registered with the Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia Securities Commissions as Portfolio Manager, Exempt Market Dealer, and Investment Fund Manager] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Compliance has not been independently verified. Investment performance represent the results of the Laurus Enterprise Small Cap Fund from August 31, 2014 and historical performance data from a prior account managed by C Page (founder of Laurus Investment Counsel Inc.) since March 31, 2011, using substantially similar investment strategies and objectives to the Laurus Enterprise Fund. The Quality Peer Group performance represents the average of five similar portfolios of managers in the marketplace. For further disclosure information contact info@lauruscounsel.com.

REVIEW AND OUTLOOK OF CANADIAN SMALL-CAP STOCKS

By early October, markets had returned to levels last seen prior to the late August “melt-down” which came as a result of a Chinese currency devaluation rattling investors and becoming the catalyst for investors to sell “risky” assets. Nevertheless, from there through quarter-end a continuation of Canadian market malaise pushed prices down. Whether the result of an overall weak Canadian economy, sliding oil prices, or a novice Prime Minister pronouncing deficit spending on infrastructure, clearly investors preferred to invest elsewhere.

Shown above, the benchmark S&P/TSX Composite Index (“index”) return of -1.4% fared much worse than the 1.1% return of the small cap counterpart, the S&P/TSX Small Cap Index. Throughout the quarter, energy prices continued to decline as production output remained higher than demand. However, the quarter showed less impact from the Chinese economic slowdown as metal, paper, and forest product stocks rallied resulting in the commodity-heavy small cap index outperformance.

As we’ve mentioned many times over the past year, this has been a very challenging market environment. However, the high-quality companies within the Enterprise portfolio have lessened the impact of a deeply negative market and protected our investor’s capital. This has resulted in substantial outperformance, both in the recent quarter as well as for the entire year.

Compared to the benchmark index, the portfolio was heavily overweight Industrials (+8.9% to the index), Information Technology (+5.8% to the index), Consumer Discretionary (+5.4% to the index), and Consumer Staples (+4.0% to the index. In all cases, these excess weights benefited portfolio performance.

Our largest sector underweight relative to the index was in Financials. The Enterprise Fund is limited in our maximum sector exposure to 25% which is significantly below the current 37.5% index weight. In particular, bank stocks make up 23.2% of the index whereas the Fund weight was 7.8% - with bank stocks performing well overall, our underweighting was negative to portfolio performance. In addition, we were underweight both the Energy and Telecommunication sectors, which underperformed the overall index resulting in a beneficial contribution to the portfolio.

When we look at the composition of our last quarter performance, stock selection, once again, played a key role in our success. More than two-thirds of the portfolio outperformed the S&P/TSX Composite index return led by technology companies *Sandvine* (+52%) and *Enghouse Systems* (+39%). These great results were combined with other excellent quarters put in by *Intertape Polymer* (+32%), *Badger Daylighting* (+26%), and *Premium Brands* (+23%).

Unfortunately, one-third of the portfolio also saw a decrease in their stock performance relative to the index. Most prevalent was the -36.1% decline in *Canadian Energy Services* and the 20% decline in *Computer Modelling Group*. Combined, these two stocks contributed a -2.4% to overall Fund performance. We know both of these oil service companies very well and expect to see price recovery in coming quarters, once the energy market stabilizes.

Late in the quarter, we added initial positions in three new names to the portfolio. *Pure Multi-Family REIT (TSX:RUF.U)* is a real estate investment trust with an experienced management group purchasing assets in US apartment complexes; *K-Bro Linen Inc. (TSX:KBL)* is the largest provider of laundry and linen services in Canada; and, in addition, we've added a small initial allocation to *Spartan Energy Corporation (TSX:SPE)*, a junior oil & gas company with a strong, personally-invested management team and strong asset base.

In addition to these new positions, we increased our holdings in *Performance Sports Group* which has been facing some headwind with the strong US dollar and, late in the quarter, to *Ag Growth International* and *Badger Daylighting* as we believe the price declines in these two companies have been excessive.

The current economic expansion has been long but, as we've written previously, it looks to be only mid-cycle. As we look forward into 2016, there is higher probability for improving oil prices and growth in the Chinese economy leading to improved growth expectations, not only for the US but for the global economy as well. With continued low interest rates, continued growth in the US, and a weaker Canadian dollar, we anticipate the Canadian market may surprise to the upside. Not a given to be sure, but one needs to measure probability of events to navigate through the market milieu.

We continue to remain focused on our research and valuation disciplines, endeavouring to be more informed on our holdings than the general market. This strategy will aid us in prudently growing our client capital while providing capital protection in volatile environments.

Yours truly,

THE LAURUS INVESTMENT TEAM

Christopher (Chris) Page, Linda Lebrun, Ray Lam