Enterprise Fund Quarterly
March 2016

"A turkey is fed for a thousand days by a butcher; every day confirms to its staff of analysts that butchers love turkeys "with increased statistical confidence." The butcher will keep feeding the turkey until a few days before Thanksgiving. Then comes that day when it is really not a very good idea to be a turkey. So with the butcher surprising it, the turkey will have a revision of belief—right when its confidence in the statement that the butcher loves turkeys is maximal and "it is very quiet" and soothingly predictable in the life of the turkey….The key here is that such a surprise will be a Black Swan event; but just for the turkey, not for the butcher…." *From "Antifragile" by Nassim Taleb*

Laurus Enterprise Small Cap Fund
Total Time Weighted Rates of Return
Measured to March 31, 2016

	1st Quarter 2016 (%)	One Year (%)	Two Years (%)	Three Years (%)	Four Years (%)	Five Years (%)
Enterprise Fund	**-3.47**	**-7.35**	**-1.75**	**9.27**	**8.94**	**7.69**
Quality Peer Group	0.81	-7.53	-4.06	7.61	9.64	7.25
S&P/TSX Composite Index	4.54	-6.57	-0.05	5.03	5.30	2.10
S&P/TSX Small Cap Index	8.52	-5.69	-7.74	-0.59	-2.27	- 4.97
Value Added (Enterprise minus QPG)	**-4.28**	**0.18**	**2.31**	**1.66**	**-0.70**	**0.44**

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

The above is a favourite quote, not because of the obvious message but its inference to the distinction between true and manufactured price stability. It's always a conundrum as a portfolio manager.

Let's start with oil. Over the past number of years, supply has continually increased due to growth in shale oil production in the U.S. and that increase, along with a stronger US dollar, drove oil prices lower (since oil is priced in USD). At the same time, demand for oil has weakened in the developed markets as economies slowed and vehicles have become more fuel-efficient. However, none of these things are new. The fall in oil prices on OPEC and its unwillingness to lower production, but what is now an obvious decline was not obvious six months ago. Oil prices have sunk more than 60% percent since the beginning of 2015, and this happened not during a financial crisis but in a reasonably stable, slow-growth global economy.

Now let's place these events in the context of the current environment. Ultralow global interest rates have pushed all market participants into riskier assets. In addition, low interest rates are also pushing investors into using more leverage. But volatility and leverage are not friends and, unfortunately, we never know where all the leverage is buried and will only find out after the fact. "As crude has soared more than 50 percent since Feb. 11, the number of bets on increased prices has barely budged," Bloomberg reported in late March. "Instead, the upward pressure on prices appears to have come from traders cashing out of bearish wagers at an unprecedented pace. The liquidation of short positions during the last seven weeks covered by data from the U.S. Commodity Futures Trading Commission was the largest on record."

Once again, the market has worked its magic. The bearish short trade became too crowded—and the shorts pushed their luck. And in the past couple of months the market's punishing them. Is the world drowning in oil? Maybe, but the market doesn't care - when one group leans too far over the edge, a powerful snapback usually isn't too far behind.

Which brings us to the current state of our portfolio strategy. While oil dropped precipitously to sub-$30 levels, our under-weighted portfolio surpassed the commodity-biased index as well as our peers. But, since the end of the third quarter of 2015, the price snap-back has left us in the lurch relative to, not only the TSX Index, but our heavier-weighted peers as well.

The same is true of metal and mining shares which have rallied strongly after years of decline. Mostly the same reasons – a 20% gold price increase (copper is still more than 50% off its 2010 peak) from December lows have "gold bugs" once again whistling a happy tune.

But are they the butcher…or the turkey?

We've learned over many, many years that investing in companies without a definable intrinsic value leaves our clients susceptible to the vagaries of the commodity price increases and decreases on which these businesses trade. Accordingly, our 10% energy weight is balanced between two financially-strong, well-managed exploration companies (Raging River and Spartan Energy) and three service companies that are leaders in their respective markets.

We have studied a number of alternatives but have yet to uncover another name with a defensible balance sheet and potential for free cashflow generation – at least at current prices. Moreover, we remain concerned that the current rally in oil prices may swoon under pressure from a couple of areas; a) excess oil capacity in storage, which could keep oil prices well below breakeven values for some time, and b) ongoing production continuing to feed supply, which may continue to exceed demand for the near term.

So we apologize for our underperformance to the index, though being underweighted in commodity stocks and defensive in gyrating markets is just our nature. But occasionally, just to prove we're fallible, we get caught flat-footed by a management team.

In the third quarter of last year we added Performance Sports Group ("PSG") to the portfolio. Our investment thesis was based on the company's dominance in sports equipment under brands including Bauer in hockey, Easton in baseball, as well as several others, along with management's appetite towards pursuing acquisitions to increase market share. Following their 2015 annual report that was weak but defensible (the business was struggling with a strong US dollar), management announced in early March a major customer bankruptcy that significantly curtailed orders, a related inventory write-down, and a bad customer debt write-down. They announced a reduction to 2016 earnings expectations by 80% which resulted in the price dropping more than 70% in the subsequent week. We exited during this period, as the distressed earnings outlook made us concerned about a breach of their debt covenants. The Board subsequently fired the CEO, and added a new board member that represents their largest stockholder. At this writing, the stock is lower still.

On a happier note, one of last years' laggards - Ag Growth International ("AFN") - is finally beginning to show its mettle with the announcement of the acquisition of NuVision to position itself as a primary turn-key fertilizer storage company in North America – something management contends is unavailable through their North American competitors and that clients are looking for.

While we continue to trim our position as the stock price hits fresh highs virtually monthly, Premium Brands Holdings ("PBH") has unquestionably been our best investment, doubling over the past couple of years. A provider of premium processed meat products, sandwiches, meat snacks, baked goods, pasta and sauces, seafood, and fully cooked grilled meat products, the PBH acquisition strategy combined with their unique distribution contract with Starbucks has increased revenues by more than 50% in the past couple of years.

With these sales, we added The Descartes Systems Group to the portfolio in the quarter. We've been following Descartes for some time, looking for the opportunity to add a position. In February following the overall market sell-off, we were able to build a position in the company 25% lower than its December high. Descartes is a unique network and logistics company, providing a wide variety of services to global distribution-intensive companies.

As stated earlier, it's just not the type of market in which we perform. Over the past three months the TSX Composite Index rose 4.5% while, at the same time, oil & gas exploration companies rose 14.8%, diversified metals & mining companies rose 23.1%, and gold stocks rose 38.7%. The impact of a lower commodity weight is best illustrated above by the differential between the TSX Composite Index and TSX Small Cap Index, the latter being almost double the weighting in energy and materials.

Apart from the relative index underperformance, we had a difficult quarter against the quality peer group. The group, in general, owns roughly 50% more energy weight than the Enterprise portfolio which makes up a significant part of the underperformance. In addition, four of five own limited shares of gold companies. Owning Performance Sports, as discussed earlier, was a performance detriment as the company was not owned by most of the peer group. However, the largest contribution to peer underperformance came from the takeout offer of Rona Inc. by Lowe's Companies. The offer came at double the then current price which cost us about 2% to our largest peers. Together, the relative negative impact against our peers exceeded -3.75%.

Our long term investment strategy continues to show positive signs, as we focus on true price stability over manufactured. Performance has begun to recover in recent weeks. We continue to consider new opportunities and have explored discussions with a number of new management teams over the past few months that look promising.

Yours truly,

THE LAURUS INVESTMENT TEAM

Christopher (Chris) Page, Linda Lebrun, Ray Lam