

# FAIRCOURT SPLIT TRUST

**Inception Date:** March 17, 2006

**Fund Manager:** Faircourt Asset Management Inc.

**Portfolio Advisor:** Faircourt Asset Management Inc.

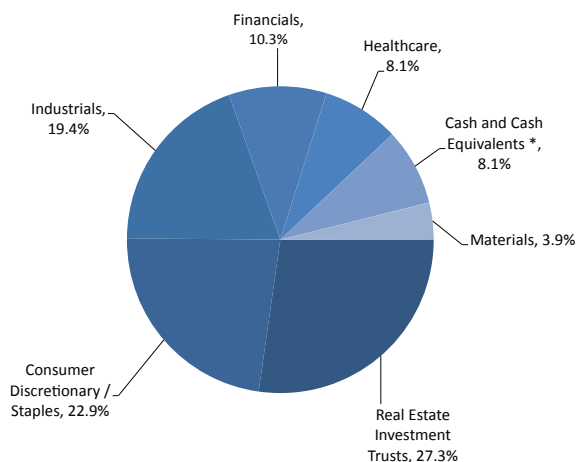
**TSX Symbols:** FCS.UN & FCS.PR.C

**Faircourt Split Trust** was created using a dual security structure, consisting of Trust Units and Preferred Securities, to provide investors with leveraged capital growth potential based on a portfolio of North American equity securities.

## TOP TEN HOLDINGS as at September 30, 2015

- Alaris Royalty Corp.
- Boyd Group Income Fund
- Canadian Apartment Properties REIT
- Dollar General Corp.
- Dollarama Inc.
- Fairfax Financial Holdings Ltd.
- Milestone Apartments REIT
- RioCan REIT
- Slate Retail REIT
- Walt Disney Co

## PORTFOLIO ALLOCATION as at September 30, 2015

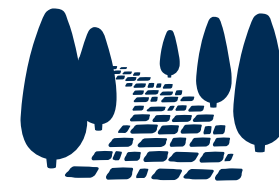


Based on % of Portfolio, Net of Options

## Investment Objectives

The investment objectives of the Trust are to achieve a balance between the objectives of the Preferred Securityholders and Unitholders, subject to the prior rights of Preferred Securityholders.

The investment objectives with respect to the Preferred Securities are (i) to provide Securityholders priority distributions of interest in the amount of \$0.15 per quarter (\$0.60 per annum to yield 6.0% per annum on the subscription price of \$10.00); and (ii) to repay to Preferred Securityholders, on June 30, 2019 in priority to any return



**Third Quarter 2015**

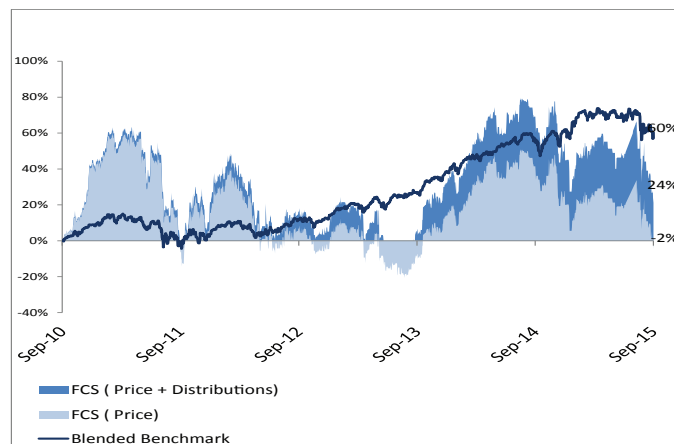
of the original subscription price to Unitholders, the original subscription price of the Preferred Securities.\*\*

The investment objectives with respect to the Trust Units are: (a) to provide Unitholders with a stable stream of tax efficient monthly cash distributions currently \$0.04 per Trust Unit per month to yield 10.43% (market price as at September 30, 2015), a portion of which is tax-deferred; and (b) to return to Unitholders, on December 31, 2019 at least the original subscription price of the Units.

The following shows the returns since the merger for the trust units ending September 30, 2015. The returns are calculated in Canadian dollars.

## PERFORMANCE SINCE SEPTEMBER 30, 2010 PAST PERFORMANCE

The Benchmark for the Fund is composed of the S&P TSX Composite Index (weight of 70%) and the S&P 500 in Cdn dollars (weight of 30%)



Source: Bloomberg. Data is based on price and includes distributions.

## Returns for the period ended September 30, 2015

	1 Year	3 Year	5 year	*Since Inception
FCS Price (1)	-26.76%	2.15%	4.36%	4.36%
FCS NAV (1,3)	-22.07%	0.75%	3.49%	3.49%
FCS Index (2)	0.11%	11.59%	9.20%	9.20%

Notes:

- (1) Assumes reinvestment of distributions;
- (2) Source: Bloomberg
- (3) Based on Basic NAV; Source: Faircourt Asset Management

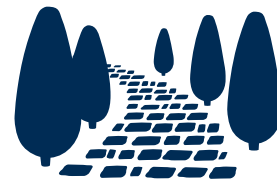
\*FCS since inception is from period September 30, 2010 (Date of merger with FIG)

## FAIRCOURT Asset Management Inc.

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Management fees and expenses are associated with an investment in the fund. The performance data provided assumes reinvestment of distribution only and does not take into account redemption charges or income taxes payable by any security holder that would have reduced returns. An investment in the fund is not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer. There can be no assurance that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated.

# FAIRCOURT SPLIT



## Faircourt Split Trust: September 2015 Update

Q3 witnessed many challenges facing North American equity markets that led to increased volatility and caution on the part of investors. The strength of the US dollar began to reduce earnings on SP 500 companies; deflationary risks continued to plague the EU and subdued growth in China raised doubts about commodity prices.

The US economy has been progressing through 2015 with a slow and steady improvement in jobs growth, housing starts while inflation was contained below the Fed's 2% target rate. The challenge for the Fed is attempting to stimulate the economy in a controlled fashion, not allowing inflation to run. Over the last 12 months, further stimulus was found in the form of lower energy prices that re-allocated cash into consumer spending categories as a further "stimulus". The result was less than desired as consumer confidence did not reach anticipated levels and yet the US dollar continued to rally.

Economic results in the US began to show signs of weakness in the quarter upsetting equity markets. Payrolls increased by 142,000 in September, well below market expectations while the unemployment rate was unchanged at 5.1 percent. This followed an August payroll report with downward revisions while previous expectations were in the range of 217k. Labour force participation rates in the US decreased to 62.4%, the lowest participation rate since 1977 and continues to illustrate that people are losing interest in the work force. Readings on housing formations were also negatively affected by the lacklustre results on the job front, as housing starts fell 3% to a seasonally adjusted annual rate of 1,126,000 in August of 2015, following a downwardly revised 1,161,000 in July, missing market forecasts.

The world digested the mixed results and awaited US Fed Chair Janet Yellen's announcement September 17, with the FOMC deciding to remain on the sidelines, increasingly worried about the state of the global economy. FOMC minutes reflected confidence that the economy would hit the desired inflation goal of 2% in the near term. However, lower demand in China, has resulted in falling prices and weaker growth in countries that produce raw materials such as oil, metals and other commodities. In this environment, the dollar has surged, bringing deflationary forces to the US, reducing competitiveness for US exports, especially manufactured goods. As a result, rates remained unchanged, in the hopes that further economic strengthening both at home and abroad could be achieved in the near term.

For Canada, the quarter began with the Bank of Canada deciding on July 15 to lower the Bank of Canada rate to .50%, to assist our resource based economy as it deals with reduced global demand for natural resources. The move by the BoC surprised investors and caused further downside pressures in equity markets. Some of the key components of Canadian investor portfolios, notably preferred shares, utilities and banks all feeling the negative affects. With historically low interest rates, real estate values continue to remain sound, especially in Vancouver and Toronto. And the resulting weakness in the Canadian dollar has begun to help our export led manufacturing industries.

Initial economic reports show modest yet positive results. Canada's real GDP rose .3% in July, a strong second consecutive monthly gain following five months of declines. The July numbers show Canada is building itself back from the weak economy caused by declines in global commodity prices. Much of the rebound in GDP was attributed to a sharp rebound in mining and oil and gas developments, as well as manufacturing and exports benefiting from the adjusted value of the Canadian dollar. On the employment front, Canada's economy gained 12,000 net new jobs in August, but the unemployment rate edged up to 7.0% as more people searched for work. The gain in full-time jobs saw resource sector growth as well as demand for work in services sectors that resulted in 17,000 new full time jobs created in August. New home building also regained some lost momentum as housing starts reached 217,000 annualized in August and 230,000 annualized for September, the highest level of new housing starts in Canada since 2012.

The Fund portfolio uses a diversified approach to North American equities, maintaining exposure in many, but not all, of the sub-sectors within the S&P/TSX and S&P 500. In order to generate additional returns and reduce risk, the Fund may write covered calls on securities held in the portfolio and cash secured put options on securities desired to be held in the portfolio. We believe that option writing can continue to add incremental value going forward.

The Fund will continue to focus on holding a diversified portfolio of leading companies, many of which generate stable and growing distributions. Criteria we look for are sound business models, steady demand for products or services, growing positive cash flow, minimal need for debt or need to raise significant amounts of capital as well as having a lower dividend payout ratio. These metrics allow the company ample operating room to pay the dividend and/or repurchase shares in the event of an unexpected slowdown. We do not see oil prices returning to their previous levels in the near term and hence,

we believe, the US economy (and stock market) will continue to outperform Canada in the second half of 2015. As a result we will maintain a significant US weighting in the Fund. We do continue to see opportunities in Canada, but we are biased towards names that cater to the lower-end of the consumer market and income levels rather than upper income of "luxury brands". We also continue to see good upside in select real estate (REIT) names, many of which will benefit from lower cost of capital as the Bank of Canada keeps rates low.

Core positions such as Dollarama, Dollar General Corp, Boyd Group, Fairfax Financial, Milestone Apartment REIT, Canadian Apartment REIT, Slate Retail REIT, and Walt-DisneyCo., continue to grow the NAV of the Fund and are expected to continue to make up a healthy weighting in the portfolio going forward. Dollarama Inc., the largest operator of dollar stores in Canada, returned +52% during 2015. All stores are corporate owned and offer consumers a strong value proposition at select fixed price points of \$3 or less. Boyd Group Income Fund, a North American auto-body repair company which has generated excellent growth over the past several years, was up +31% in the first nine months of the 2015. Dollar General, which operates a chain of discount retail stores located primarily in the southern, southwestern, midwestern and eastern United States, was up +3%. We continue to see attractive organic growth in Disney as we believe the market reaction to Disney's near term earnings issues were overdone. We believe that Disney maintains a leading position in its theme park business and has proven over the long term that this segment contributes positively to the bottom line in all economic environments. Disney returned +9% during the first nine months of 2015.

Real estate investment trusts continue to benefit from the low interest rate environment we are in. The sector benefits from lower cost of capital and as such, the improved cash flow should allow for increased dividend and distribution payments to shareholders. We have maintained our REIT holdings overall, more specifically to Canadian Apartment REIT, Milestone Apartment REIT and Slate Retail REIT. Milestone and Slate both have 100% operations in the US and are Canadian listed. With the recent BOC rate cuts and related concerns regarding whether the C\$ is going lower, both REIT's should benefit. Canadian Apartment REIT, Milestone REIT, and Slate REIT were up +17%, +30% and +20% respectively in the period.

We continue to maintain Fairfax Financial as a top 10 holding. Fairfax is engaged in property and casualty insurance, reinsurance and investment management. However, most importantly, its investment/hedging strategies and financial acumen differentiate the company from most financial service businesses, producing stable returns over the long term. Fairfax returned +2% during the period, easily outperforming the S&P/TSX Financials Index that returned a negative 5%.

During the period we continued to maintain our position in Alaris Royalty and Diversified Royalty. Both companies provide capital to private businesses using a structure that fills the niche in the private capital markets for companies that do not want to take on additional debt or issue dilutive equity. In return for its investment, Alaris and Diversified receive ongoing royalty payments based on sales from the underlying investments. We expect a busy end to 2015 as there is strong pipeline of private companies interested in this capital structure capital as well as the continued opportunity for follow-ons with existing partners.

The Fund will also continue to employ its option-writing program to provide income to the Fund while reducing the volatility of the portfolio. The Fund generated significant cash flow from option writing of approximately \$636,000 or \$0.44 per weighted average number of Trust Units outstanding during the period ended September 30, 2015. The Fund declared regular monthly distributions totalling \$0.25 per Trust Unit in the same period. Since inception of the option-writing program in 2009, the Fund has generated significant cash flow from option premium of approximately \$8.29 million or \$3.17 per weighted average number of Trust Units outstanding. As volatility has returned to heightened market levels, the Manager continues to believe that option writing can add incremental value going forward.

For the nine months ended September 30, 2015 the Trust returned -2.58% versus the benchmark performance of -1.88%. As we enter the final quarter of 2015, we will continue to position the portfolio with leading global companies with sound business models, steady demand for products or services, growing positive cash flow, and sustainable dividend policies while using our option writing program to lower the Fund's volatility, enhance risk-adjusted returns and generate a monthly income stream that we pay out to shareholders. The Fund will not chase returns or buy into unsustainable business models. It will continue to manage its risk by not overpaying for growth and hold a concentrated portfolio of its best ideas that will navigate the Fund through these cautious markets.