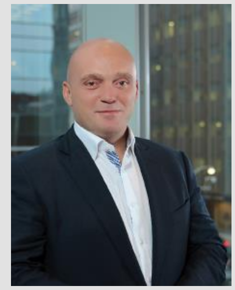
MARKET UPDATE

Worst Week in Wall Street History



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HIGHTLIGHTS:

- First week of January the worst in Wall Street history
- All sectors in Canada and US reported negative performance in the first two weeks of the year
- We remain defensive holding substantial cash and allocating investments to internationally recognized brands

What a start to the year, the first week of January will be remembered as the worst week in the history of Wall Street. Major developed equity markets are materially down:

S&P 500	-6.2% (USD)
S&P TSX	-5.2% (CAD)
Dow Jones Europe	-7.0% (EUR)

The decision to buy, sell or stay the course is on every investor's mind. Understanding the cause of this volatility will help us position portfolios to protect against further deterioration in market values, but more importantly position the portfolio holdings for the next phase in equity and bond market cycles. Corrections are often made and the challenges for investors tend to be short-lived. Starting with a review of the most recent volatility, three identified primary causes have pushed markets materially lower in the first two weeks of the year.

First and foremost, there seems to be no end to the unfortunate news from China and other emerging markets in regards to corruption, market selloffs, currency devaluations or political instability. The turmoil does not show signs of abating and is materially affecting retail investors' confidence. On the other hand, institutional investors look at this as an opportunity to acquire assets, or take companies private (examples include Keurig, Dell Computers, H.J. Heinz, Hilton Worldwide Holding, Kinder Morgan, etc…) because of their typically longer time horizons and higher liquidity. As a result of the ongoing currency wars, global investors withdrew approximately $52 billion, a record amount for quarterly outflow, from emerging market equity and bond funds in the third quarter of 2015. As we await the fourth quarter data, it is expected that this trend will continue well into 2016. At Yorkville, we eliminated the last exposure to Emerging Markets in 2013 and do not see a catalyst for entering this market until the later parts of 2016 or 2017.

In addition, North American investors are faced with the reality that the possibility of a recovery in oil prices is highly unlikely. Prices of oil may enter into a trading range of $25 -$45, a significantly low breakeven point of many North American producers. Although this decrease benefits North American consumers, their energy-related savings are surpassing wage growth with a wide margin. Nevertheless, energy-related investments and employment have become the fastest growing segments of the North American economies since 2002. Now we observe a reversed situation of these trends (lower capex spending and higher unemployment and lower wage growth) as a result of the existing supply glut coupled with lower demand in global economies as many are entering into small-scale global depressions. Yorkville was unique in forecasting the collapse of energy prices and due to this holds minimal investments in this sector limited to Tesoro (an oil refiner that is doing exceptionally well, down only -0.5% in 2016 compared to a -8.5% drop in the energy sector) and Suncor (down -9% compared to the TSX drop of -4% since the beginning of the year).

One simply cannot overlook the impact of global political instability, such as wars and terrorism on the market sentiment. Any of these factors potentially cause major shifts in incoming and outgoing investment flows of global markets and sectors. We project that defence-related investments will perform relatively well in this current environment.

Investors should not be monitoring the current news, but instead watch for the potential catalyst for change in equity markets and figure out when this will occur. Being a year with a U.S. presidential election, the election outcome may have an impact on Energy, Defence and Health Care related policies and spending initiatives. We believe that the new administration in the White House will be able to prepare a recipe that will aid investors in increasing their allocations to Defence and Health Care investments over the next few years. The Energy sector will remain challenged, however U.S. producers may have lost the battle for global market share dominance but they will no doubt win the war. Investors need to be patient and careful as the road to winning this battle (and higher oil and stock prices) could be a difficult hurdle that is anticipated to take longer than anticipated. All sectors in Canada and the U.S. have reported negative performance in the first two weeks of the year. Gold, Alcohol and Distillers were the only sub-sectors to end the week with positive returns. The weakest sub-sector was the diversified metals and mining group, down more than 20% in the first week.

It is difficult to predict an investor's irrational behaviour when these discussed selling pressures will abate, but we feel that Yorkville's investors will be well served from this correction. This is due to our large cash position in our equity strategies (averaging 15%), and our nearly non-existent exposure to Energy and Materials companies. Additionally, our investments in recognized brands such as Starbucks, Nike, Under Armour, Amazon, Constellation Brands (premium wine, beer and spirits), Disney and others in the Health Care space should outperform the broader market. More importantly, they will rebound faster due to the great quarterly financials they recently achieved. The main question that is always on every portfolio manager's mind is whether they should replace these investments after this correction and if they are changing our views on the long term prospect for these and other investments they've made. Our answer is simply 'no'. One of Warren Buffets famous quotes is "Our favourite holding period is forever"[1] and we feel that these brands have historically out performed broader market indices and will continue to do so in this environment.

We remain bearish on Oil and we have historically lowered our oil price targets three times since the beginning of 2014. It is noted that we have generally been ahead of markets and revisions made by others with these decisions. The difficulty with oil is its low price, while contradicting to the solution for oil, is actually the solution itself. Low prices will force many out of production and at some point the decrease in supply will be meaningful and measurable and cause the trend in prices to reverse. We now feel that oil will hit the mid 20s prior the recovery process. In short, supply building is still ongoing, and global demand is lower than pre-2008 levels and continues to evaporate. Excess supply, lower demand and the added complications of the ongoing market share war between North American producers and OPEC members will continue to push crude prices lower or provide serious head winds for any possible price recovery.

There is a material exposure in the Health Care sector and unfortunately, the sector underperformed in Q4 2015 and a recovery in early 2016 currently appears slow but is gaining momentum. We are confident however that this sector will end up outperforming the broader markets and most economic sectors by the end of 2016. Simply put, consumers have no choice when it comes to health care spending. Unfortunately, accounting scandals at Valeant Pharmaceuticals (representing 85% of the Canadian Health Care sector and was once the largest company within the TSX), coupled with allegations of price gouging at small U.S. biotechnology companies during a presidential election run, is dampening investors' sentiment in this sector. Yorkville prides itself in never owning any security issued by Valeant or its related companies as they did not meet our Quality[2] review standards. Class action law suits against Valeant and other producers for gouging, coupled with election campaign promises to review national health care programs providing some head winds to the health care sector at this stage.

[1] Loiacono, Stephanie. 'Rules That Warren Buffet Lives By.' *Investopedia*. 07/02/2010 Web. 13/01/2016 <http://www.investopedia.com/financial-edge/0210/rules-that-warren-buffett-lives-by.aspx>

[2] Quality forms part of our QVR investment process whereby we review Quality, Valuation and Risk factors of all investment options.

PRICE GOUGING AT ITS BEST						
Medication	Daraprim	Cuprimine	Cycloserine	Thiola	Isuprel	Nitropress
Treatment for	Infections	Wilson's Disease	Tuberculosis	Kidney Disease	Cardiac Arrest	High Bloob Pressure
Company	Turing	Valeant	Rodells	Retrophin	Valeant	Valeant
Old Price	13.50	888.00	500.00	1.50	4,489.00	215.00
New Price	750.00	26,189.00	10,800.00	30.00	36,811.00	1,346.00
% Price Increase	5456%	2849%	2060%	1900%	720%	526%

We believe that the news in the health care sector will start gaining positive momentum. This will occur once the election debates shift away from the allegations of price gouging in the Health Care sector and once investors digest the terms of the biggest acquisition of 2015 of Allergen by Pfizer for $183 billion.

Markets are expected to continue on this path of elevated volatilities until the end of the earnings season (mid-March). We believe that corporate earnings have been revised lower and the current earnings multiple contractions could be a promising buying opportunity for long term investors. Needless to say, we do not feel the need to jump in as we'd rather deploy our cash over time. We recognize that we are not in a position to predict when a true market bottom is expected to occur. We are also focused on global brands like Starbucks, Constellation Brands, Nike, Under Armour, Pfizer, Ford Motor Company and others. We plan deploy our cash once we believe that the contraction in price to earnings multiples are nearing a bottom or after we receive the first quarter earnings reports.

IMPORTANT DISCLOSURES