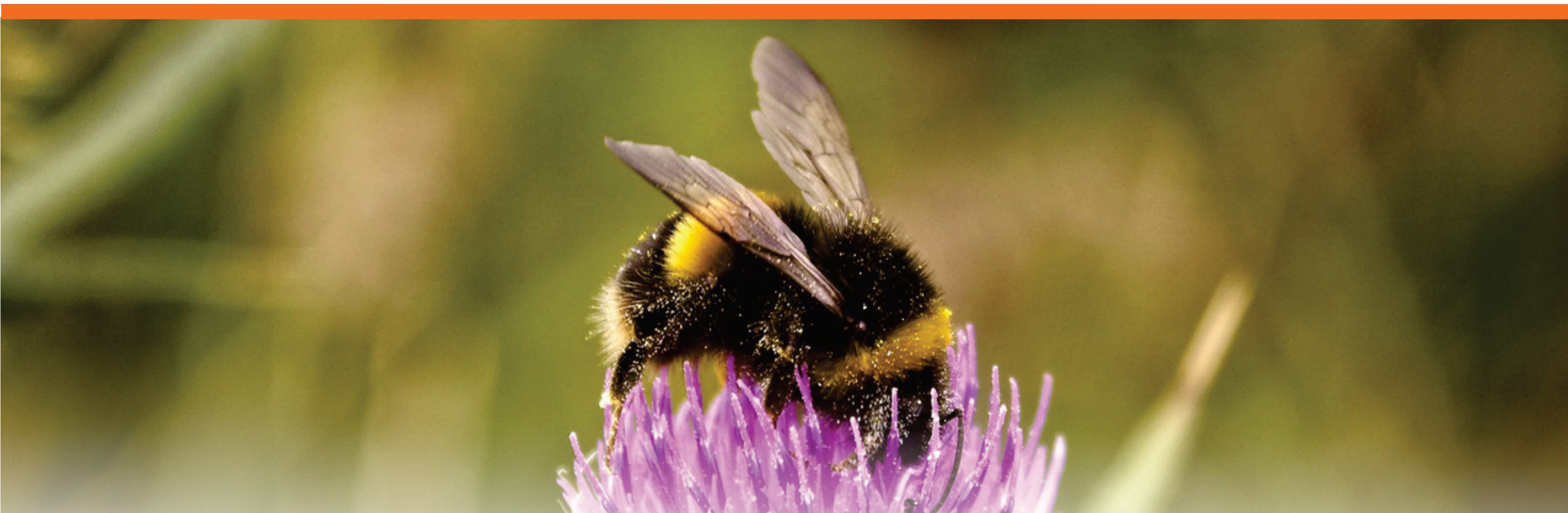
STONE ASSET MANAGEMENT LIMITED

Sleep well.



AUGUST
MARKET COMMENTARY & FORECAST

The global markets had a volatile month in August with mounting concerns about a slowdown in global economic activity. The continued US-China trade fight, coupled with anti-China protests in Hong Kong and plummeting global bond yields, are forcing investors to de-risk their portfolios of higher risk equity names. Investors are seeing the safety trades of both government bonds and gold in these times of uncertainty.

The MSCI World index dropped 2.24% in August but is still up 13.52% for the year. The US markets led the decline with the S&P500 slipping 1.81% for the month but still up 16.74% for the year while the Dow Jones dropped 1.72% and up 13.19% YTD. The higher-risk Nasdaq dropped 2.60% but is still up 20.0% for the year. The TSX was one of the few global markets in positive territory in August with a 0.22% gain on the strength of gold equities giving it a 14.8% return for the year.

The biggest positive move was once again from the gold sector up 16.73% and up 47.2% for the year, as the gold price jumped another 6.1% to $1529/oz, now up 19.2% for the year. The heavily weighted and economically sensitive sectors moved lower because of the fear of a global economic slowdown. These sectors include financials (-2.72%), energy (-0.88%) and industrials (-1.21%). The health care sector plummeted another 13.01% in August wiping out all the gains it had this year. Concerns about valuations and corporate governance have made investors nervous about valuations in the cannabis sector. Lower bond yields pushed up the bond proxy sectors such as utilities (+4.19%), real estate (+2.57%) and communication services/telcos (+1.89%).

MARKET PERFORMANCE

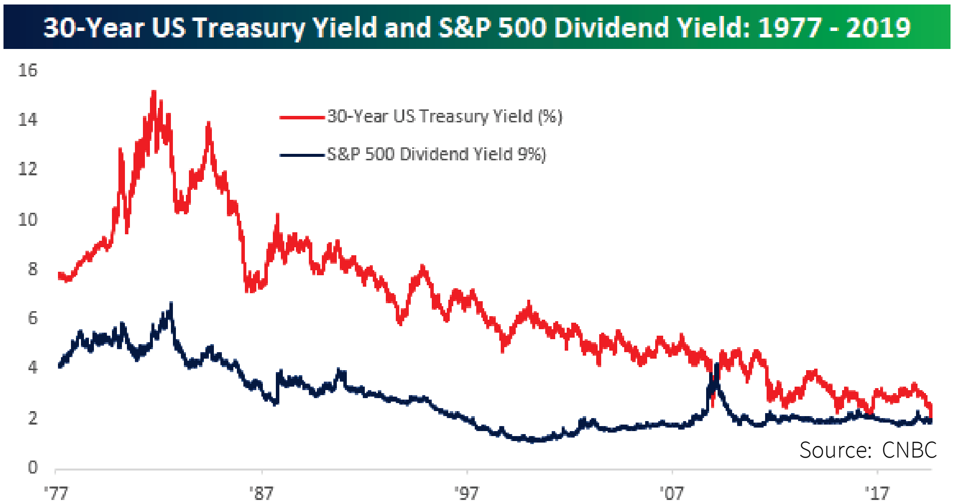
Market	Return (%)*
Canada (S&P/TSX)	0.4
US (S&P)	(0.7)
MSCI (World)	(1.3)
Best (Mexico)	0.5
Worst (Argentina)	(56.5)

*In Canadian dollar terms as at August 31, 2019

The yield on the benchmark US 10-year Treasury dropped another 33bp to 1.52% and now down a remarkable 171bp from the high of 3.23% in the fall of 2018. The Federal Reserve is facing mounting pressure to lower interest rates after its first interest rate reduction since 2008. This pressure is coming from both Trump and plummeting global bond yields.

Corporate earnings have been holding up well given the dire outlooks posed by the ongoing US-China trade war. S&P 500 companies reported Q2/19 earnings growth of 3.2% YOY as 74% of companies reported above-consensus estimates. Although Thomson's Refinitiv sees a contraction in earnings for Q3 to the tune of 2.0%, they see a bounce back in subsequent quarters. The total earning growth for the 2019 year is still expected to eke out a gain of 1.9% while earnings growth for 2020 is expected to bounce back with an 11.1% gain. While corporate profits are strong, there is an undercurrent of fear and alarm surrounding the trade war and the risks of a potential recession. If we can rely on these numbers, then there is a good chance that markets continue their winning ways after getting over the volatility in the next quarter. Shares of companies in the S&P500 are now trading at 16.9x earnings for the next 12 months. This is not an expensive multiple given the lower interest rate levels.

The yield curve has once again inverted as short-term rates are higher than long-term rates. This is usually a precursor to an economic downturn as evidenced by the S&P500 dropping 2% on the day the yield curve first inverted in March. The 10-year Treasury at 1.52% has fallen below the three-month T-bill yield 1.98% spurring concerns about the pace of economic growth and the risk of a future contraction. Investors will be watching closely the upcoming economic data with a laser focus after dismal numbers thus far and the above recessionary warning signals from US Treasury yields.



The recession link to yield inversion is not always a given. In fact, the yield curve did not invert in six recessions from 1935-1960. In addition, there are many unusual characteristics of the current economic cycle and the global macro backdrop that warrant careful review. This decades-long cycle has had stubbornly low inflation compared to other late-cycle macro environments.

In an interesting twist to lower interest rates, the dividend yield on the S&P (1.98%) is now above the 30-year Treasury yield (1.95%) for the first time since March 2009. See the chart below. While investors are shunning risk in the short term, this yield phenomenon is usually bullish for equities in the "TINA" (There Is No Alternative) environment that we now face. If one can get an annual yield from a company that can consistently raise its dividend then this is a better alternative than a Treasury bond over the long term. That is, assuming a certain President does not go on wild tweet tirades.

Our Stone cash levels have stayed the same and our portfolios have been structured as more defensive compared to the index. We believe the best way to invest in markets as these is to have a total return focus. Investors should be rewarded by buying companies with a strong growth profile and growing dividend stream.

We use our proprietary investment process daily and in volatile market conditions such as these, we seek to ensure that we can manage downside risk and adjust the portfolios accordingly while seeking to achieve our long-term investment goals.

We remain invested and are committed to companies that provide revenue growth, improving free cash flow and higher earnings per share. We are active portfolio managers with a disciplined investment process including the implementation of various risk management tools to benefit our investors.

Kindest Regards,

Richard Stone,
Chief Investment Officer
Stone Asset Management Limited

FUND PERFORMANCE - Series F/FF

	1 mo	3 mo	6 mo	YTD	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
Stone Dividend Growth Class, Series F	(0.3)	3.5	4.9	13.2	2.6	7.6	4.6	8.3	9.5	08/01/2003
80% S&P/TSX Composite, 20% S&P 500 C$	*0.3*	*3.7*	*5.0*	*16.8*	*4.5*	*8.4*	*6.2*	*9.0*	*8.4*	
Stone EuroPlus Fund, Series F	(0.9)	(1.4)	(1.7)	4.1	(3.7)	1.2	3.2	6.0	3.3	05/02/2008
Comparable European Equity Index $C	*(1.4)*	*0.3*	*1.6*	*8.1*	*(1.3)*	*6.4*	*5.2*	*6.8*	*3.6*	
Stone Global Balanced Fund, Series FF	0.6	1.8	4.6	10.3	2.2	5.3	5.5	7.7	8.2	01/05/2009
15% S&P/TSX Composite, 15% S&P 500 C$, 30% Comparable Global Equity Index C$ and 40% FTSE TMX Canada Universe Bond	*0.5*	*3.4*	*6.1*	*12.2*	*6.0*	*7.1*	*6.4*	*8.1*	*8.7*	
Stone Growth Fund, Series F	(0.9)	0.7	3.3	9.0	(3.1)	9.6	6.1	8.3	6.5	08/01/2003
50% S&P/TSX Composite and 50% S&P 500 $C	*(0.0)*	*4.2*	*5.9*	*16.4*	*4.6*	*9.9*	*7.1*	*9.5*	*8.0*	
Stone Global Growth Fund, Series F	0.3	2.0	6.5	16.7	1.0	12.8	13.9	13.4	8.9	08/01/2003
Comparable Global Equity Index $C	*(0.9)*	*3.2*	*4.8*	*12.4*	*2.1*	*10.1*	*10.5*	*11.3*	*7.3*	
Stone Select Growth Class, Series F	(4.5)	(4.6)	(11.0)	(4.8)	(17.5)	(9.7)	n/a	n/a	(15.0)	09/01/2014
50% S&P/TSX Capped Energy, 50% S&P/TSX Capped Materials	*(0.1)*	*4.8*	*(2.0)*	*8.0*	*(9.1)*	*(2.4)*	*n/a*	*n/a*	*(5.7)*	
Stone GaleForce Dividend Growth Pool	(0.3)	2.7	3.2	10.4	2.1	6.4	4.3	n/a	6.3	05/17/2012
Stone American Dividend Growth Fund Series F	(4.2)	1.8	(2.7)	1.7	(8.9)	0.9	5.4	n/a	5.2	07/17/2014
Stone Dividend Yield Hog Fund	0.2	2.8	3.6	10.5	(6.9)	(1.8)	(4.2)	3.9	1.7	02/07/2006
Stone Global Strategy Fund Series F	(2.9)	(1.3)	0.5	4.1	(4.4)	2.3	3.8	8.3	4.0	09/22/2006
Stone Covered Call Canadian Banks Plus Fund Series F	(1.4)	2.3	1.7	11.7	(2.5)	5.5	4.3	n/a	4.3	07/17/2014
Stone Small Companies Fund Series F	(4.5)	(6.2)	(15.3)	(8.0)	(12.2)	(8.6)	(5.0)	(0.9)	(4.2)	02/07/2006

The returns set out above are historical annualized compounded returns net of all fund fees and expenses. The returns assume a re-investment of all distributions. Historic returns are provided for general information purposes only and may not be indicative of future returns or fund performance. Performance data of other Series of the Funds may differ from those shown above due to differences in fees. Please visit our website at www.stoneco.com for performance data of all Series. As at August 31, 2019

CANADIAN FACTS – The hookless fastener.

Many great innovations simply speed up or eliminate the actions that consume our time. The hookless fastener, more commonly known as the zipper, is one of the classics. The man on the other side of the zipper is Swedish-born Gideon Sundback. In 1913, he came up with something he called the Hookless No. 2. It's the metal zipper as we know it today, two strips of teeth brought together tightly by a slider. No more tricky buckles or time-consuming hook-and-eye fasteners. Sundback also created the machine to manufacture his new device and set up the Lightning Fastener Company in St. Catharines, Ontario, to do just that. Surprisingly, use of the zipper didn't strike like lightning. It wasn't until World War Two that Sundback's fastener became popular in the design and making of clothes, and a now-familiar sound truly began to be heard around the world. Zip!

*Adapted from Ingenious - How Canadian Innovators Made the World Smarter, Smaller, Kinder, Safer, Healthier, Wealthier, and Happier, by David Johnston & Tom Jenkins

Sleep well

Knowing you'll have the financial resources to live well.

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There are risks associated with investing in mutual funds. Please refer to the simplified prospectus or offering memorandum for details of the risks associated with these funds.

All mutual funds carry the risk that the mutual fund may decrease in value. The degree of risk varies depending on the investment objective and strategies of the mutual fund. Before investing in any mutual fund discuss with your financial advisor how it works with your other investments and your tolerance for risk. Please refer to the simplified prospectus or offering memorandum for more information regarding the risks associated with these funds. The principal risks associated with the Stone Funds are as follows:

Stone Dividend Growth Class – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Stone Select Growth Class – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and sector risk associated with fluctuations in the resource sector.

Stone Global Balanced Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities, credit risk associated with investments in bonds and interest rate risk associated with fluctuations in interest rates.

Stone Growth Fund – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Stone Global Growth Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.

Stone EuroPlus Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.

Stone GaleForce Dividend Growth Pool – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus or offering memorandum before investing. Any indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The payment of distributions is not guaranteed and may fluctuate. The payment of distributions should not be confused with a fund's performance, rate of return, or yield. If distributions paid by the fund are greater than the performance of the fund, then your original investment will shrink.

Distributions paid as a result of capital gains realized by a fund and income and dividends earned by a fund are taxable in your hands in the year they are paid. Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, then you will have to pay capital gains tax on the amount below zero. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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