RAVENSTONE CAPITAL MANAGEMENT

Question: "What will the stock market do Mr. Morgan?"
Answer: "Fluctuate"

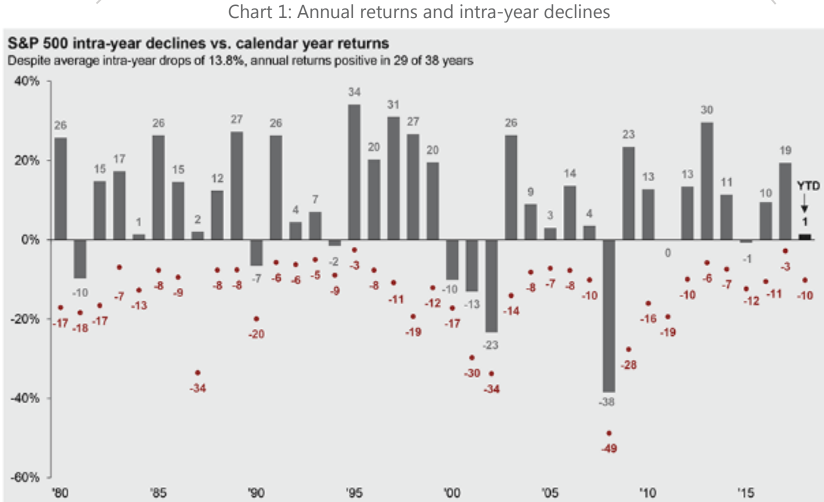
- J.P. Morgan

The Ravenstone Equity Trust (the "Trust") generated a positive return of 4.1% net of expenses in 2018. Over the same time period the S&P 500 Total Return declined 4.38%, the S&P/TSX Composite Total Return declined 8.89% and the FTSE Canada Universe Bond index was up 1.41%. To date, the Trust has delivered a positive annualized return of 8.4% since inception.[1]

The past year supplied no shortage of stories to justify widespread pessimism. The media has prominently featured Trump's trade wars, rising interest rates, an economic slowdown in China, as well as the never ending, and often embarrassing, political circus south of the border. Case in point, amidst the recent sell-off, CNBC hosted a "Markets in Turmoil" special report! It is no wonder investors are skittish as of late.

After just having broken a record for the number of trading days without a 5% drawdown, the S&P 500 reversed course in late January. At its worst, the index declined a little more than 10% in value. After recovering into the summer months, the S&P 500 began another sharp descent that saw it again fall close to 20% from its September high. What is an investor to make of this? Volatility in financial markets is anything but a recent phenomenon. There was a time when stock-market volatility was a normal and regular occurrence. The effect of central bank asset purchases and monetary expansion following the financial crisis contributed to a significant reduction of volatility that subsequently left investors shocked by the recent sharp market declines. The fact is, in any given year, investors should expect the equity market to exhibit drawdowns, which for the S&P 500 has averaged approximately 14% since 1980 (see Chart 1 below).

Chart 1: Annual returns and intra-year declines



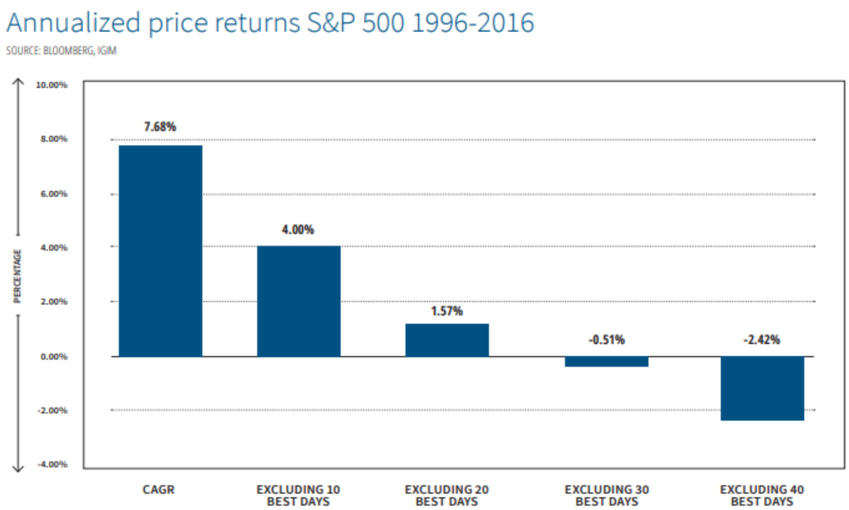
Source: FactSet, J.P. Morgan Asset Management, as of 10/31/18. Maximum decline is the largest intra-year market drop from a peak-to-trough during the calendar year. Calendar-year returns shown from 1980 to 2017. Annualized return includes reinvestment of dividends.

Knowing this, why do we believe it pays for investors to remain optimistic over time? The answer is quite simple; history has demonstrated that those who stay the course by sticking to their long-term plan were rewarded for their patience. The chart above reflects the S&P 500 index generated positive returns in 29 of 38 years since 1980, or simply, 76% of the time!

1 Performance calculated to Dec 31, 2018 for I Series units. Inception date is April 1, 2016.

Attempts to buy and sell at the right time simply does not work. Investors tend to enter markets late and leave too early. The following chart is a reminder of the potential cost of trying to time the market. A difference of just days can have a devastating effect on an investor's total returns.

Chart 2: Trying to time the market can be costly



Why is it so hard to stay invested? Volatility engages the human fight or flight response. Loss aversion is an understandable psychological response to declining prices. When volatility creates a disconnect between share price and per share value of fundamentally attractive businesses, we take notice, given it is the ratio of price paid relative to intrinsic value that is at the core of our investment discipline. As such, it is our view that selling pressure created by negative news cycles can in fact be an opportunity to increase stakes in our portfolio companies. Warren Buffet's greatest advice on this subject is captured in this simple quote: "In the short run, the market is a voting machine, but in the long run it is a weighing machine."

We have stated many times that our primary responsibility is to manage risk, and to us, risk is not volatility but rather the permanent loss of our clients' capital. We do not believe the market is efficient and daily fluctuations in stock prices may not bear any relation to the underlying value of a business at any given point in time. Stock prices go up and down, however, the intrinsic value of a business does not fluctuate daily. It is this important distinction that presents us with opportunity.

There are a number of possible explanations for the recent sell-off: Were equities extended? Was it due to renewed geopolitical risks? Rising interest rates? We are unsure of the exact reason(s). We are not economists; we are investors and thus, we don't speculate on the direction of short term moves in asset prices. Instead, we believe that our clients are best served by dedicating our time and effort to assessing the risk/reward of a strategic asset mix along with our underlying portfolio holdings. There is no bulletproof investment that will safeguard a portfolio from short term volatility while at the same time providing the growth potential required to achieve your financial goals. Historically, adding bonds to an all-stock portfolio decreased volatility. For clients who have shorter investment time horizons and wish to reduce their portfolio's volatility, we use a disciplined asset allocation strategy to manage the effect of drawdowns.

While the global macroeconomic events outlined above may have impacted markets in the short term, most of these events have minimal influence on the long-term fundamentals of the businesses we invest in. Sears didn't go bankrupt because of slowing growth in China or ensuing trade wars. Similarly, General Electric's corporate meltdown and subsequent share collapse were not caused by macro events but rather as a result of poor management and the misallocation of capital. There are many companies, like Microsoft and Coca-Cola (to name two that we own), that have survived multiple recessions, wars, and interest rate cycles, and that have thrived regardless of whether a Democrat or Republican was in the White House.

There was not a lot of activity in our portfolio throughout the year, however, we did add a new business we highlight below.

NIKE

We have long admired Nike as one of the world's most recognized brands as the market leader in the athletic footwear and apparel industry. Over the past few years, Nike has faced many headwinds, mostly in North America that stem from a combination of a rapidly changing retail landscape, and a shift in consumer preference away from performance to more fashion-forward sneakers. This change resulted in its main competitor, Adidas taking market share. In response, Nike went on the offensive at its recent investor conference, where management laid out an ambitious agenda to dramatically improve its product development, customization, and time to market. The company is in the midst of a transformation, moving away from the traditional wholesale model to a digitally-led direct-to-consumer model. This will underpin a business strategy that leverages Nike's competitive advantages in scale, innovation, manufacturing skill, and brand strength. The result should be increased revenue growth and margin expansion.

The bigger growth opportunity will come from international markets. Emerging Markets (EM) middle class consumption is projected to exceed 50% of world consumption by 2050. The expansion of the EM consumer is a long-term, global secular trend that may be one of the most powerful investment trends of the next several decades. Most incremental consumption growth is projected to come from China and India. We believe that investors have yet to appreciate the secular growth opportunity ahead in these under-penetrated regions. Asia has become the fastest growing market for athletic apparel and footwear with growth averaging 10% since 2014. International markets represented 53% of Nike's sales in 2017, and China is expected to be Nike's fastest growing region over the next five years. China offers an ideal mix of factors, most notably; a consumer base that is 10 times larger than the North American consumer base of 50 million, a booming middle class increasingly interested in health and fitness, government investment in sport and a rapidly growing consumer appetite for sportswear - especially recognized foreign brands. Nike is already the category leader in China with nearly $4 billion in annual revenue that is growing at 16% a year. Furthermore, business conducted in China has higher margins of 36% compared to the entire Nike brand average of 26%.

Given Nike's runway for growth in China, combined with its product manufacturing and distribution initiatives, we firmly believe that Nike can deliver high single-digit revenue growth and mid-teen earnings per share growth over the long term. We also believe that Nike does not have to achieve its target EPS goal of $5.00 by 2022 for the shares to be attractive at our purchase price. That said, if the company does reach their goal (and we believe that it is attainable), then the shares are worth significantly more than our purchase price.

As always, our goal is to protect and grow your capital. We are excited about the year ahead and confident that our investments will continue to compound at attractive rates over time. We sincerely appreciate your confidence and trust with our stewardship of your family's hard-earned savings. We remain dedicated to continue providing you with the information we would expect to receive if our roles were reversed.

Please feel free to contact us anytime if you have any questions, or if you would like to schedule a meeting.

Thank you,

Daymon Loeb
Chief Executive Officer

Adam Donsky
Chief Investment Officer

IMPORTANT INFORMATION: The content of this document is not for public distribution, it is for informational purposes only, and is not being delivered to you in the context of an offering of any securities described herein, nor is it a recommendation or solicitation to buy, hold or sell any security.

The information is not investment advice, nor is it tailored to the needs or circumstances of any investor. Information contained on this document is not, and under no circumstances is it to be construed as, an offering memorandum, prospectus, advertisement or public offering of securities. No securities commission or similar regulatory authority has reviewed this document and any representation to the contrary is an offence. Information contained in this document is believed to be accurate and reliable, however, we cannot guarantee that it is accurate or complete or current at all times.

The information provided is subject to change without notice and Ravenstone Capital Management Inc. (“RCM”) will not be held liable for inaccuracies in the information presented. Certain information set forth in this document contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or similar expressions. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation’s control. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur. RCM disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.