"Fear, greed, and hope have destroyed more portfolio value than any recession or depression we have been through."

"By relying on the statistical information rather than a gut feeling, you allow the data to lead you to be in the right place at the right time. To remain as emotionally free from the hurly burley of the here and now is one of the only ways to succeed."

We owe these words of wisdom to James O'Shaunghessy of O'Shaunghessy Capital. They seemed particularly apt, given there is no shortage of concerns generated by the 24/7 news cycle - stalled NAFTA negotiations, fear of Brexit, populism everywhere, no deals by the "deal maker", and a ratcheting back of monetary policy in the United States. North American equity markets have been somewhat impervious to these concerns and have stabilized at higher levels, supported by strong forward looking earnings growth and massive corporate share buy-backs. The Global Purchasing Managers Index, which is a leading economic indicator, shows a small improvement in manufacturing sentiment. This generally translates into an acceleration of GDP, employment and wage growth, and foretells healthy corporate earnings. This happy scenario is currently most evident in the US, but determining how sustainable and far reaching it will span is unknowable.

As the rhetoric from Washington has become more aggressive, concerns about an all out "trade war" quite naturally have increased. While the spotlight constantly focuses on Mr. Trump, Premier Xi, by way of immediate retaliatory tariffs, is demonstrating the power of China on the world stage in what is a "no win" game. Tariffs beget tariffs, adding to end market prices and most importantly disrupt international supply chains that have been decades in the making. Analysts are proffering estimates of the damage to the North American economy that could result.

Macro-economic Outlook

Returning to the broad economic fundamentals, Chart 1 on the right highlights the Global Purchasing Managers Indices. As depicted, sentiment for manufactured goods remains strongest in the developed markets. This is somewhat dampened by geo-political developments in Germany, Italy and uncertainty regarding Brexit.

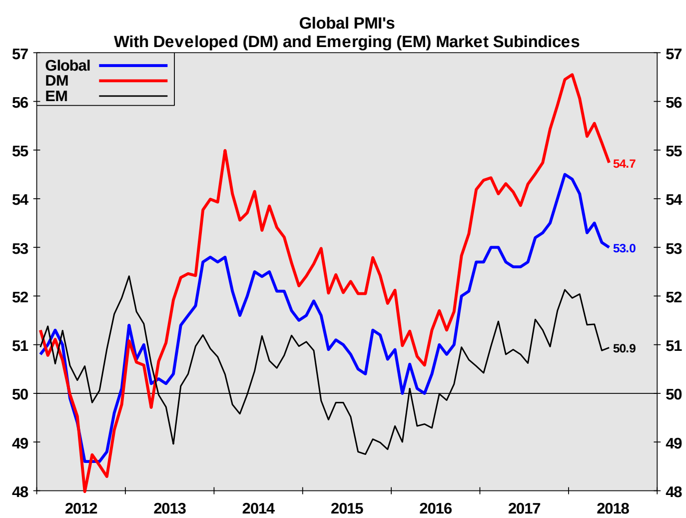

Chart 1 Courtesy of TD Securities - June 2018

During the late stages of a market cycle it is customary that investors exhibit nervousness about the magnitude and pace of monetary tightening. This nervousness manifests itself in the form of increased volatility, because premature or over zealous rate increases can lead to recessions or significant economic slowdowns. In his remarks thus far, Fed Chairman Jay Powell has hewed to existing policy, with only a gradual unwinding of the Fed's balance sheet. To some extent this modest tightening has been offset by large cash inflows that have driven up the value of the US dollar. The yield curve has flattened modestly, but an inversion, whereby short rates exceed yields of long rates has yet to occur. Historically, an inverted yield curve is a precursor of a recession. While 'this time is different' are the four most dangerous words on Wall Street, the healthy business climate and economic fundamentals suggest that an all out recession is not imminent. The more important *economic* variable is the relationship between interest rates and shareholder's return, expressed by the market's overall price to earnings yield. Chart 2 below indicates a healthy risk premium accruing to equity owners. In our view a further normalization of short term rates would not be a major negative for two primary reasons: long rates and the market's current valuation level are not excessive based on long-term historical averages.

Over the first two quarters of 2018 there has been a wide disparity within the broad market averages. The tech sector has out-performed strongly enough to get the overall S&P 500 into positive territory. Algorithm driven trading has contributed to volatility especially on days of Twitter delivered trade policies.

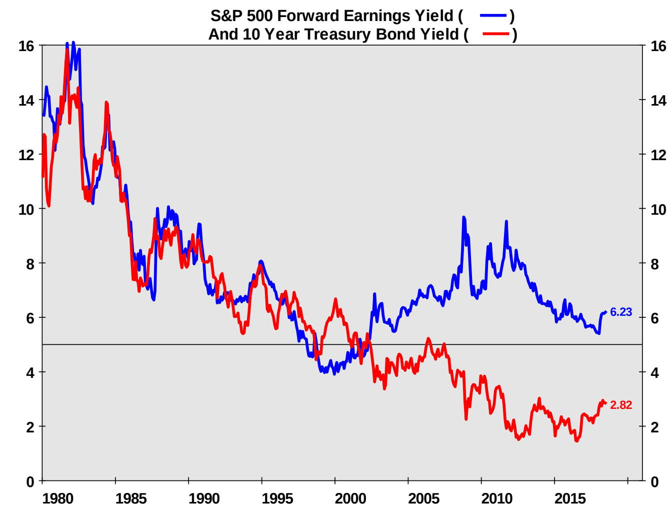

Chart 2 Courtesy of TD Securities - June

To demonstrate this disparity 10 stocks including Amazon, Microsoft, Apple, Netflix, Facebook, Google, MasterCard, Visa, Adobe Systems and Nvidia, representing 16% of the cap weighted S&P 500 Index, attributed 122% of the Index's year-to-date return. These are all growth stocks to be sure, but what of valuation? Our Manitou mandates hold Apple, Microsoft, Google and MasterCard, which collectively finished the quarter trading at 24 times 2018 estimated earnings, while the other six stocks in this heavyweight group finished the quarter trading at an average slightly above 60 times earnings. For further emphasis, the top 25 companies in the S&P 500 by capitalization outweighed the bottom 350 stocks.

Notwithstanding the above economic commentary, we align with Peter Lynch, the legendary manager of the Fidelity Magellan Fund, who believed that 12 minutes a year spent on economics was generally 10 minutes too much. This view was driven by his experience that well managed businesses, and by extension their intrinsic values, were driven by their ability to generate profits over time.

The meaning of management is "the process of dealing with or controlling things or people". The two most important variables within our control are the quality of the businesses in which we are prepared to invest and the prices we are prepared to pay. Similarly, those managing the businesses held within our mandates control their own decision making. They determine what levels of debt, if any, they are prepared to carry; what jurisdictions in which they wish to operate or invest; what their pricing policies will be, etc. Savvy management teams strive to anticipate or at least be prepared for unexpected occurrences. Through our research we are growing increasingly comfortable with the immediate and longer term prospects of the businesses we currently own. We are also adding many great businesses to our expanding library of highly desirable investments. Thus we anticipate being able to generate favourable returns should markets continue to grind higher. We will also protect capital and further upgrade several holdings when prices regress from valuations that are statistically high. Knowing when that will eventually happen is unknowable, but when it does we will be prepared.

Manitou Mandates

For Q2 2018, results varied by mandate relative to their respective benchmarks. Although our strategy is to achieve an absolute return of CPI +7.0% on a three year rolling average, we do monitor our results versus the appropriate benchmark as well. Generally speaking, global markets continued their upward climb. Mandate performance was materially impacted by the US technology sector with outperformance largely due to stock selection. Manitou Global Equity Composite returned +5.58% vs. MSCI and S&P Composite of +3.26%, Manitou Equity (North America) Composite +5.89% vs. TSX/S&P Composite of +6.16%, Canadian Equity Composite +5.94% vs. TSX Index of +6.77%, US Equity Composite +5.59% vs. S&P 500 +5.53%, Focus 5+ +3.65% vs. S&P/TSX Composite +6.16%, International Equity Composite +0.62% vs. iShares MSCI World Index ETF of +0.99%, Manitou Income Fund +0.80% vs. Canadian Universal Bond Index of +0.35% and Total Return Yield (TRY) +1.96% vs. CPI +7 +2.22%.

The principal contributors to this quarter's returns in **Manitou Global Equity** were Apache (+24.71%), Shopify Inc. (+19.58%), Canadian Natural Resources (CNQ) (+17.72%), Constellation Software Inc. (+16.78%), and MasterCard Incorporated (+14.72%).

Apache and CNQ benefited from the increase in global oil prices over the quarter. These in turn reflect political posturing from all producing countries, which result in supply and demand imbalances. In particular, the deterioration of relations between the US and Iran influenced the sector as a whole and led to higher prices. As of quarter end, oil prices had reached levels not seen since 2014.

Shopify's stock price increased over the quarter as did the technology sector as a whole. This business continues to generate sales comfortably above expectations, which reflects its best-in-class ecommerce platform.

Constellation Software increased on non-firm specific news. It continues to deliver on its strategy.

Finally, MasterCard's share price increase reflected continued strong results due to positive momentum in the global economy.

Detractors for the quarter included Walgreen's (-5.64%), Dentsply-Sirona (-10.69%), Berkshire Hathaway (-4.36%) and Johnson & Johnson (-2.92%).

Walgreen's had appreciated nicely due to its inclusion in the Dow Jones Industrial Index, but declined on news that Amazon entered the prescription delivery market with the acquisition of Pillpack.

Dentsply-Sirona fell with the announcement post Q1 results. New management stated that it would be investing heavily in sales and integration in the short term, leading to downward revisions in profitability until 2019.

Berkshire Hathaway declined on no firm specific news.

Johnson & Johnson's share price came under pressure, as did most health care related stocks during the quarter.

Manitou Equity (North America) results were very similar to the Global Equity Fund. Along with Apache (+24.65%), CNQ (+18.10%), Constellation Software (+16.66%), and MasterCard (+14.72%).

Detractors included Dentsply-Sirona (-11.00%), Walgreen's (-5.90%), 3M (-7.98%) and IBM (-6.15%).

3M declined on no firm specific news.

IBM's share price declined as a result of its lower growth profile within the US technology sector.

Canadian Equity contributors included Suncor (+20.94%), Shopify (+19.63%), CNQ (+17.84%), Constellation Software (+16.83%) and TMX Group (+15.80%). All with the exception of TMX have been discussed above.

TMX's share price rose on improving real time data subscriptions, the announcement of extended derivative trading hours and a 16% dividend increase.

Detractors included Total Energy Services (-15.09%), Prairie Sky Royalty (-7.28%), Bank of Nova Scotia (-4.48%) and Ensign Energy Service (-1.27%).

The Bank of Nova Scotia declined on negative Canadian housing data.

There was no firm specific news on all other companies.

US Equity positive contributors were Apache (+24.76%), Shopify (+18.53%), Apple (+15.61%) and Microsoft at (+15.53%).

Apple and Microsoft increased along with the technology sector as a whole and all other companies have been mentioned previously.

Detractors included Illinois Tool Works (-9.31%), Dentsply-Sirona (-9.11%), IBM (-5.99%), Berkshire Hathaway (-4.60%) and Johnson & Johnson (-2.59%).

Illinois Tool Works declined along with all other US industrials during the quarter. The other companies have been mentioned previously.

Focus 5+ top performers included Apache (+24.86%), Constellation Software (+16.79%), Enghouse Systems (+12.95%) and Tucows (+11.37%).

Enghouse increased due to the release of Q1 results. The company has strengthened its balance sheet and increased its cash position, putting it in the position to participate in a favourable acquisition environment for its industry.

Tucows increased on no firm specific news.

Detractors included Dentsply Sirona (-5.73%), Walgreen's (-5.45%) and Whirlpool (-1.53%).

Whirlpool declined as a result of steel tariffs implemented by the US.

All other detractors have been discussed.

International Equity top performers included Spirax-Sarco Engineering (+9.81%), Anheuser-Busch Inbev (+9.25%) and Diageo (+8.18%).

Spirax-Sarco Engineering increased on no firm specific news although the stock tends to move in tandem with the general global macro outlook.

Anheuser-Busch and Diageo both increased as a result of global alcohol market growth.

Detractors included Jardine Strategic (-2.80%) and Vopak (-1.75%).

No firm specific news was responsible for either companies' share price movement.

Manitou Income Fund outperformed the index by utilizing its basket clause that allows up to 10% exposure to unrated or less than investment grade securities. These included Constellation Debentures (that are now rated) and Easy Legal Financial debentures. We are comfortable with both of these credits, which contributed nicely to our outperformance over the quarter.

TRY – Our newly launched Total Return Yield Fund (TRY) achieved a satisfactory total return of +1.96% for the quarter.

Currency

The strengthening of the US dollar versus the Canadian dollar lead to a positive contribution to our mandates over the quarter.

Company Highlights

Novartis

The only notable addition over the quarter was Novartis which was added to the International Equity Fund. Novartis is a Swiss-based global healthcare company and one of the world's leading producers of innovative pharmaceuticals. The company develops healthcare solutions for a number of therapeutic areas but is particularly strong in oncology, immunology, and ophthalmology.

Novartis' diversified portfolio of pharmaceuticals provides a steady revenue base and excellent cash flow generation. At the same time, the company is involved with the development of a number of leading-edge pharmaceutical solutions that offer promising growth opportunities.

Novartis is also one of the world's largest generic drug manufacturers and a leading player in the rapidly growing field of biosimilars.

Novartis was purchased as a high quality long-term investment at a reasonable valuation.

Walgreen's Boots Alliance (WBA)

In light of the disruption caused by Amazon and its continued foray into the US retail sector we felt it appropriate to review our investment thesis on Walgreen's and why we continue to hold the stock across mandates.

Amazon first entered the US bricks and mortar retail space in 2017 with the acquisition of Whole Foods. This was viewed by many, including us, as a sensible augmentation to Amazon's on-line distribution network. This was followed in June 2018 by the $1 billion purchase of Pillpack, an online prescription delivery company, which importantly gives Amazon the necessary licensing it needed to actively pursue mail and drug distribution throughout the US.

It is well documented that the US healthcare industry is undergoing a period of disruption, which is intended to lower drug costs for all Americans. Amazon's entry into this market merely exacerbates this disruption. It is our view that the market can support more than one player, and Walgreen's is well positioned to respond to the disruption and competition confronting the industry. Walgreen's will continue to execute its strategy formulated over the last 35 years, which has successfully consolidated drug retailing and distribution globally in order to boost purchasing power and offset long-term healthcare cost pressures.

Walgreen's aim is to build an open and preferred network by forging strategic partnerships and alliances with wholesalers and PBMs (pharmacy benefit managers) as opposed to making outright vertical purchases, be it with insurers, distributors and/or other healthcare and service providers.

Walgreen's is able to expand various health-related services via partnerships with such companies as LabCorp and FedEx to address home delivery demand. Furthermore, the company has scaled in physical store count to achieve significant purchasing power in wholesale.

There is no doubt that prescription home delivery demand will continue to grow. However, having direct access to a pharmacist remains a necessity in most cases. In fact, according to the Wall Street Journal (weekend ed., July 1, 2018), the percentage of pharmacy consumers accessing a bricks and mortar store has grown from 82% to 85% over the last year.

We continue to believe in the quality of the Walgreen's franchise, the merit of its global consolidation strategy, its business longevity and management's ability to adapt to industry changes. Like Amazon, Walgreen's is led by a visionary leader. Executive Chairman and major shareholder, Stefano Pessina, has been at the forefront of globally expanding the drug retailing and distribution industry for several decades. Both Amazon and Walgreen's are pursuing an omni-channel strategy, but from different positions. Amazon's foray into the drug delivery business will materially impact the industry dynamics of the drug retail and broader healthcare industries. However, based on the valuation currently applied to its stock price, we believe the market is overlooking the virtues of Walgreen's omni-channel strategy and the ability of its proven management team to successfully execute on that strategy.

Conclusions

1. It is essential to filter out geo-political noise when evaluating the equity markets. Business is good, earnings are on an upward trajectory, and many investment grade companies are trading at average earnings multiples.

2. Administered interest rates are increasing and will eventually affect corporate borrowing costs and temper price earnings ratios. Long dated maturities will decline in value, thus it is important to maintain a short duration in fixed income portfolios.

3. Disruption is rife in many industries today. As illustrated in our analysis of Walgreen's, it important to own companies with strong balance sheets, and experienced management groups that are shareholder friendly and capable of allocating capital in changing circumstances.

4. Our research will continue to seek out value in both North American and international markets, in companies that have a sustainable competitive advantage and meet our stringent financial criteria.