COVENANT CAPITAL MANAGEMENT INC.

INVESTORS' JOURNAL

December 2014

EDITORIAL & MARKET UPDATE

The big story for this past quarter has been the rapid decline in the price of oil. The implementation of new technology, particularly in the US shale oil industry, combined with a surprising lack of energy demanded by developing countries such as China, has resulted in an oversupply of oil in the global marketplace. In an attempt to protect their market share by forcing US shale oil production to decline, OPEC refrained from cutting their own supply. Knowing that the overabundance of oil in the system would cause prices to drop dramatically, they are betting that US production will decrease significantly within 6 months. From its high in June, West Texas Oil (WTI) has dropped 50% to close the year at $53.27.

OPEC's action (or lack thereof) and the magnitude of the drop in the price of oil has taken everyone by surprise. It is expected that heavy energy producing countries such as Russia, Venezuela and Iran will experience significant hardships, while countries whose GDP relies on consumer activity (i.e. the US and Europe) and manufacturing/exporting (i.e. China and Japan) have received a huge break. Arguably, Canada is in the middle of this equation. Parts of the country will struggle (Alberta), while the heavy consumers of oil will benefit (manufacturing and those in colder regions). However, the net result of low oil prices for Canada is expected to be negative, while global GDP will improve.

A few major issues that may still play out include: Greece's potential exit from the Eurozone, the impact of quantitative easing in that region, as well as the risk of deflation in many countries as adjustments to lower oil prices are implemented. Additionally, higher interest rates in Canada are expected to be put off for a few more quarters, while rate hikes in the US may be imminent if energy savings translates into better wages.

"Let the wise hear and increase in learning, and the one who understands obtain guidance."

- Proverbs 1:5 (ESV)

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MARKET UPDATE & PORTFOLIO

How does Covenant Capital Management apply this market information to our investment strategies? Over the past year, we have moved away from a general exposure to the commodity markets and have taken advantage of buying individual securities when we perceive them to be on sale. Additionally, we have recognized the global nature of the issues in play and how they are influencing so many geographic regions and economic sectors. Finding opportunities to mitigate some of these risks is always the challenge. In our opinion, including a strategic position of non-traditional investments in our portfolios is the answer.

Very simply put, non-traditional investments are those not easily bought in traditional markets, like the stock market. For many individual investors, the barriers of entry to this arena are onerous and can include large minimums (such as $1M or more), capital lock up periods until projects are completed, and sophisticated investing strategies (such as arbitrage or factoring). Covenant Capital Management is able to overcome these barriers by way of its Pooled funds, and by doing so, provide investors with excellent investment opportunities that have very little correlation to traditional market risk.

At the close of 2014, we have successfully completed the launch of all four of our primary pooled funds. Covenant Capital Management manages the portfolios of these pools and then applies a "mix" that suitably represents our client's risk tolerance.

Example of a Covenant Balanced Portfolio

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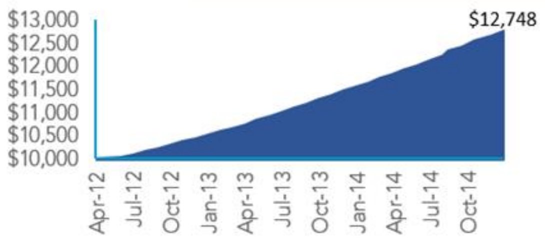
COVENANT'S POOLED FUNDS SUMMARY

Covenant Mortgage Pool (I Class)

December 31, 2014

Performance:		*Risk Metrics:*	
1 MO.	0.86%	Annualized SD	0.46%
6 MO.	5.30%	Correlation with DEX Universe ETF	0.09
1 YR.	10.43%	Correlation with S&P/TSX Composite	-0.12
INC.*	9.53%		



Key Points:

- *Inception date: April 2012
- Target return is 8%
- Construction Mortgages with terms 3 – 36 Months
- Diversified by developer, property type, priority, duration and risk
- Excellent cash-flow
- Liquidity is 60+ days
- Valued monthly

Covenant Fixed Income Pool (I Class)

December 31, 2014

Performance:		*Risk Metrics:*	
1 MO.	-0.43%	Annualized SD	1.02%
6 MO.	1.28%	Correlation with DEX Universe ETF	0.39
1 YR.	3.93%	Correlation with S&P/TSX Composite	0.35
INC.*	3.33%		

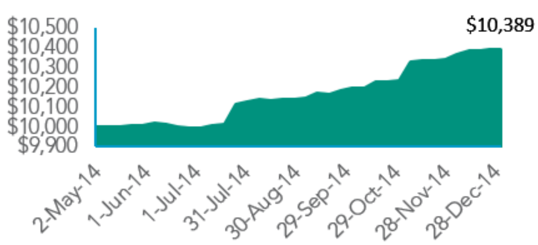
Key Points:

- *Inception date: November 2013
- Target stable 5% rate of return
- Multi-Strategy approach includes Traditional + Non-Traditional fixed income
- Primarily objective is to provide cash-flowing investments that are backed by security
- Hedged for currency
- Valued weekly

Covenant Non-Traditional Equity Pool (I Class)

December 31, 2014

Performance:		*Risk Metrics:*	
1 MO.	0.52%	Annualized SD	1.70%
6 MO.	3.97%	Correlation with DEX Universe ETF	0.04
YTD	3.89%	Correlation with S&P/TSX Composite	-0.16
1 YR.	N/A		
INC.*	3.89%		



Key Points:

- *Inception date: April 2012
- Non-traditional exposure adds true equity diversification
- Performance is not correlated to traditional markets
- Target return is 10%+ long term
- Valued weekly

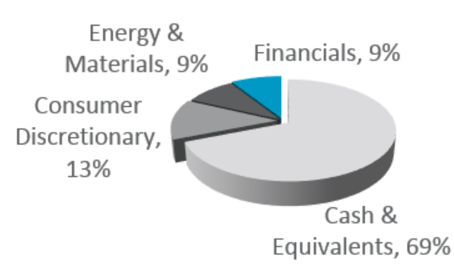
Covenant Traditional Equity Pool (I Class)

December 31, 2014

Performance:	
1 MO.	1.01%
6 MO.	N/A
YTD	1.29%
INC.*	1.29%

Risk Metrics: *Will be calculated* after 5 months of data.

Sector allocation



Key Points:

- *Inception date: November 2014
- Invests in traditional equity markets using a value approach (buy on sale and sell when target prices are hit)
- Currently North American focused. Target is global exposure
- Options trading is potential for extra yield
- Target return is 7%
- Valued weekly

2015 REMINDERS

2014 is over and the New Year provides another opportunity to invest an additional $5,500 into your TFSA for a lifetime accumulated contribution amount of $36,500. RRSP contributions for the previous tax year can be made until March 2, 2015. The start of another year is also a good time to re-evaluate your investments and financial priorities. Should you wish to review your accounts with one of our Portfolio Managers, please contact us at 604-546-1500.

TEAM UPDATES & REFLECTIONS

Midway through the quarter, Janet Kim Sing and her husband welcomed a healthy baby boy to their family and at the Covenant office, we also happily received new members, Loretta and Kristen, to our team. Originally from Ontario, Loretta Nanninga and her husband moved here in September and she will be assisting Maria Dawes and Janet Kim Sing (when back from maternity leave) in their efforts to provide client service. Kristen Martin has taken over the role of the (invaluable) back office administrator, as Amada Wieler left us in December to pursue further education.

Over the Christmas and New Year holidays, our staff took some time to enjoy the season with their families. The weather in BC was fairly mild which permitted some to enjoy the outdoors, while others played games and visited by the fire.

The Christmas season also brought time for reflection. We remembered the birth of our Savior and how his life, teachings and death has changed us forever and eternally.

"For to us a child is born, to us a son is given; and the government shall be upon his shoulder, and his name shall be called Wonderful Counselor, Mighty God, Everlasting Father, Prince of Peace."

- Isaiah 9:6