

PALOS

2019 SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

PALOS EQUITY INCOME FUND

FOR THE PERIOD ENDED JUNE 30, 2019

Portfolio Manager

Palos Management Inc. ("Palos")

Charles Marleau, CIM

President & Senior Portfolio Manager

Joany Pagé, CFA

Portfolio Manager

This interim management report of fund performance ("MFRP") contains financial highlights but does not contain either interim or annual financial statements of the Palos Equity Income Fund (the "Fund"). You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-514-397-0188 or toll free 1-855-PALOS-88 (1-855-725-6788), by writing to us at Palos Equity Income Fund, Investor Relations, 1 Place Ville-Marie, Suite 1670, Montréal, Québec H3B 2B6 or by visiting our website at www.palos.ca or SEDAR at www.sedar.com. Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

This management discussion of Fund performance represents the management's view of the significant factors and developments during the past six months that have affected the Fund's performance and outlook since December 31, 2018, the Fund's most recent fiscal year-end. The Fund is a mutual fund managed and advised by Palos Management Inc. (the "Manager"). For information on the Fund's longer-term performance, please refer to the Past Performance section of the report. This report should be read in conjunction with the Annual Management Report of Fund Performance for the year ended December 31, 2018.

Results of Operations

As at June 30, 2019, the total net asset value of the Fund was \$27,143,358, an increase of 9.0% from December 31, 2018. This includes \$279,469 in net withdrawal and \$757,643 in distributions reinvested in the Fund by its unitholders.

The S&P/TSX Composite Index was up 16.19% for the same period ending June 30, 2019. A large portion of the index's performance was attributed to the financials and energy sectors, which were up 14.28% and 12.33% year-to-date respectively. These sectors represent a combined weight of approximately 48.92% of the index. Their performance was positively impacted by smaller, better performing sectors, such as the industrials and information technology sectors, which were up 21.15% and 43.22% respectively. The geopolitical landscape, namely trade wars, the energy complex, central bank interest rate movements, an inverted yield curve, and a fear of global instability remain significant factors in the volatility of markets.

The fund's main cause of underperformance stems from the financials sector, as a result of being underweight Canadian banks. The Manager believed a flatter yield curve would have a negative impact on NIMs, and that the elevated unsecured household debt would lead to higher defaults. Additionally, slowing mortgage growth added further conviction to the underweight decision. Instead, the Manager chose to focus the fund's exposure on banks with higher US exposure and commercial lending such as Royal Bank of Canada (TSX: RY), Toronto Dominion Bank (TSX: TD) and Bank of Montreal (TSX: BMO), all the while remaining underweight. Unfortunately, despite underperforming the S&P TSX Composite as a whole, TD and RBC were the second and third highest contributors to the index's return, as they are the two largest constituents, representing approximately 13%. Going forward, the Manager will continue to be underweight banks as the issues mentioned above persist and potentially lower rates would challenge their margins. Our overweight position in ECN Capital Corp (TSX: ECN), up 23.47% for the period, helped offset the underperformance in banks.

On the energy front, sentiment continues to be bearish and the market continues to unjustly punish high-quality exploration and production (E&P) companies. The oil and gas storage and transportation sub-industry however has been doing quite well in this market. This is due to its utility-like features and positive egress developments, and was up close to 23% for the period. Our underweight positions in Enbridge (TSX: ENB) and TC Energy Corp (TSX: TRP) were the largest factor in our underperformance in the sector. Our overweight positions in Keyera (TSX: KEY) and Parex (TSX: PXT) helped in offsetting the underperformance, as

the companies were up 34.32% and 28.50% for the period respectively. The Manager continues to believe the sector is undervalued, and will continue to hold high quality cash flow generating E&Ps with strong balance sheets and track records.

On the information technology front, Shopify (TSX: SHOP) was a substantial outperformer in the index. Despite representing about 1.70% of the index at the end of the quarter, close to 1% of the S&P TSX Composite's return can be attributed to Shopify, which was up a momentous 108.47% during the period. Due to its volatility, high valuation, and lack of dividend, the Manager decided to no longer maintain a position in the company.

Under the assumption of reinvested distribution, the source of distribution, whether it is from income, dividends, capital gains or return of capital, would not have a material impact on the performance or the objective of the Fund. Under the same assumption but with distributions withdrawn, the impact would translate into opportunity cost regardless of the source of distribution.

Recent Developments

Following up on the highlights above, the Manager is cautious on the Canadian economy and prefers to be overweight more defensive sectors that will benefit from a lower rate environment.

Related Party Transactions

Palos Management Inc., which acts as the investment fund manager and portfolio advisor to the Fund, is deemed to be a related party to the Fund. Palos Management Inc. and the Fund were not party to any other related party transactions during the last year.

The Fund's independent Review Committee (the "IRC") has considered whether Palos Management Inc.'s roles as investment fund manager and portfolio advisor constitutes a conflict of interest requiring standing instructions and has concluded that it does not. Nevertheless, the IRC will review the arrangement from time to time to ensure that Palos Management Inc., in its dual capacity as investment fund manager and as portfolio manager, is performing adequately in both roles. In its analysis, the IRC will consider the following criteria, among others: the performance of the Fund relative to other funds in the same category, and the quantum of the fees paid to the Manager in relation to the performance of the Fund and the amount of assets under management in the Fund. Palos Management Inc. has relied on the approval of the IRC in proceeding in this manner

Manager, Trustee and Portfolio Advisor: Palos Management Inc. is the manager, and portfolio advisor of the Fund. Computershare Trust Company of Canada is the trustee of the Fund.

Custodian: NBIN Inc., a subsidiary of National Bank, is custodian of the Fund.

Registrar: SGGG Fund Services Inc. is the registrar of the Fund and keeps records of who owns the units of the Fund.

MANAGEMENT FEES

Management fees paid by the Fund are calculated monthly, based on 1/12th of the annualized management fee per series applied to the NAV per series as at the last business day of the preceding month.

Series	Trailer commissions (%)	Other (%)
A	0.75	0.75
F	0.00	0.75

Other – includes day-to-day administration of the Fund, portfolio advisory services and Manager's compensation.

FINANCIAL HIGHLIGHTS

Series A

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past eight years.

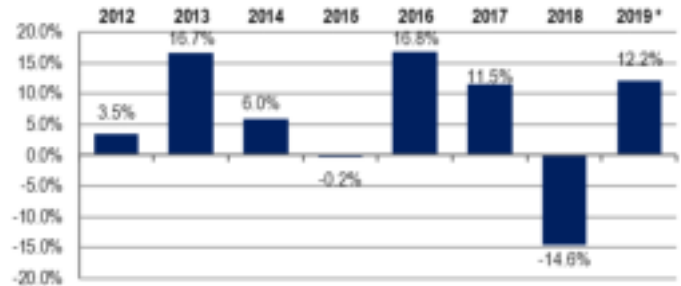
The Fund's Net Assets per Unit ⁽¹⁾	June 30, 2019	2018	2017	2016	2015	2014	2013	2012	2011
Net Assets, beginning of period	\$5.35	\$6.68	\$6.38	\$5.93	\$6.73	\$7.09	\$6.82	\$7.37	\$8.65
Increase (decrease) from operations:									
Total revenue	0.09	0.17	0.18	0.17	0.20	0.24	0.27	0.30	0.36
Total expenses	(0.08)	(0.16)	(0.16)	(0.17)	(0.21)	(0.20)	(0.34)	(0.29)	(0.49)
Realized gains (losses) for the period	(0.12)	0.27	0.40	0.30	0.14	0.77	0.63	(0.06)	(0.08)
Unrealized gains (losses) for the period	0.67	(1.20)	0.30	0.66	(0.14)	(0.36)	0.51	0.27	(0.35)
Total increase (decrease) from operations ⁽²⁾	0.56	(0.93)	0.72	0.96	(0.01)	0.45	1.07	0.22	(0.56)
Distributions:									
From income (excluding dividends)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
From dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
From capital gains	0.00	0.23	0.34	0.13	0.00	0.59	0.11	0.00	0.00
Return of capital	0.20	0.17	0.06	0.37	0.80	0.21	0.69	0.80	0.80
Total Annual Distributions ⁽³⁾	0.20	0.40	0.40	0.50	0.80	0.80	0.80	0.80	0.80
Net Assets, end of period	\$5.71	\$5.35	\$6.68	\$6.38	\$5.93	\$6.73	\$7.09	\$6.82	\$7.37
Ratios/Supplemental Data	June 30, 2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Net Asset Value (\$000's) ⁽¹⁾	17,103	15,862	19,092	18,649	17,587	19,195	17,643	16,071	14,219
Number of units outstanding (000's)	2,994	2,966	2,857	2,924	2,941	2,852	2,489	2,358	1,925
Management expense ratio ⁽²⁾	2.70%	2.52%	2.51%	2.60%	3.00%	2.69%	4.85%	4.03%	5.37%
Management expense ratio before waivers or absorptions	2.70%	2.52%	2.51%	2.60%	3.00%	2.72%	5.11%	4.03%	5.37%
Trading expense ratio ⁽³⁾	0.20%	0.31%	0.29%	0.25%	0.17%	0.35%	0.16%	0.09%	0.22%
Portfolio turnover rate ⁽⁴⁾	32.73%	86.11%	73.31%	108.62%	91.47%	168.61%	113.53%	107.02%	111.72%
Net Asset Value per unit	\$5.71	\$5.35	\$6.68	\$6.38	\$5.93	\$6.73	\$7.09	\$6.82	\$7.39

PAST PERFORMANCE

The following information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The following charts show the investment fund's performance for each of the years shown, and illustrate how the investment fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



* For the 6 months period ended June 30, 2019

FINANCIAL HIGHLIGHTS

Series F

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past six years.

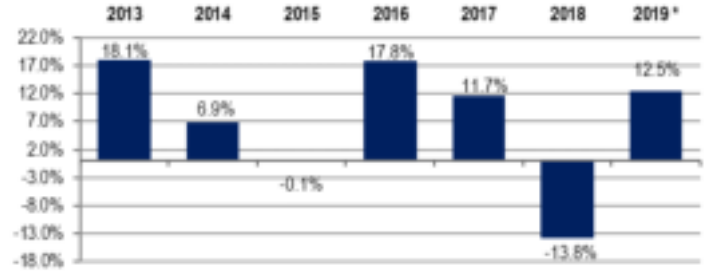
The Fund's Net Assets per Unit ⁽¹⁾	June 30, 2019	2018	2017	2016	2015	2014	2013	2012
Net Assets, beginning of period	\$5.69	\$7.03	\$6.67	\$6.13	\$6.92	\$7.21	\$6.84	\$7.18
Increase (decrease) from operations:								
Total revenue	0.10	0.17	0.19	0.17	0.21	0.24	0.27	0.23
Total expenses	(0.06)	(0.1)	(0.16)	(0.13)	(0.20)	(0.18)	(0.23)	(0.19)
Realized gains (losses) for the period	(0.13)	0.28	0.45	0.30	0.12	0.41	0.64	(0.08)
Unrealized gains (losses) for the period	0.71	(1.28)	0.35	0.81	(0.19)	(0.56)	0.63	0.21
Total increase (decrease) from operations ⁽²⁾	0.62	(0.94)	0.83	1.15	(0.06)	(0.09)	1.31	0.17
Distributions:								
From income (excluding dividends)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
From dividends	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00
From capital gains	0.00	0.23	0.38	0.32	0.00	0.40	0.11	0.00
Return of capital	0.20	0.17	0.02	0.18	0.80	0.40	0.69	0.60
Total Annual Distributions ⁽³⁾	0.20	0.40	0.40	0.50	0.80	0.80	0.80	0.60
Net Assets, end of period	\$6.12	\$5.69	\$7.03	\$6.13	\$6.13	\$6.92	\$7.20	\$6.84
Ratios/Supplemental Data	June 30, 2019	2018	2017	2016	2015	2014	2013	2012
Total Net Asset Value (\$000's) ⁽¹⁾	10,041	9,040	11,160	5,707	2,638	1,874	671	326
Number of units outstanding (000's)	1,640	1,587	1,588	855	430	271	93	48
Management expense ratio ⁽²⁾	1.85%	1.67%	2.41%	1.74%	2.85%	1.83%	3.40%	3.55%
Management expense ratio before waivers or absorptions	1.85%	1.67%	2.41%	1.74%	2.85%	1.88%	3.77%	3.55%
Trading expense ratio ⁽³⁾	0.2%	0.31%	0.32%	0.22%	0.17%	0.34%	0.22%	0.10%
Portfolio turnover rate ⁽⁴⁾	32.73%	86.11%	73.31%	108.62%	91.47%	168.61%	113.53%	107.02%
Net Asset Value per unit	\$6.12	\$5.69	\$7.03	\$6.67	\$6.13	\$6.93	\$7.21	\$6.84

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Year-by-Year Returns

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* For the 6-month period ended June 30, 2019.

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2019

Portfolio by Category

The major portfolio categories and top 25 holdings of the Fund at the end of the period are indicated in the following tables. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available.

Regional Weightings (%)

Canada	97.80
United States	2.20
Total	100.00

Sector Weightings (%)

Communication Services	1.20%
Consumer Discretionary	6.40%
Consumer Staples	5.70%
Energy	17.00%
Financials	21.90%
Health Care	2.70%
Industrials	11.90%
Information Technology	2.80%
Materials	14.10%
Real Estate	3.30%
Utilities	11.70%
Total	100.00

Portfolio Long/Short Breakdown (%)

Long positions	98.70
Short positions	0.00
Cash	1.30
Total	100.00

Asset Class Weightings (%)

Common Stocks	88.6%
Fixed Income	10.1%
Cash	1.3%
Total	100.0

Top 25 Holdings (%)

The Toronto-Dominion Bank	4.13%
Royal Bank of Canada	3.84%
The Bank of Nova Scotia	3.66%
Bank of Montreal	3.28%
Northland Power Inc.	2.66%
National Bank of Canada	2.31%
Innergex Renewable Energy Inc. 4.75%	2.28%
30JUN2025 CONV. \$20	
Canadian Pacific Railway Ltd	2.22%
Lundin Mining Corp.	2.03%
Keyera Corp.	1.80%
Northland Power Inc. 4.75% 30JUN2020 CONV. \$21.60	1.74%
Franco-Nevada Corp.	1.72%
Agnico Eagle Mines Ltd	1.68%
Algonquin Power & Utilities Corp.	1.67%
Suncor Energy Inc.	1.66%
Manulife Financial Corp.	1.65%
TORC Oil & Gas Ltd	1.59%
Secure Energy Services Inc.	1.56%
Wal-Mart Stores Inc.	1.55%
Nutrien Ltd	1.49%
Pembina Pipeline Corp.	1.48%
CCL Industries Inc.	1.47%
Whitecap Resources Inc.	1.47%
Fiera Capital Corp. 5% 30JUN2023 CONV. \$18.85	1.43%
Sienna Senior Living Inc.	1.41%
Top 25 Holdings	51.78%

The total Net Asset Value of the Fund as at June 30, 2019 was \$ 27,143,358.

EXPLANATORY NOTES TO FINANCIAL HIGHLIGHTS**Net Assets per Unit:**

- (1) The information is derived from the Fund's unaudited financial statements as at June 30, 2019 and audited annual financial statements as at December 31 of each year. Before 2012, the net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements. This difference was due to the fact that the net asset value calculated for Fund pricing purposes was based on the actual trade price, whereas the net assets per unit presented in the financial statements was based on the closing "bid" price, as was required by GAAP. In 2014, the financial statements changed accounting principle to IFRS, and this discrepancy no longer exist, as the net asset value calculated for Fund pricing purpose is the same used in the IFRS financial statements. This change was done retrospectively to the 2013 and 2012 financial statements.
- (2) Net assets and distributions are based on the actual number of unit outstanding at the relevant time. The increase/decrease in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing nets assets per units.
- (3) Certain distributions were paid in cash to unitholders who ask for cash payment. For the other unitholders, the distributions were reinvested in additional units of the Fund.

Ratios and Supplemental Data:

- (1) This information is provided as at the end of the year shown.
- (2) Management expense ratio represents the total expenses (excluding commissions and other portfolio transactions costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessary a relationship between a high turnover rate and the performance of a fund.

The prospectus and other information about the Fund are available on the internet at www.sedar.com.

For more information, contact your investment advisor or:

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