PALOS

## 2019 ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# PALOS EQUITY INCOME FUND

## FOR THE ANNUAL PERIOD ENDED DECEMBER 31, 2019

**Portfolio Manager**
Palos Management Inc. ("Palos")

**Charles Marleau**, CIM
President & Senior Portfolio Manager

*This annual management report of fund performance ("MFRP") contains financial highlights, but does not contain complete annual financial statements of the Palos Equity Income Fund (the "Fund"). You can get a copy of the 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. Securityholders may also contact us using one of these methods to request a copy of the Fund's interim financial report, 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 affecting the Fund's performance and outlook. The Fund is a mutual fund managed and advised by Palos Management Inc. (the "Manager").

**Investment Objective and Strategies**

The Fund's objective is to provide long-term capital growth, attractive and steady income, and deliver trading-enhanced returns.

To achieve its objective, the Fund invests primarily in Canadian income-paying securities, such as equity securities of Canadian issuers that pay dividends or selected debt obligations that pay interest.

The primary investment strategy employed by the Fund is to apply qualitative, quantitative and comparative research in order to build and manage a portfolio of select high-grade and undervalued dividend-paying equity securities and income-paying debt securities. This core portfolio of securities currently represents approximately 90% of the Fund's portfolio. The Fund holds no more than 25% of non-Canadian securities.

The debt investments held in the Fund are often convertible debentures. Convertible debentures are debt securities that the holder can convert into common stock of the issuing company (or cash at an equivalent value) at a predetermined price. In selecting fixed income securities for the Fund (whether convertible or non-convertible), the Manager considers factors such as the debenture's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread (i.e. the difference between the yield offered by the debenture and by a predetermined risk-free bond, such as Bank of Canada treasury bills with a similar maturity) and the duration (the weighted average of the time periods until the debenture's cash flows are received by the Fund, which measures the debentures's price sensitivity to its yield). Typically, the Manager seeks out bonds or debemtures with a high yield compared to their credit risk and relatively low duration. However, the Fund's overall debt portfolio may include bonds or debentures that are outside these parameters, depending on the components of the remainder of the portfolio, and whether the bond has other features, such as a convertibility feature. When evaluating convertible debentures, the Manager engages in an analysis using the above factors, and also includes an analysis of features particular to convertible debentures, such as clauses, the volatility of the underlying stock, and the amount of time left until the conversion feature expires. In valuing a convertible debenture, therefore, the Manager engages in an analysis of the underlying stock volatility, the features of the particular debenture, and a traditional analysis of the fixed income portion that takes into account the firm's credit profile, the ranking of the convertible within the capital structure, the bond's duration, and yield.

Essentially, the Manager calculates the value of a convertible debenture by calculating the present value of future interest and principal payments discounted at the cost of debt and adding the present value of the convertible component. The Manager then engages in a qualitative and quantitative analysis of a variety of factors, including the debenture's duration, its credit risk, the firm's corporate management, macroeconomic factors, including the likelihood of fluctuations in prevailing interest rates, and any particular clauses inherent in the convertible feature of the debenture.

In some cases, the Manager's motivation for purchasing a convertible debenture is to be able to engage in merger arbitrage (i.e. to make an educated guess about a company's likelihood of being purchased by another company at a price that is at a premium to the prevailing market price of the first company). Buying a convertible debenture may allow the Fund to gain exposure to an issuer or to its securities that it might not otherwise be able to based on the Fund's investment parameters and restrictions. For example, because a convertible debenture pays an interest income, it may be an appropriate investment to hold in the Fund's portfolio, even if the underlying stock would not, on its own, be an acceptable investment. However, the Fund can purchase the convertible debenture and benefit from the coupon payments, while at the same time waiting for a merger to occur.

In selecting equity investments for the Fund, the Manager focuses on companies that, in its judgment, provide good value. The Manager believes that good value companies are likely to experience capital appreciation and/or increases in distributions to investors, and that these companies tend to have significant potential for growth of cash flow, increases of dividend distribution, and stock buybacks.

In making the determination of what companies' stock present good value, the Manager typically focuses on a variety of financial ratios and metrics that provide relative points of reference that are transferable across companies and industries. The Manager primarily considers six financial ratios: earnings yield spread, debt vs. EBITDA, cash per share, return on equity, price to earnings (P/E ratio), and free cash flow yield.

*Earnings Yield*

The earnings yield is the earnings per share for the most recent period (typically twelve months) divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company. The Manager considers the differential between the earnings yield compared to the stock price versus the US Treasury Bond yield, sometimes called the earnings yield spread. A wide earnings yield spread represents good value, particularly as compared to bonds, and therefore presents a buying opportunity for the Manager.

*Debt to EBITDA*

The Manager also considers a company's debt as a percentage of its earnings before interest, taxes, depreciation and amortization or EBITDA. A low ratio indicates that the company is able to repay its debt and/or to take on additional debt, thus allowing it to finance expansion of operations or share buybacks. Conversely, a high debt/EBITDA ratio suggests that a firm may not be able to repay debt and interest as it comes due, which could potentially lead to a restructuring and/or bankruptcy of the company.

*Cash per Unit*

Cash per unit (sometimes known as free cash flow per share) is determined by dividing free cash flow by the total number of units outstanding. It is a measure of a company's financial flexibility. More free cash flow allows a company to engage in a variety of transactions, such as repaying debt, paying and increasing dividends, buying back stock and facilitating the growth of the business. The amount of free cash flow per unit can also be used to give a preliminary prediction concerning future share prices. For example, when a firm's unit price is low and free cash flow is on the rise, the Manager believes that this is a positive indicator that earnings and share value will soon increase, because a high cash flow per share value means that earnings per share could potentially be high as well.

*Return on Equity*

Return on equity (sometimes known as return on net worth) is the amount of net income returned as a percentage of unitholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money unitholders have invested in common stock (preferred stock is generally excluded, as are the dividends paid on that stock). Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Unitholder's equity does not include preferred shares. The Manager uses return on equity to compare the profitability of a company to that of other firms in the same industry. If a given company's return on equity is particularly high compared to its peers, then the company may present good value and therefore may be a good buying opportunity.

*Price to Earnings*

Price to earnings, or P/E, is one of the most commonly used financial ratios. In general, a high P/E suggests that the market is expecting higher earnings growth in the future compared to companies with a lower P/E. However, a high P/E ratio may also imply that a company is overvalued. The Manager focuses on companies with low P/E ratios because a low P/E ratio implies that a significant component of the company's stock price is comprised of earnings, rather than market expectations for future growth. The Manager also recognizes that it is impossible to base a decision on the P/E ratio alone. The denominator (earnings) is based on an accounting measure of earnings that is susceptible to forms of manipulation, making the quality of the P/E only as good as the quality of the underlying earnings number.

*Free Cash Flow Yield*

The free cash flow yield is a measure of the free cash flow per unit a company is expected to earn against its market price per unit. As compared to the price to earnings ratio, the free cash flow yield is a more standardized measure that eliminates many of the problems involved in evaluating the quality of the earnings as reported by a company. Because free cash flow takes into account capital expenditures and other ongoing costs a business incurs to keep itself running, the Manager believes that the free cash flow yield is a more accurate representation of the returns shareholders receive from owning a business compared to the price to earnings ratio. In selecting equity investments, the Manager considers other factors beyond the financial ratios described above. The Manager also considers macroeconomic factors such as currency exchange rates, consumer demand, taxation policy, geopolitical factors that could affect commodity prices, and the quality of corporate management. The Manager recognizes that equity prices can be affected by a huge variety of factors, and that investing requires knowledge of a wide variety of disciplines. The Manager seeks to consider all of these factors while remaining focused on its core value investment philosophy.

In addition to the primary strategy, the Manager seeks to enhance returns through the following five targeted, short-term secondary trading strategies:

1. Pair trading, whereby the Manager identifies a security that is either undervalued or overvalued, and purchases (or sells) the security and simultaneously takes the opposite action with regards to the security's index. For example, the Manager might identify the common equity of Bank ABC as being overvalued. The Manager would borrow a quantity of Bank ABC common equity and sell it "short", while simultaneously buying a security that represents an index in which Bank ABC is a component. This strategy effectively eliminates market risk from the pair trade;
2. Syndication trading, whereby the Manager invests in securities being offered in the market for the first time, while simultaneously selling the index "short". New issues are typically underpriced by a small amount in order to encourage investors to purchase the security. This strategy effectively eliminates market risk from the investment in the new issue;
3. Merger arbitrage, whereby the Manager trades in the equity of an acquirer in a merger while simultaneously taking the opposite action with regards to the security's index. The actual trade will depend on the Manager's view of whether the transaction is likely to be completed;
4. Statistical pair trading, whereby the Manager identifies securities that historically trade in tight correlation but that, for some reason, have become uncorrelated. The actual trading strategy will depend on the nature of the uncorrelation; and
5. Dividend capturing, whereby the Manager purchases a security just prior to the ex-dividend date and sell the security just after the dividend is paid. This strategy locks in a dividend payment while limiting risk.

The Fund may use derivatives only as permitted by securities regulations to earn additional income for the Fund. These transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieve the Fund's investment objectives and to create additional income for the Fund.

The Fund has obtained regulatory relief in order to permit the Fund to engage in short selling. In determining whether securities of a particular issuer should be sold short, the Manager uses the same analysis that is described above for deciding whether to purchase the securities. The Fund will engage in short selling as a complement to the Fund's primary discipline of buying securities with the expectation that they will appreciate in market value.

The Fund may temporarily buy or sell exchange traded funds in order to mitigate systematic risk relating to the Fund's investment strategies. These funds will not be managed by the Manager, an affiliate or associate of the Manager. At no time will the Fund's interest in any one exchange traded fund be more than 10%. The selection criteria employed by the Manager in respect of the exchange traded funds will be limited to specific funds corresponding to the applicable syndication trading or merger arbitrage investment strategy being implemented.

**Risk**

The overall risks of investing in the Fund are as discussed in its simplified prospectus. There were no material changes to the Fund over the review period that affected the overall level of risk of the Fund.

This Fund is suitable for an investor with a medium to long-term investment horizon, who has a need for quarterly income and who wishes to add appreciation potential of equity security to his or her portfolio and can accept a moderate degree of risk.

**Results of Operations**

As at December 31, 2019, the total net asset value of the Fund was $25.52 million, an increase of 2.5% from December 31, 2018. This includes $2,685,566 in net redemption and $1,476,456 in distributions reinvested in the Fund by its unitholders.

Over the twelve-month period ended December 31, 2019, the Palos Equity Income Fund's Series A units were up 14.6% and the Series F units were up 15.6%. On a comparative basis, both funds underperformed the Canadian equities benchmark as measured by the S&P/TSX Composite Index ('TSX'). For 2019, the TSX delivered a positive return of 22.9%.

In general, 2019 was a difficult year for active managers as headline news on trade and a plethora of geopolitical events provided plenty of uncertainty. Understanding that capital preservation is important in terms of sustaining long-term returns, the manager believed that given this uncertainty, taking proactive measures to protect capital was the most prudent course of action. While remaining fully invested would have generated higher returns, the manager believed that risk was high, and that capital preservation should be prioritized over maximum gain.

From a tactical perspective, protecting capital usually means taking the following measures. The first step is usually a move to cash or assets with a low correlation to equities (i.e. fixed income). At various times during the year, the fund held roughly 10% in fixed income securities as well as a larger than normal allocation in cash.

It's important to note that protecting a portfolio will result in an opportunity cost in terms of performance (i.e. not being fully invested). While being underinvested can be a drag on performance, the manager believes this was the most prudent course of action. Understanding that successful investing is primarily about buying only when conditions are favourable, also mandates that patience and discipline must be exercised when markets are volatile. In this light, the manager chose to proceed cautiously and prudently.

During the first three quarters of 2019, most of the positive return came from defensive sectors like real estate investment trusts (REITS), gold, consumer staples, and utilities. Growth stocks, as represented by the technology sector also performed well. As valuations in these defensive and growth-oriented sectors approached historical highs, the manager elected to lock in some gains as valuations were becoming expensive. Concurrently, a gradual rotation into the 'reflation trade' was initiated as value had shifted into cyclicals and industrials. While this rotation may have been a bit early, given that this economically sensitive sector had struggled for first three quarters of 2019, we saw significant outperformance by the fourth quarter as energy and materials attracted buying.

The challenge ahead is to evaluate whether this was a sustainable change in sentiment or simply a short-term rally? We don't know the answer to this, but what we do know is that cyclicals remain in deep value territory and there are indications that the underlying commodities should trade higher over the coming months. The positive news on the China/US trade dispute, recent U.S. interest rate cuts which should drive the US dollar lower, and Chinese authorities providing fiscal stimulus are all positives for higher commodity prices.

**Recent Developments**

In the 4th quarter of 2019 we saw the 'trade fear bubble' slightly deflate and cyclicals attract buyers. Economic fundamentals are pointing to a strong economy in North America. Combining this with the apparent resolve of central banks to provide stimulus, the likelihood of a recession is low. Perhaps the biggest risk for investors is geopolitically based. Ongoing is the inconsistent and disruptive rhetoric emanating from the White House, and the constant threat of the President reigniting a trade war, overhanging the markets. While we saw a recent reprieve with the signing of the first phase of the trade deal with China and an apparent agreement on USMCA (U.S. – Mexico – Canada), we remain on constant alert for a negative headline. The manager believes that the primary risk for investors is a bursting of the trade bubble. In such an eventuality, investors could be in for a surprise.

The manager believes that a balanced investment strategy is the best approach in this market. The funds are well-diversified across defensive, cyclical, and growth stocks. Despite the recent rally in cyclicals, it would be imprudent to significantly overweight this sector as headline risk continues to be a wild card. Managing risk will continue to be our priority in 2020. The manager also believes that the Canadian market is inexpensive compared to the U.S. and that there is significant value to be captured north of the border. The fund is well positioned going into 2020, as the manager has favoured companies with strong balance sheets, attractive valuations and compelling growth opportunities. As always, we will be on constant alert and in a state of preparedness for any scenario.

**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 since July 1, 2016.

## MANAGEMENT FEES

Management fees paid by the Fund are calculated monthly, based on 1/12$^{th}$ 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 nine years.

| **The Fund's Net Assets per Unit [(1)]** | **December 31, 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 | 0.18 | 0.16 | 0.18 | 0.17 | 0.20 | 0.24 | 0.27 | 0.30 | 0.36 |
| Total expenses | (0.17) | (0.16) | (0.16) | (0.17) | (0.21) | (0.20) | (0.34) | (0.29) | (0.49) |
| Realized gains (losses) for the period | 0.01 | 0.27 | 0.40 | 0.30 | 0.14 | 0.77 | 0.63 | (0.06) | (0.08) |
| Unrealized gains (losses) for the period | 0.74 | (1.20) | 0.30 | 0.66 | (0.14) | (0.36) | 0.51 | 0.27 | (0.35) |
| **Total increase (decrease) from operations [(2)]** | **0.76** | **(0.93)** | **0.72** | **0.96** | **(0.01)** | **0.45** | **1.07** | **0.22** | **(0.56)** |
| **Distributions:** | | | | | | | | | |
| From income (excluding dividends) | 0.02 | 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 | 0.38 | 0.17 | 0.06 | 0.37 | 0.80 | 0.21 | 0.69 | 0.80 | 0.80 |
| **Total Annual Distributions [(3)]** | **0.40** | **0.40** | **0.40** | **0.50** | **0.80** | **0.80** | **0.80** | **0.80** | **0.80** |
| **Net Assets, end of period** | **$5.72** | **$5.35** | **$6.68** | **$6.38** | **$5.93** | **$6.73** | **$7.09** | **$6.82** | **$7.37** |

| **Ratios/Supplemental Data** | **December 31, 2019** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|---|---|---|---|
| Total Net Asset Value ($000's) [(1)] | 17,011 | 15,862 | 19,092 | 18,649 | 17,587 | 19,195 | 17,643 | 16,071 | 14,219 |
| Number of units outstanding (000's) | 2,976 | 2,966 | 2,857 | 2,924 | 2,941 | 2,852 | 2,489 | 2,358 | 1,925 |
| Management expense ratio [(2)] | 2.71% | 2.52% | 2.51% | 2.60% | 3.00% | 2.69% | 4.85% | 4.03% | 5.37% |
| Management expense ratio before waivers or absorptions | 2.71% | 2.52% | 2.51% | 2.60% | 3.00% | 2.72% | 5.11% | 4.03% | 5.37% |
| Trading expense ratio [(3)] | 0.18% | 0.31% | 0.29% | 0.25% | 0.17% | 0.35% | 0.16% | 0.09% | 0.22% |
| Portfolio turnover rate | 63.56% | 91.30% | 73.31% | 108.62% | 91.47% | 168.61% | 113.53% | 107.02% | 111.72% |
| Net Asset Value per unit | 5.72$ | $5.35 | $6.68 | $6.38 | $5.93 | $6.73 | $7.09 | $6.82 | $7.39 |

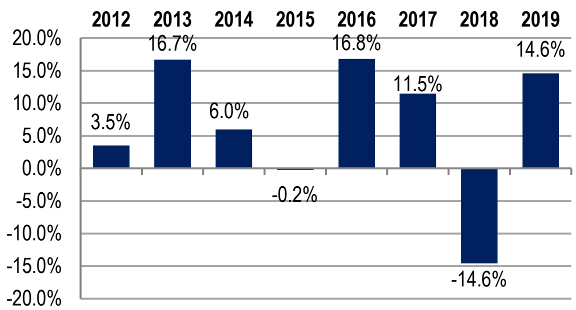
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the sect

## 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 or performance. Past performance does not necessarily indicate how the Fund will perform in the future.

### Year-by-Year Returns

The following bar chart shows the investment fund's annual performance for each of the years shown, and illustrates how the investment fund's performance has changed from year to year. In percentage terms, the chart shows 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.




*Since the commencement of operation, from February 18, 2011 to December 31, 2019.

### Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2019. The returns are compared against the S&P/TSX Composite Total Return Index over the same period.

| Overall Portfolio | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|---|---|---|---|---|---|
| **Series A Units - Overall** | 14.6% | 3.0% | 4.9% | N/A | 4.5% |
| S&P/TSX Composite Total Return Index | 22.9% | 6.9% | 6.3% | N/A | 5.2% |

## 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 seven years.

| **The Fund's Net Assets per Unit** [1] | **December 31, 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. 19 | 0.17 | 0.19 | 0.17 | 0.21 | 0.24 | 0.27 | 0.23 |
| Total expenses | (0.13) | (0.11) | (0.16) | (0.13) | (0.20) | (0.18) | (0.23) | (0.19) |
| Realized gains (losses) for the period | 0.01 | 0.28 | 0.45 | 0.30 | 0.12 | 0.41 | 0.64 | (0.08) |
| Unrealized gains (losses) for the period | 0.79 | (1.28) | 0.35 | 0.81 | (0.19) | (0.56) | 0.63 | 0.21 |
| **Total increase (decrease) from operations** [2] | **0.86** | **(0.94)** | **0.83** | **1.15** | **(0.06)** | **(0.09)** | **1.31** | **0.17** |
| **Distributions:** | | | | | | | | |
| From income (excluding dividends) | 0.06 | 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 |
| From capital gains | 0.00 | 0.23 | 0.38 | 0.32 | 0.00 | 0.40 | 0.11 | 0.00 |
| Return of capital | 0.34 | 0.17 | 0.02 | 0.18 | 0.80 | 0.40 | 0.69 | 0.60 |
| **Total Annual Distributions** [3] | **0.40** | **0.40** | **0.40** | **0.50** | **0.80** | **0.80** | **0.80** | **0.60** |
| **Net Assets, end of period** | **$6.17** | **$5.69** | **$7.03** | **$6.67** | **$6.13** | **$6.92** | **$7.20** | **$6.84** |

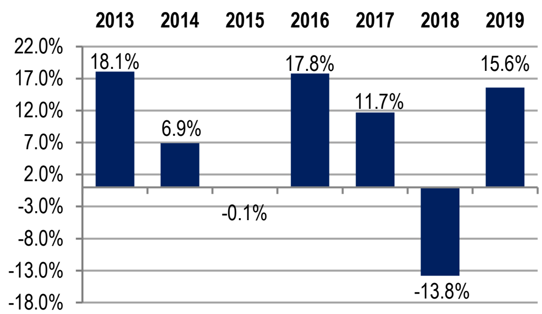
| **Ratios/Supplemental Data** | **December 31, 2019** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|---|---|---|
| Total Net Asset Value ($000's) [1] | 8,509 | 9,040 | 11,160 | 5,707 | 2,638 | 1,874 | 671 | 326 |
| Number of units outstanding (000's) | 1,380 | 1,587 | 1,588 | 855 | 430 | 271 | 93 | 48 |
| Management expense ratio [2] | 1.86% | 1.67% | 2.41% | 1.74% | 2.85% | 1.83% | 3.40% | 3.55% |
| Management expense ratio before waivers or absorptions | 1.86% | 1.67% | 2.41% | 1.74% | 2.85% | 1.88% | 3.77% | 3.55% |
| Trading expense ratio [3] | 0.19% | 0.31% | 0.32% | 0.22% | 0.17% | 0.34% | 0.22% | 0.10% |
| Portfolio turnover rate | 63.56% | 91.30% | 73.31% | 108.62% | 91.47% | 168.61% | 113.53% | 107.02% |
| Net Asset Value per unit | $6.17 | $5.69 | $7.03 | $6.67 | $6.13 | $6.93 | $7.21 | $6.84 |

For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

## 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 or performance. Past performance does not necessarily indicate how the Fund will perform in the future.

**Year-by-Year Returns**
The following bar chart show the investment fund's annual performance for each of the years shown, and illustrates how the investment fund's performance has changed from year to year. In percentage terms, the chart shows 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.




*Since the commencement of operation, from April 9, 2012 to December 31, 2019.

**Annual Compound Returns**
The table shows the annual compound total returns for each of the periods shown ended December 31, 2019. The returns are compared against the S&P/TSX Composite Total Return Index over the same period.

| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|---|---|---|---|---|---|
| **Series F Units** | 15.6% | 3.6% | 5.5% | N/A | 7.2% |
| S&P/TSX Composite Total Return Index | 22.9% | 6.9% | 6.3% | N/A | 7.8% |

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 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 | 98.32% |
| United States | 1.68% |
| Total | 100.00% |

| Sector Weightings (%) | |
|---|---|
| Consumer Discretionary | 4.60% |
| Consumer Staples | 7.40% |
| Energy | 17.40% |
| Financials | 22.30% |
| Health Care | 2.70% |
| Industrials | 9.50% |
| Info Tech | 3.10% |
| Materials | 12.20% |
| Communication Services | 1.70% |
| Utilities | 9.60% |
| Real Estate | 4.60% |
| Cash | 4.90% |
| Total | 100.00% |

| Portfolio Long/Short Breakdown (%) | |
|---|---|
| Long positions | 95.09% |
| Short positions | 0.00% |
| Cash | 4.91% |
| Total | 100.00% |

| Asset Class Weightings (%) | |
|---|---|
| Common Stocks | 85.0% |
| Preferred Stocks | 0.0% |
| Fixed Income | 10.1% |
| Cash | 4.9% |
| Total | 100.00% |

| Top 25 Holdings (%) | |
|---|---|
| Northland Power Inc. | 4.76% |
| The Bank of Nova Scotia | 4.26% |
| The Toronto-Dominion Bank | 4.25% |
| Royal Bank of Canada | 4.07% |
| Bank of Montreal | 3.63% |
| Innergex Renewable Energy Inc. | 3.50% |
| Parkland Fuel Corp. | 2.07% |
| Agnico Eagle Mines Ltd | 1.96% |
| Manulife Financial Corp. | 1.93% |
| National Bank of Canada | 1.92% |
| Suncor Energy Inc. | 1.90% |
| Canadian Pacific Railway Ltd | 1.80% |
| Enbridge Inc. | 1.78% |
| Boardwalk Real Estate Investment Trust | 1.72% |
| Quebecor Inc. | 1.71% |
| Franco-Nevada Corp. | 1.65% |
| Capital Power Corp. | 1.56% |
| Keyera Corp. | 1.56% |
| CCL Industries Inc. | 1.52% |
| Fiera Capital Corp. | 1.47% |
| Tricon Capital Group Inc. | 1.44% |
| Saputo Inc. | 1.41% |
| Lundin Mining Corp. | 1.40% |
| Nutrien Ltd | 1.38% |
| TORC Oil & Gas Ltd | 1.36% |
| Top 25 Holdings | 56.01% |

The total Net Asset Value of the Fund as at December 31, 2019 was $25.5 million.

## EXPLANATORY NOTES TO FINANCIAL HIGHLIGHTS

**Net Assets per Unit:**

(1) This information is derived from the Fund's audited annual financial statements. 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 changes was done restrospectivly to the 2013 and 2012 financials statements.

(2) Net assets and distributions are based on the actual number of units 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 financial period. This table is not intended to be a reconciliation of opening and closing nets assets per units.

(3) Distributions were paid in cash to unitholders who ask for cash payment. For the other unitlholders, the distributions were reinvested in additional units of the Fund.

**Ratios and Supplemental Data:**

(1) This information is provided as at December 31 of the year shown.

(2) The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction 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 daily average 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 turnover rate 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 necessarily a relationship between a high turnover rate and the performance of a fund.

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

For more information contact your investment advisor or:

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