

PALOS

2020 SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

PALOS EQUITY INCOME FUND

FOR THE PERIOD ENDED JUNE 30, 2020

Portfolio Manager

Palos Management Inc. ("Palos")

Charles Marleau, CIM

President & Senior Portfolio Manager

Amelia Li

Financial Analyst

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, 2019, 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, 2019.

Results of Operations

As at June 30, 2020, the total net asset value of the Fund was \$21,030,608, an increase of 17.6% from December 31, 2019. This includes \$1,664,535 in net withdrawal and \$39,461 in distributions net of reinvested distribution in the Fund by its unitholders.

The S&P/TSX Composite Total Return Index, which includes reinvested dividends, saw a decline of -7.5% for the first six months of 2020. The value decline in the index, without accounting for reinvested dividends, was -9.1%. The weakest performing sectors were the financials and energy sectors, which were lower by 11.5% and 45.7% respectively. These two sectors represent a combined weight of approximately 41% of the composite index. On a positive note, the underperformance we saw in financials and energy was offset by superior performance in the information technology and consumer staples sectors. These were higher by 73.0% and 3.2% respectively. This relative outperformance of technology and consumer staples is attributable to these sectors having lower economic sensitivity to the COVID-19 pandemic, current geopolitical concerns (namely Hong Kong), massive central bank interventions, and an increase in financial markets volatility.

Even though the fund's exposure to energy was underweight, energy sector weakness had an impact on performance. This underperformance stems from the fund's tactical overweight in the exploration & production sub-sector and a tactical underweight in both the storage & transportation, and integrated oil & gas sectors. At the beginning of 2020, the manager held the view that there was a significant investment opportunity given our perceived undervaluation of exploration & production companies. However, the onset of the pandemic had an immediate and dramatic impact on global demand and the price of oil. Recognizing that COVID-19 was accelerating and that the effects would likely be felt longer term, the manager reacted by quickly changing our demand driven thesis for energy. Our holdings in exploration & production companies were reduced, with Tourmaline Oil Corp. (TSX: TOU) and Suncor (TSX: SU) being the exceptions.

In the case of TOU, we hold a favorable view as despite the company's name implying it is an oil company, TOU is primarily a natural gas company. Given the massive investment being made on LNG terminals on the B.C. coast and the fact that natural gas has an environmental advantage over hydrocarbons, we hold a bullish long-term view on natural gas. As for Suncor, SU is Canada's largest fully integrated oil & gas company. By being fully integrated, SU has "top to bottom" operations that begin with exploration & development (e.g. oil sands), and includes refineries, ethanol, wind farms, and a wholesale/retail network that exceeds 1,500 locations under the Petro-Canada banner. Going forward,

the manager intends to remain underweight the Canadian energy sector and where invested, maintain a focus on high quality companies.

On the financial front, the fund remains underweight the sector. The manager believes that with central banks committed to interest rate policies implying "lower rates for longer", such policy will have a negative impact on life insurance companies, or "lifecos". These companies are highly sensitive to rates and has buoyed our decision to underweight the "lifecos". With elevated volatility in equity markets and current economic uncertainty influencing investors, the manager has chosen to focus our financial sector exposure on top tier banks. Among the banks, we prefer those with a history of reliable dividend growth, exposure to the U.S. market, and a commercial lending presence. This rationalizes our equal weight approach to the fund's holdings in Royal Bank of Canada (TSX: RY), Toronto Dominion Bank (TSX: TD) and Bank of Montreal (TSX: BMO).

On the information technology front, Shopify (TSX: SHOP) continues to be a significant outperformer versus the index. At the end of June, SHOP represented about 6.2% of the index composition and as of June 30, the stock was up 150% since the start of 2020. Clearly a market leader, SHOP's significant outperformance was key to the S&P TSX Composite's second quarter rally. While SHOP remains our largest holding in the technology sector, the manager is underweight vis-a-vis the index. The rationale for underweighting SHOP versus the index weighting is our conviction that over exposure to a single security poses elevated and unnecessary portfolio risk. At the same time, we still like the name and thus SHOP remains our largest tech holding.

Being a responsible portfolio manager also means that diversification is important. Further to this point, it should also be noted that proper diversification helps mitigate risk. In this regard, it is important to disclose that the fund presently has exposure to all eleven sectors of the economy.

Recent Developments

As we navigate our way towards a new normal, the manager is pleasantly surprised with the resiliency of the markets. Main street has responded positively to fiscal stimulus and easing monetary policy. In particular, the housing sector, labour markets, international trade and population movements have seen a noticeable pickup. With historically low interest rates, mortgage applications are at an all-time high. The Baltic Dry Index, which is a reliable indicator of international trade, has quadrupled since mid-May and has astonishingly returned to its December 2019 level. The number of Americans & Canadians applying for first-time unemployment benefits has been edging lower and employers are recalling workers and making new hires. It has become apparent that we are in recovery mode.

Recent data shows that industrial production is lagging the robust recovery in retail sales. While the gap implies that inventory drawdowns are taking place, it also suggests that inventory depletion should eventually lead to a jump in factory orders. The Manager is expecting to see a "catch up" trade in the industrial sector over the coming months. Furthermore, government infrastructure programs are sure to come and the magnitude of infrastructure spending will provide a significant boost to

industrials. Hence, we have increased our exposure to infrastructure related companies.

In the past two weeks, we've seen a spike in coronavirus activity, and this is confirmed by increasing cases and hospitalizations in the southern and western United States. Texas, Southern California, Florida, Arizona, and the Carolinas have been particularly affected. This should come as no surprise as these states were among the first to relax social distancing rules. Cases are also on the rise in Brazil, China, Australia, and South Korea. This should send a clear signal that we are not yet out of the woods. Regardless of the spike, most governments have made it abundantly clear that shutting down the economy is not on the table. Unfortunately, no virus will respond to the actions of central banks or the whims of any political agenda and as a result, a sense of normalcy will only return with a vaccine, herd immunity or widespread observance of other preventive measures.

Government officials and central banks around the globe have indicated that the cycle of monetary and fiscal stimulus is not over. Across the board, authorities remain concerned that neither supply chains nor factory output have returned to January levels. Thus, central banks are pushing for a continuation of fiscal stimulus to encourage the "animal spirits" of economic activity to kick in. Consensus abounds that ending the aggressive stimulus following the initial "relief phase" will not suffice and governments have manifested their willingness to help.

The Federal Reserve Board has enacted corporate bond purchase programs and has also indicated a willingness to act in equity markets, if necessary. The Bank of England has expanded its bond-buying program by 100 billion pounds, the ECB conducted a huge 1.3 trillion euro liquidity operation with European banks and the People's Bank of China has supplied Chinese banks with 200 billion Yuan in fresh liquidity. Given the magnitude of these massive programs, it makes perfect sense that the trifecta of pent up consumer demand, massive fiscal stimulus funding, and the redeployment of cash away from safe havens will lead to significant economic growth in 2021 and beyond.

As we know from experience, it is important to recognize that financial markets are forward looking mechanisms and should not be viewed in the same light as the economy. In other words, the recent strength in equities should come as no surprise as the "smart money" is putting cash to work with the knowledge that money invested today, will be rewarded in the future when the economy has recovered. As this process plays out, the pessimism and uncertainty of today will be replaced with optimism and confidence. To conclude, I feel compelled to emphasize the principle that money invested today is done so with an eye on "better days" that surely lie ahead.

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 ten years.

	June 30, 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
The Fund's Net Assets per Unit ⁽¹⁾										
Net Assets, beginning of period	\$5.72	\$5.35	\$6.68	\$6.38	\$5.93	\$6.73	\$7.09	\$6.82	\$7.37	\$8.65
Increase (decrease) from operations:										
Total revenue	0.08	0.18	0.17	0.18	0.17	0.20	0.24	0.27	0.30	0.36
Total expenses	(0.07)	(0.17)	(0.16)	(0.16)	(0.17)	(0.21)	(0.20)	(0.34)	(0.29)	(0.49)
Realized gains (losses) for the period	(0.21)	0.01	0.27	0.40	0.30	0.14	0.77	0.63	(0.06)	(0.08)
Unrealized gains (losses) for the period	(0.37)	0.74	(1.20)	0.30	0.66	(0.14)	(0.36)	0.51	0.27	(0.35)
Total increase (decrease) from operations ⁽²⁾	(0.57)	0.76	(0.94)	0.72	0.96	(0.01)	0.45	1.07	0.22	(0.56)
Distributions:										
From income (excluding dividends)	0.00	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	0.00
From capital gains	0.00	0.00	0.23	0.34	0.13	0.00	0.59	0.11	0.00	0.00
Return of capital	0.05	0.38	0.17	0.06	0.37	0.80	0.21	0.69	0.80	0.80
Total Annual Distributions ⁽³⁾	0.05	0.40	0.40	0.40	0.50	0.80	0.80	0.80	0.80	0.80
Net Assets, end of period	\$5.09	\$5.72	\$5.35	\$6.68	\$6.38	\$5.93	\$6.73	\$7.09	\$6.82	\$7.37

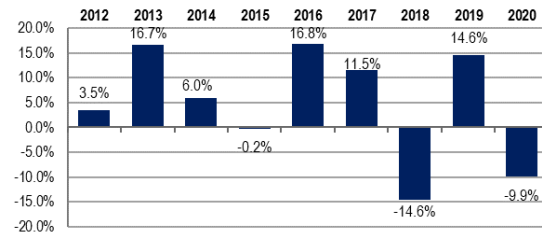
	June 30, 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Ratios/Supplemental Data										
Total Net Asset Value (\$000's) ⁽¹⁾	15,024	17,011	15,862	19,092	18,649	17,587	19,195	17,643	16,071	14,219
Number of units outstanding (000's)	2,950	2,976	2,966	2,857	2,924	2,941	2,852	2,489	2,358	1,925
Management expense ratio ⁽²⁾	2.78%	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	2.78%	2.71%	2.52%	2.51%	2.60%	3.00%	2.72%	5.11%	4.03%	5.37%
Trading expense ratio ⁽³⁾	0.13%	0.18%	0.31%	0.29%	0.25%	0.17%	0.35%	0.16%	0.09%	0.22%
Portfolio turnover rate ⁽⁴⁾	59.74%	63.56%	86.11%	73.31%	108.62%	91.47%	168.61%	113.53%	107.02%	111.72%
Net Asset Value per unit	\$5.09	\$5.72	\$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, 2020

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 nine years.

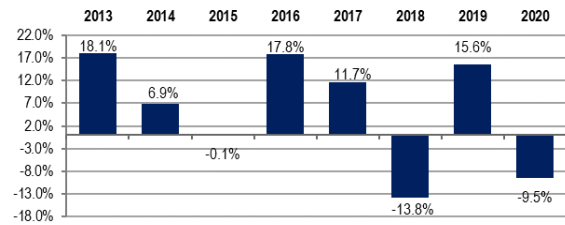
The Fund's Net Assets per Unit ⁽¹⁾	June 30, 2020	2019	2018	2017	2016	2015	2014	2013	2012
Net Assets, beginning of period	\$6.17	\$5.69	\$7.03	\$6.67	\$6.13	\$6.92	\$7.21	\$6.84	\$7.18
Increase (decrease) from operations:									
Total revenue	0.09	0.19	0.17	0.19	0.17	0.21	0.24	0.27	0.23
Total expenses	(0.06)	(0.13)	(0.1)	(0.16)	(0.13)	(0.20)	(0.18)	(0.23)	(0.19)
Realized gains (losses) for the period	(0.23)	0.01	0.28	0.45	0.30	0.12	0.41	0.64	(0.08)
Unrealized gains (losses) for the period	(0.67)	0.79	(1.28)	0.35	0.81	(0.19)	(0.56)	0.63	0.21
Total increase (decrease) from operations ⁽²⁾	(0.87)	0.86	(0.94)	0.83	1.15	(0.06)	(0.09)	1.31	0.17
Distributions:									
From income (excluding dividends)	0.00	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00
From dividends	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00
From capital gains	0.00	0.00	0.23	0.38	0.32	0.00	0.40	0.11	0.00
Return of capital	0.05	0.34	0.17	0.02	0.18	0.80	0.40	0.69	0.60
Total Annual Distributions ⁽³⁾	0.05	0.40	0.40	0.40	0.50	0.80	0.80	0.80	0.60
Net Assets, end of period	\$5.52	\$6.17	\$5.69	\$7.03	\$6.13	\$6.13	\$6.92	\$7.20	\$6.84
Ratios/Supplemental Data	June 30, 2020	2019	2018	2017	2016	2015	2014	2013	2012
Total Net Asset Value (\$000's) ⁽¹⁾	6,006	8,509	9,040	11,160	5,707	2,638	1,874	671	326
Number of units outstanding (000's)	1,087	1,380	1,587	1,588	855	430	271	93	48
Management expense ratio ⁽²⁾	1.93%	1.86%	1.67%	2.41%	1.74%	2.85%	1.83%	3.40%	3.55%
Management expense ratio before waivers or absorptions	1.93%	1.86%	1.67%	2.41%	1.74%	2.85%	1.88%	3.77%	3.55%
Trading expense ratio ⁽³⁾	0.36%	0.19%	0.31%	0.32%	0.22%	0.17%	0.34%	0.22%	0.10%
Portfolio turnover rate ⁽⁴⁾	59.74%	63.56%	86.11%	73.31%	108.62%	91.47%	168.61%	113.53%	107.02%
Net Asset Value per unit	\$5.52	\$6.17	\$5.69	\$7.03	\$6.67	\$6.13	\$6.93	\$7.21	\$6.84

PAST PERFORMANCE

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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, 2020

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2020

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	96.97
United States	3.03
Total	100.00

Sector Weightings (%)

Communication Services	3.35
Consumer Discretionary	6.71
Consumer Staples	4.53
Energy	10.26
Financials	22.98
Health Care	1.48
Industrials	15.26
Information Technology	7.55
Materials	10.31
Real Estate	7.09
Utilities	8.75
Cash	1.73
Total	100.00

Portfolio Long/Short Breakdown (%)

Long positions	98.27
Short positions	-
Cash	1.73
Total	100.00

Asset Class Weightings (%)

Common Stocks	88.11
Fixed Income	10.16
Cash	1.73
Total	100.00

Top 25 holdings (%)

Royal Bank of Canada	4.38%
Innergex Renewable Energy Inc.	3.82%
The Toronto-Dominion Bank	3.77%
The Bank of Nova Scotia	3.76%
Bank of Montreal	3.16%
Shopify Inc.	2.52%
National Bank of Canada	2.18%
Canadian National Railway Co.	2.00%
iShares 1-5 Year Laddered Government Bond Index ETF	1.96%
Quebecor Inc.	1.88%
Canadian Pacific Railway Ltd	1.84%
Suncor Energy Inc.	1.82%
Fiera Capital Corp. 5% 30JUN2023 CONV. \$18.85	1.80%
Lundin Mining Corp.	1.67%
Capital Power Corp.	1.65%
Lightspeed POS Inc.	1.60%
Northland Power Inc.	1.57%
North American Construction Group Ltd 5% 31MAR2026 CONV. \$26.25	1.48%
TELUS Corp.	1.47%
Pembina Pipeline Corp.	1.44%
Keyera Corp.	1.43%
Enbridge Inc.	1.38%
Boardwalk Real Estate Investment Trust	1.37%
GFL Environmental Inc.	1.35%
Canadian Tire Corp Ltd	1.32%
	52.62%

The total Net Asset Value of the Fund as at June 30, 2020 was \$21,030,608

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:

Palos Management Inc.

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