



Genus Government Bond Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

This Annual Management Report of Fund Performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-668-7366, by writing to us at 860 - 980 Howe Street Vancouver, British Columbia V6Z 0C8, or by visiting our website at www.genuscap.com/Financial-Reports-Prospectus or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Management Discussion of Fund Performance

Investment Objective and Strategies

The Fund's investment objective is to preserve capital, generate income and create added value through active duration and yield curve management by investing in a variety of bonds issued by Canadian Federal, Provincial and Municipal governments, as well as securities issued by the US Federal government.

Risk

During the period, duration risk moved significantly. We started the year with a duration 1-year shorter than the benchmark, which subsequently decreased further to 1.8 years shorter than the benchmark at the end of the first half of the year. In the second half, with monetary policy becoming less stimulative and rates moving closer to the manager's targets, duration was then moved back to be closer to that of the benchmark, but by the end of the quarter moved back to 1-year shorter in tandem with the rally in interest rates. With respect to sector exposures, the manager had exposure in US Government securities to kick off 2017 that they took profit on and reinvested in the Provincial sector. From a credit risk perspective, there was an approximately 10% decrease in percentage of the portfolio invested in AAA rated Federal bonds that was used to increase the portfolio's overall percentage in A rated Provincial issues.

Results of Operations

The Fund's net asset value increased to \$49.1 million as of December 31, 2017, from \$33.4 million at the end of 2016. Over the past year, the Fund's return was +1.8%, which under performed +2.2% FTSE TMX Canada All Government Bond Index.

Market interest rates were volatile during 2017, with the yield curve in Canada flattening with short-term rates rising and long-term rates falling. In this environment, the Fund benefited from its yield curve positioning, particularly in the 5 to 10-year space; however, this was more than offset by the Fund's underweight in 10 to 30 year bonds, combined with a shorter-than benchmark duration.

Recent Developments

It has been a long time since the global economy was this strong and in sync. This is what the equity markets are pointing to, with the European and Asian exchanges following the course mapped by the North American markets for close to nine years now (March 2009). However, it bears noting that central banks implemented extraordinary measures in response to the 2008 financial crisis to prevent financial markets and the global economy from hitting rock bottom like they had during the Great Depression. Now that the economy has shifted into gear, North American central banks have begun to ease off by phasing out these exceptional measures, allowing interest rates to start moving up in the second half. In addition to safeguarding against the woes of the Great Depression, the measures put in place by central banks were aimed at stoking inflation, which was rather feeble following the years of unrestrained consumption in the early days of the millennium. Here too central banks seem to have finally delivered the right medicine. After so many years of growth - it will take only eight more months for the current cycle to become the longest in more than 150 years, that is, since records started being kept - the rate of inflation seems to be heading toward the 2% target as generally defined by central banks. Yes, inflation is being driven by changes in crude oil prices; however, the long-term phenomena we have known for a while but whose effects we are only now just starting to see, such as labour shortages in industrialized countries, are also playing a part. In a social context where the gap between rich and poor is getting wider, any policy with a populist slant, especially one that is protectionist, looks attractive and easy to implement, at least in the short term. This is what is driving the government of the world's largest economy, which has little regard for the consequences of such policies in the long run. Other countries that have not succumbed to the temptation of populism nonetheless remain vulnerable to the grievances of their electorate, which could influence their policies. Such social and political pressures have prompted governments to raise the minimum wage. In an environment of strong economic growth, these types of measures are highly likely to add to inflation, just like pay increases for jobs involving specialized skills.

Will the pickup in inflation clear the way for higher interest rates? It would be easy to think so. Let's not forget that financial markets were used to being coddled for years by institutions looking out for their health. This no longer seems to be needed in today's climate. That is what central banks are seeing but not governments, whose pro-cyclical policies will fan the flames of inflation. This combination of monetary and fiscal policies is fertile ground for an increase in bond yields. In response to higher inflation, central bank rate hikes, first in North America, will drive up shorter-term bond yields. The outlook is more complicated for long-term interest rates. On the one hand, governments' expansionary fiscal policies should result in a greater supply of bonds to finance deficits. On the other hand, any increase in long-term rates will boost demand for long duration bonds for matching purposes. To these supply and demand considerations, we must add the market's assessment of central banks' battle against inflation and the term premium compressed by close to a decade of financial repression. This is quite a challenge after so many years of low interest rates and inflation. With that in mind, we can assume that the market will struggle to find its signposts, which may result in greater bond market volatility.

Related Party Transactions

Genus Capital Management Inc. is the manager and main portfolio advisor of the Fund and is responsible for the Fund's day-to-day operations. Genus Capital Management Inc. is considered a related party of the Fund. The Fund pays the Manager a management fee as compensation for its services in respect of Series F units. The annualized management fee for the Series F units is 0.49% (subject to applicable taxes). During the year ended December 31, 2017, the Fund paid the Manager \$0 in management fees because no Series F units have been distributed as at the date of this document.

As at December 31, 2017, the Genus Balanced Fund owns 26,996 units of the Genus Government Bond Fund, a fund under common management. This holding represents approximately 6.3% of this Fund.

Management Fees

The Fund pays an annual management fee to the Manager to provide or arrange to provide management and administrative services in respect of Series F units. The fees are calculated based on a percentage of the net asset value of Series F units of the Fund on each valuation day and are paid on a monthly basis. The annualized management fee for the Series F units of the Fund is 0.49% (subject to applicable taxes). During the year ended December 31, 2017, the Series F units paid the Manager \$0 in management fees because no Series F units have been distributed as at the date of this document.

Management Discussion of Fund Performance (cont.)

In respect of Series O units, no management fees are paid by the Fund. The unitholder of Series O pays the Manager a negotiated management fee outside of the Fund.

Financial Highlights

The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit

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 applicable periods indicated. The Fund became a reporting issuer on October 23, 2017.

Series O <small>*Series O units are only offered by way of private placement</small>	2017	2016
Net asset value, beginning of year	\$ 114.78	\$ -
Increase (decrease) from operations:		
Total revenue	2.80	-
Total expenses	(0.31)	-
Realized gains (losses) for the year	(0.62)	-
Unrealized gains (losses) for the year	0.21	-
Total increase (decrease) from operations⁽¹⁾	2.08	-
Distributions:		
From income (excluding dividends)	(2.32)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total Annual Distributions⁽²⁾	(2.32)	-
Net asset value, end of year	\$ 114.45	\$ -

Series F (Inception October 23, 2017) <small>*No Series F units have been distributed as at the date of this document</small>	2017	2016
Net asset value, beginning of year	\$ -	\$ -
Increase (decrease) from operations:		
Total revenue	-	-
Total expenses	-	-
Realized gains (losses) for the year	-	-
Unrealized gains (losses) for the year	-	-
Total increase (decrease) from operations⁽¹⁾	-	-
Distributions:		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total Annual Distributions⁽²⁾	-	-
Net asset value, end of year	\$ -	\$ -

¹ Net assets attributable to holders of redeemable units and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

² Distributions are reinvested in additional units of the Fund or paid in cash.

Financial Highlights (cont.)**Ratios and Supplemental Data**

Series O *Series O units are only offered by way of private placement	2017	2016
Total net asset value	\$ 49,111,903	\$ -
Number of units outstanding ⁽¹⁾	429,094	-
Management expense ratio ⁽²⁾	0.27%	-
Management expense ratio before waivers or absorptions	0.27%	-
Trading expense ratio ⁽³⁾	n/a	-
Portfolio turnover rate ⁽⁴⁾	172.26%	-
Net asset value per unit	114.45	-

Series F (Inception October 23, 2017) *No Series F units have been distributed as at the date of this document	2017	2016
Total net asset value	\$ -	\$ -
Number of units outstanding ⁽¹⁾	-	-
Management expense ratio ⁽²⁾	-	-
Management expense ratio before waivers or absorptions	-	-
Trading expense ratio ⁽³⁾	-	-
Portfolio turnover rate ⁽⁴⁾	-	-
Net asset value per unit	-	-

1 This information is provided as at December 31 of the year shown; unless noted otherwise.

2 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 the 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. The trading expense ratio is not applicable to fixed-income transactions.

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.

PAST PERFORMANCE

As the Fund has been a reporting issuer for less than a year, past performance data is not available.

Summary of Investment Portfolio

As at December 31, 2017

Top 25 Investments

Holdings	Percentage of Net Asset Value of the Fund (%)
1 Province of Ontario, 2.85%, Jun 02, 2023	10.9
2 Government of Canada, 0.75%, Aug 01, 2019	8.1
3 Canada Housing Trust No.1, 1.75%, Jun 15, 2022	7.2
4 Province of Ontario, 3.15%, Jun 02, 2022	6.2
5 Province of Ontario, 4.00%, Jun 02, 2021	4.6
6 Canada Housing Trust No.1, 1.90%, Sep 15, 2026	4.1
7 Province of Quebec, 2.75%, Sep 01, 2027	3.5
8 Government of Canada, 2.75%, Dec 01, 2048	3.4
9 Canadian Mortgage Pools, 1.40%, May 01, 2021	3.4
10 Canadian Mortgage Pools, 1.39%, Sep 01, 2020	3.4
11 Province of Quebec, 6.25%, Jun 01, 2032	3.3
12 Province of Ontario, 3.50%, Jun 02, 2024	2.6
13 City of Montreal, 3.50%, Sep 01, 2024	2.1
14 Province of Alberta, 2.55%, Jun 01, 2027	2.1
15 Province of Ontario, 6.50%, Mar 08, 2029	2.1
16 Province of British Columbia, 6.35%, Jun 18, 2031	2.1
17 Province of Ontario, 5.85%, Mar 08, 2033	1.8
18 Province of Ontario, 1.95%, Jan 27, 2023	1.6
19 Province of Ontario, 2.75%, Sep 01, 2025	1.5
20 Municipal Finance Authority of British Columbia, 2.95%, Oct 14, 2024	1.5
21 Province of Saskatchewan, 3.30%, Jun 02, 2048	1.5
22 Province of Ontario, 2.60%, Jun 02, 2027	1.5
23 Province of Quebec, 5.75%, Dec 01, 2036	1.4
24 Province of Quebec, 5.00%, Dec 01, 2041	1.4
25 City of Montreal, 3.00%, Sep 01, 2025	1.3
	82.6
Total Net Asset Value (000's)	\$49,112

Sector Allocation

	Percentage of Net Asset Value of the Fund (%)
Canadian Provincial Bonds	56.6
Canadian Federal Bonds	25.9
Canadian Mortgage-Backed Securities	9.2
Canadian Municipal Bonds	6.1
Canadian Corporate Bonds	1.5
Cash and Cash Equivalents	0.7
	100.0

Asset Mix

	Percentage of Net Asset Value of the Fund (%)
Canadian Fixed Income	99.3
Cash and Cash Equivalents	0.7
	100.0

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available at <https://genuscap.com/Financial-Reports-Prospectus>

This Management Report of Fund Performance may contain forward-looking statements relating to anticipated results or expectations. Forward-looking statements require us to make assumptions, and are subject to inherent risks and uncertainties. Forward-looking statements are not guarantees of future performance. We caution you not to place undue reliance on this report, as a number of factors could cause actual future results, or events to differ materially from expectations and estimates expressed or implied in any forward-looking statements. Actual results may differ from management expectations for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments. The above-mentioned list of factors is not exhaustive. You should carefully consider these factors and the inherent uncertainty of forward-looking statements before making any investment decisions. Further, you should be aware that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.