



# Genus Fossil Free Dividend Equity Fund

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2018

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This Interim Management Report of Fund Performance contains financial highlights, but does not contain either the complete interim financial statements or the complete annual financial statements of the Fund. You can get a copy of the interim financial statements and annual financial statements at your request, and at no cost, by calling 1-800-668-7366 or 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](http://www.genuscap.com/Financial-Reports-Prospectus) or SEDAR at [www.sedar.com](http://www.sedar.com). Security holders 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.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

This is a lower volatility, higher yield solution. The Fund follows an active total equity approach and invests in large-cap common stocks with a geographic home-based of 35% Canada and 65% global. The Fund emphasizes leading industries in each region, and integrates broad Environmental, Social and Governance (ESG) criteria. This Fund also excludes all companies directly involved in the extraction, processing and transportation of fossil fuels.

This Fund offers a complete equity solution and aims to be 25% safer than the overall market with superior returns and a dividend yield of 4% or better. The portfolio is also designed to provide strong alignment with ESG.

Genus Capital Management Inc. (the Fund's Manager) implements a quantitative multi-style stock discipline that examines factors in the areas of value, growth, expectation, momentum, quality and sustainability. In addition to high return potential and attractive yield, this strategy emphasizes stocks with low beta and low correlation characteristics. Geographical location is actively managed through our DynaMix process, which seeks to overweight attractive regions and underweight areas presenting more risk.

### Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period and the risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's net asset value increased to \$67.3 million as at June 30, 2018 from \$66.4 million as at December 31, 2017. Over the past six months, the Fund's net return was 2.75% versus 4.46% benchmark. The Fund's return is after the deduction of expenses.

The first half of the year saw markets rebound on the back of strong first-quarter earnings and improving investor sentiment. Although trade war tensions remain high, markets edged higher as they brushed off new and ongoing threats from national leaders.

The S&P 500 performed well following the first-quarter downturn. It gained 3.41% (5.51% in CAD terms) in the second quarter led by the Consumer Staples and Information Technology sectors, while Financials and Industrials were the largest drags on performance slipping -0.46% and -0.32% respectively.

In Canada, market confidence returned despite intra-provincial conflicts over pipelines and heightening tensions around trade with the US. The TSX gained 6.59% over the quarter led in part by the Industrials sector, which contributed 0.93% to the index. Other positive performers included the IT, Health Care, and Materials sectors.

Political tensions and trade dominated headlines during the second quarter, generating a lot of noise. All eyes were on what turned out to be an uneventful photo op—instead of an historic summit—between the US and North Korea. The tariffs targeted at China go beyond just fixing trade deficits. They have broader implications for the ongoing technology race and intellectual property battles between China and the US. Volatility is likely as we move through the third quarter as China retaliates in a tit-for-tat cycle.

With the steel and aluminum tariffs exemptions expiring at the end of May, and a lack of progress in talks between the US and its allies, many nations replied with calculated, one-for-one counter tariffs against the US. The European Union (EU) kicked things off a week before Canada by placing tariffs on €2.8 billion worth of US exports. Tensions escalated when President Trump aimed his sights on European automakers, prompting investors to fear a full-blown trade war.

Canada's relationship with the U.S. under President Trump, rocky at best, reached new lows in May. The two leaders openly criticized each other after the G7 meeting as trade talks worsened. Canada fired back just before quarter end with tariffs worth CAD\$16.6 billion on items ranging from steel and aluminum to orange juice, frozen pizza and beer. Despite the escalating threats and harsh rhetoric, we believe cooler heads will prevail. But we do not expect to see a NAFTA deal until after the US midterm elections in November.

European political uncertainty set off alarm bells in early June. Fears of Italy leaving the EU and writing off its debt sent panic rippling through the bond markets. The spread between Italian and German bond yields, a measure of market risk, surged to levels not seen since 2013. Unsurprisingly, as the third-largest bond market in the world, Italy dragged bond yields lower. This trend wasn't confined to the EU. As investors sought safe havens volatility gripped markets across the globe. It abated in the end, but skepticism is still a driving force. The bond market has since remained-range bound, but at a lower rate than before Italy spooked investors.

For the Genus Fossil Free Dividend Fund, we had a 2.91% gross return (in CAD terms) versus the benchmark of 4.46%. Our zero allocation in the Energy sector had a negative effect on performance in this period since Energy appreciated 7.56%, beating the overall benchmark. An overweight position in Telecommunications and an underweight position in Information Technology also contributed negatively to performance. For stock selection, we underperformed in Financials and Information Technology.

Top performers were Macy's (Consumer Discretionary), Flowers Foods (Consumer Staples), and Sainsbury (Consumer Staples). The bottom performers were Canon (Information Technology), IGM Financial (Financials), and Persimmon (Consumer Discretionary).

## Recent Developments

Considering the uncertainty surrounding a possible trade war and the potential for further US rate hikes through the rest of the year, we hold a more balanced view between equities and fixed income for the third quarter. From a country bets perspective, we favour the US because of its stronger economic data and more solid fundamentals. We are not overly optimistic about markets represented by the Europe, Australasia and the Far East (EAFE) Index due to a range of market-specific factors including trade tensions, Brexit negotiations and the potential knock-on effects on the banking system caused by a shaky Italian political scene.

In terms of sector exposures, we are starting to favour some defensive sectors, including Health Care and Telecoms. On the other hand, we still favour Consumer Discretionary the most among cyclical sectors. We have shifted IT and Materials back to neutral, because of their exposure to fallout from a potential trade war. We still view Financials negatively given current levels of market volatility.

## Related Party Transactions

Genus Capital Management Inc. is the manager and 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 0.65% (subject to applicable taxes). During the period ended June 30, 2018, 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 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 0.65% (subject to applicable taxes). During the period ended June 30, 2018, 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.

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.

<b>Series O</b> <small>*Series O units are only offered by way of private placement</small>	<b>2018</b> <b>Jun 30</b>	<b>2017</b> <b>Dec 31</b>
<b>Net asset value, beginning of period/year</b>	<b>\$ 106.73</b>	<b>\$ 103.38</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	2.77	3.64
Total expenses	(0.52)	(1.13)
Realized gains (losses) for the period/year	3.01	6.05
Unrealized gains (losses) for the period/year	(2.36)	1.39
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>2.90</b>	<b>9.95</b>
<b>Distributions:</b>		
From income (excluding dividends)	(1.00)	(1.93)
From dividends	(0.77)	(1.17)
From capital gains	-	(3.28)
Return of capital	-	-
<b>Total Annual Distributions<sup>(2)</sup></b>	<b>(1.77)</b>	<b>(6.38)</b>
<b>Net asset value, end of period/year</b>	<b>\$ 107.83</b>	<b>\$ 106.73</b>

<b>Series F</b> (Inception October 23, 2017) <small>*No Series F units have been distributed as at the date of this document</small>	<b>2018</b> <b>Jun 30</b>	<b>2017</b> <b>Dec 31</b>
<b>Net asset value, beginning of period/ year</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	-	-
Total expenses	-	-
Realized gains (losses) for the period/ year	-	-
Unrealized gains (losses) for the period/year	-	-
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>-</b>	<b>-</b>
<b>Distributions:</b>		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total Annual Distributions<sup>(2)</sup></b>	<b>-</b>	<b>-</b>
<b>Net asset value, end of period/year</b>	<b>\$ -</b>	<b>\$ -</b>

<sup>1</sup> 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.

<sup>2</sup> Distributions are reinvested in additional units of the Fund or paid in cash.

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

<b>Series O</b> *Series O units are only offered by way of private placement	<b>2018</b> <b>Jun 30</b>	<b>2017</b> <b>Dec 31</b>
Total net asset value	<b>\$ 67,330,336</b>	\$66,431,297
Number of units outstanding <sup>(1)</sup>	<b>624,400</b>	622,412
Management expense ratio <sup>(2)</sup>	<b>0.26%</b>	0.28%
Management expense ratio before waivers or absorptions	<b>0.26%</b>	0.28%
Trading expense ratio <sup>(3)</sup>	<b>0.30%</b>	0.50%
Portfolio turnover rate <sup>(4)</sup>	<b>60.82%</b>	148.13%
Net asset value per unit	<b>107.83</b>	106.73

<b>Series F</b> (Inception October 23, 2017) *No Series F units have been distributed as at the date of this document	<b>2018</b> <b>Jun 30</b>	<b>2017</b> <b>Dec 31</b>
Total net asset value	\$ -	\$ -
Number of units outstanding <sup>(1)</sup>	-	-
Management expense ratio <sup>(2)</sup>	-	-
Management expense ratio before waivers or absorptions	-	-
Trading expense ratio <sup>(3)</sup>	-	-
Portfolio turnover rate <sup>(4)</sup>	-	-
Net asset value per unit	-	-

1 This information is provided as at June 30 and 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.

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 June 30, 2018

## Top 25 Investments

Holdings	Percentage of Net Asset Value of the Fund (%)
1 Archer-Daniels-Midland Co.	3.5
2 The Toronto-Dominion Bank	3.5
3 NTT DOCOMO Inc.	3.5
4 Cash	3.5
5 National Bank of Canada	3.4
6 Canadian Imperial Bank of Commerce	3.4
7 Macy's Inc.	3.4
8 Norbord Inc.	3.3
9 Pfizer Inc.	3.2
10 Canadian Apartment Properties REIT	3.1
11 Sun Life Financial Inc.	2.9
12 Royal Bank of Canada	2.7
13 Koninklijke Ahold Delhaize NV	2.5
14 Sonoco Products Co.	2.5
15 Canon Inc.	2.4
16 Flowers Foods Inc.	2.4
17 Kohl's Corp.	2.3
18 VF Corp.	2.3
19 Power Financial Corp.	2.2
20 Cisco Systems Inc.	2.2
21 BCE Inc.	2.2
22 Royal Mail PLC	2.1
23 Sampo Oyj	2.0
24 J Sainsbury PLC	2.0
25 Shaw Communications Inc.	1.9
	<b>68.4</b>
<b>Total Net Asset Value (000's)</b>	<b>\$67,330</b>

## Sector Allocation

	Percentage of Net Asset Value of the Fund (%)
Financials	24.6
Consumer Discretionary	13.6
Consumer Staples	11.4
Real Estate	8.9
Information Technology	8.5
Telecommunication Services	8.0
Industrials	7.2
Materials	6.8
Health Care	6.2
Cash and Cash Equivalents	4.8
	<b>100.0</b>

## Asset Mix

	Percentage of Net Asset Value of the Fund (%)
Canadian Equities	35.9
U.S Equities	34.9
International Equities	24.4
Cash and Cash Equivalents	4.8
	<b>100.0</b>

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.