



# Genus Dividend Equity Fund

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2018

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This Annual Management Report of Fund Performance contains financial highlights, but does not contain complete annual financial statements of the Fund. You can get a copy of the 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

The Fund's investment objective is to provide a lower volatility, higher yield investment solution. It 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 primary strategy employed is one of quantitative security selection, holding between 40 and 100 securities that are expected to outperform the target index as a whole.

This Fund offers a hybrid equity solution, which aims to provide moderate risk adjusted return from equity market exposure compared to fixed income assets, and a consistent positive cash inflow by maintaining a dividend yield of 4% or better. On top of the equity performance, the fund is also allowed to invest in money market instruments, futures/forward contracts, swaps, options, and other derivatives to manage cash flows, beta, and hedge currency exposure without creating leverage.

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 lower beta and lower 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 \$262.7 million as at December 31, 2018 from \$255.1 million as at December 31, 2017. Over the same period, the Fund's net return was -0.9% versus the -3.1% benchmark. The Fund's net return is after the deduction of expenses.

Global stock markets fell during the fourth quarter with US stocks hit hardest as investors questioned how much farther the bull market could run. The US Federal Reserve struck a more hawkish tone on rate hikes than what the market wanted, which proved to be a major catalyst for the correction during the quarter. The weakest sectors during the fourth quarter were Information Technology and Industrials with the Real Estate and Utilities sectors eking out small gains.

Economic indicators are also showing signs of exhaustion in the market around the world. Purchasing Manager's Indexes (PMI) fell sharply in the last quarter from highs in early 2018 indicating a slowdown in producer engagement. Commodities and energy prices also fell with copper prices, methanol, and crude oil hitting sessions low dragged down by the trade war between the US and other key trading partners. Thankfully, Presidents Trump and Xi at the G20 summit in early December decided to take a 90-day breather and renegotiate.

Things are not looking optimistic in Europe. During the last quarter of 2018, the Yellow Vest movement in France gripped major metropolitan areas, causing a dent in France's GDP and budget. On top of this, President Macron had to increase wages and make tax cuts to subdue the protests. Brexit has had a stagnant quarter, with the people, UK parliament, UK Prime Minister, and the EU going back and forth to forge a deal that all parties can agree on before the March deadline. The most likely short-term outcome would be another no-confidence vote, and an extension to the Brexit deadline before any deal can be reached.

In Canada, the Canadian government found itself in a difficult situation after detaining Huawei's CFO, Meng Wanzhou, at the request of the US. Pressures from both the US and China began to mount when two Canadians were arrested in China shortly after the news broke. Many Chinese consumers began to boycott Canadian goods, causing some Canadians to worry that this sentiment could filter through to business investments and delay projects, putting further pressure on Canada's economy.

Canada fell less during the fourth quarter relative to the US, but lost more during 2018 overall, dropping 10.11% and 8.88% respectively. Financials and Industrials dragged the index down in the fourth quarter, but the Materials, Communication Services and Consumer Staples sectors finished the quarter in positive territory.

For the Genus Dividend Equity Fund, we had a total return of -0.9% versus the benchmark of -3.1%. Breaking down the performance, overweighting in Utilities sector contributed positively during the valuation correction in December, but the underweight position in Materials lowered the fund's performance. The underweight in Materials was due to the fact that most gold corporations pay little to no dividends, are heavy spenders on exploration and are usually low on cash. For stock selection, the best performing stocks in the Fund were Verizon Communication Inc. (Communication Services) and Pfizer Inc. (Healthcare). The worst performing stocks were Enbridge Inc. (Energy) and Archer Daniels Midland Co. (Consumer Staples).

### Recent Developments

Considering the uncertainty surrounding US and China trade negotiations, and the potential for further deterioration in global economic leading indicators, we hold a more balanced view between equities and fixed income, and favour the safe haven commodity for the fourth quarter. From a country bets perspective, we still favour the US because of the fiscal policy implemented in early 2018, which should have a positive ripple effect as tax returns are reinvested. We are not overly optimistic about markets represented by the Europe, Australasia and the Far East (EAFE) Index thanks 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. Market participants are also quite cautious on the energy market, and gave little to no credit to OPEC's effort to balance demand and supply. Optimistically, there is still some upside potential given China's effort to ease monetary policy and increase infrastructure spending to meet the economic growth set forth by the country's leader.

In terms of sector exposures, we favor defensive sectors, including Consumer Staples and Telecom. Among cyclical sectors, we believe the Material sector might regain some losses based on China's commitment to meet growth expectations and a broader shift to owning gold as fear of another downturn lurks around the market. We have shifted IT and Energy back to neutral, as we are near end of the business and credit cycle. We still view Financials and industrials 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 year ended December 31, 2018, the Series F units paid the Manager \$0 in management fees because no Series F units of the Fund have been sold since inception.

#### **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 year ended December 31, 2018, the Series F units paid the Manager \$0 in management fees because no Series F units of the Fund have been sold since inception.

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. This information is derived from the Fund's audited annual financial statements. 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>Dec 31</b>	<b>2017</b> <b>Dec 31</b>
<b>Net asset value, beginning of year</b>	<b>\$ 145.26</b>	<b>\$ 140.72</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	<b>5.82</b>	5.71
Total expenses	<b>(0.95)</b>	(1.33)
Realized gains (losses) for the year	<b>1.91</b>	9.76
Unrealized gains (losses) for the year	<b>(8.24)</b>	1.72
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>(1.46)</b>	15.86
<b>Distributions:</b>		
From income (excluding dividends)	<b>(0.15)</b>	(3.48)
From dividends	<b>(5.30)</b>	(1.63)
From capital gains	<b>(5.68)</b>	(5.93)
Return of capital	-	-
<b>Total Annual Distributions<sup>(2)</sup></b>	<b>(11.13)</b>	(11.04)
<b>Net asset value, end of year</b>	<b>\$ 133.03</b>	<b>\$ 145.26</b>

<b>Series F</b> (Inception October 23, 2017) <small>*No Series F units have been sold since inception</small>	<b>2018</b> <b>Dec 31</b>	<b>2017</b> <b>Dec 31</b>
<b>Net asset value, beginning of year</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	-	-
Total expenses	-	-
Realized gains (losses) for the year	-	-
Unrealized gains (losses) for the 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 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 periods. These tables are not intended to be a reconciliation of beginning to ending net assets per unit.

<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>Dec 31</b>	<b>2017</b> <b>Dec 31</b>
Total net asset value	\$ 262,705,692	\$255,080,277
Number of units outstanding <sup>(1)</sup>	1,974,852 <del>0</del>	1,756,020
Management expense ratio <sup>(2)</sup>	0.10%	0.06%
Management expense ratio before waivers or absorptions	0.10%	0.06%
Trading expense ratio <sup>(3)</sup>	0.25%	0.44%
Portfolio turnover rate <sup>(4)</sup>	118.50%	145.11%
Net asset value per unit	\$ 133.03	\$ 145.26

<b>Series F</b> (Inception October 23, 2017) * No Series F units have been sold since inception	<b>2018</b> <b>Dec 31</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 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

The following charts show how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if an investor did not reinvest distributions. They do not include deduction of sales, switch, redemption, or other optional charges (which dealers may charge) or income taxes payable, and these returns would be lower if they did. The Fund's past performance does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund's return of Series O units only, for one completed financial year the Fund was a reporting issuer. Investment performance in respect of Series F units is not available because no units of this series of the Fund have been sold since inception.



### Annual Compound Returns

The following table shows the annual compound returns of the Fund for the year ended on December 31, 2018, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of 35% S&P/TSX Composite Index and 65% MSCI World Index.

The broad-based index is the MSCI World Index.

For the Year ended December 31, 2018	1 Year
Series O*	-0.9%
Benchmark	-3.1%
Broad-based index	0.1%
Series F**	n/a
Benchmark	n/a
Broad-based index	n/a

\* Series O units were initially offered on May 1, 1989 by way of private placement. The table above shows the one completed financial year the Fund was a reporting issuer.

\*\*Series F units were created on October 23, 2017. Investment performance in respect of Series F units is not available because no units of this series of the Fund have been sold since inception.

A commentary on the market and/or information regarding the relative performance of the Fund as compared to its benchmark can be found under the Results of Operations section of this report.

### Index Descriptions

The S&P/TSX Composite Index is the headline index and the principal broad market measure for the Canadian equity markets.

The MSCI World Index, which is part of The Modern Index Strategy, is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI World Index does not offer exposure to emerging markets.

**Summary of Investment Portfolio**

As at December 31, 2018

**Top 25 Investments**

<b>Holdings</b>	<b>Percentage of Net Asset Value of the Fund (%)</b>
1 Cash	7.8
2 Pfizer Inc.	3.5
3 Verizon Communications Inc.	3.4
4 Exelon Corp.	3.1
5 Chevron Corp.	3.0
6 Canadian Apartment Properties REIT	2.9
7 Royal Bank of Canada	2.8
8 National Bank of Canada	2.7
9 BCE Inc.	2.7
10 Koninklijke Ahold Delhaize NV	2.6
11 SmartCentres Real Estate Investment Trust	2.6
12 Rogers Communications Inc.	2.6
13 Fortis Inc.	2.5
14 TELUS Corp.	2.4
15 Entergy Corp.	2.3
16 Exxon Mobil Corp.	2.2
17 Mitsubishi Corp.	2.2
18 CenterPoint Energy Inc.	2.2
19 Roche Holding AG	2.1
20 Swedbank AB	2.1
21 The Toronto-Dominion Bank	2.0
22 Allianz SE	2.0
23 Archer-Daniels-Midland Co.	2.0
24 Merck & Co., Inc.	1.9
25 Macquarie Group Ltd.	1.8
	<b>67.4</b>
<b>Total Net Asset Value (000's)</b>	<b>\$262,706</b>

**Sector Allocation**

	<b>Percentage of Net Asset Value of the Fund (%)</b>
Financials	19.4
Utilities	12.3
Communication Services	11.9
Energy	10.7
Cash and Cash Equivalents	9.4
Health Care	9.1
Real Estate	9.0
Consumer Staples	6.1
Industrials	5.0
Information Technology	3.5
Consumer Discretionary	2.3
Materials	1.3
	<b>100.0</b>

**Asset Mix**

	<b>Percentage of Net Asset Value of the Fund (%)</b>
U.S. Equities	34.6
Canadian Equities	31.3
International Equities	24.7
Cash and Cash Equivalents	9.4
	<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.