



# Genus Fossil Free Corporate Bond 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 preserve capital, generate income and create added value through active bond management. Overlaying this process, the manager applies a qualitative screen that seeks to eliminate any issuers who are directly involved in extracting, processing and transporting oil, gas or coal, as well as high carbon emitters.

### Risk

During the period, there were no material changes to the portfolio's interest rate risk, as measured by portfolio duration. From a credit risk perspective, there were no material changes as the allocation amongst the different credit ratings remained the same as the previous period.

### Results of Operations

The Fund's net asset value decreased to \$43.8 million as at December 31, 2018 from \$48.8 million as at December 31, 2017. Over the same period, the Fund's net return was 1.2% versus the 1.3% benchmark. The Fund's net return is after the deduction of expenses.

During the first half of 2018, the Fund returned 0.53% and exceeded the performance of its comparable benchmark by 8 basis points. Credit spreads were volatile during the period, moving initially tighter at the beginning of the year, but then widening towards the end of the period as a result of the uncertainty regarding NAFTA and potential trade wars. The portfolio benefited in this environment due to strong security selection within the Communications sector; however, this was partially offset by our absence from Energy in the second half of the period, as it was one of the best performing sectors.

After having rose during the third quarter, the 10-year government of Canada bond yield decreased 46 basis points during the fourth quarter ending the year at 1.97%. The 5-year government of Canada yields also steadily decreased by 45 basis points during the latter part of the period to end the year at 1.89%. This resulted in a slightly flatter 5- to 10-year curve at 7 basis points. Corporate bond spreads trended higher, particularly during December, due to slower global growth forecasts, renewed trade tensions, an general aversion to risky assets. The average credit spread between the FTSE TMX Canada Mid Term Corporate Bond and FTSE TMX Canada Mid Term Federal Bond sub-indices ended 39 basis points higher over the fourth quarter and 43 basis points higher in 2018. The managers reduced their allocation to the Financial sector and increased their allocation to the Infrastructure and Real Estate sectors. Additionally, the managers reduced their holdings of Government of Canada bonds to increase their allocation to Provincial bonds as Provincial spreads offered a more compelling value.

### Recent Developments

The year ended as it began, with volatility. However, market swings were more pronounced at year-end, spilling over into the start of this year. In fact, after reaching a peak of 2.58% early in the fourth quarter, the yield to maturity of 30-year government of Canada bonds hit a low of 2.12% on December 19, before closing out the year at 2.16%. Meanwhile, during the fourth quarter, the S&P/TSX Index fell 17.9% from its high in July to its low, before rebounding slightly to close out the year 13.5% below its July peak. The drop was more dramatic in the United States where, at its low on December 24, the S&P Index had lost nearly 20% from its peak of September 20, before closing out the year 14.5% below its high. The holiday period was not shaping up to be particularly joyful to stock market investors. So, what will the New Year bring?

Remember that the shock at the start of 2018 was triggered by a re-evaluation of financial assets following confirmation that North American central banks would move towards monetary neutrality by gradually raising their policy rates. The cause of the recent weakness lies instead in the fear that the current rates are already high enough to push the economy into recession. However, an objective look at the data tells us that economic activity, although slowing down, remains strong at this stage in the economic cycle. In fact, in the United States, it remains well above the estimated long-term potential of the economy.

When such market disruptions occur and are difficult to reconcile with the fundamentals, it is useful to recall the words of economist Paul Samuelson, 1970 Nobel Laureate in Economics, who said in 1966 that "The stock market has predicted nine of the past five recessions." However, despite a climate that remains favourable, it appears that the central banks have given in to the complaints of market participants by confirming that monetary policy could adjust to any unfavourable reversal. This comforting view appears to have calmed the apprehensions of market participants. It is like keeping a drug addict in a state of dependency.

Of course, reading a situation from economic data is far from being an exact science, especially when economic conditions are threatened by an unstable geopolitical context. We must therefore expect volatility to continue for as long as issues such as trade (trade tensions between China and the United States) and political disunity (Brexit and European hardship) remain unresolved. In order to better navigate these troubled waters, the managers will continue to scrutinize economic indicators to devise our strategy and effectively manage in an environment expected to be volatile.

**Organizational changes:** Following Karin Sullivan's departure in the first half of 2019, Carl Pelland was appointed Senior Portfolio Manager, Fixed Income and Co-Head, Corporate Bonds. In addition, Emmanuel Pornillos was promoted to Assistant Portfolio Manager, Corporate Bonds and Senior Trader, Fixed Income. Rose Marcello was also promoted to Assistant Portfolio Manager, Corporate Bonds. Furthermore, Addenda welcomed Ara Froudjian, Portfolio Manager, Corporate Bonds, and Joseph Yahya, Senior Credit Analyst, Corporate Bonds, who will complement the team's expertise.

### 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 0.49% (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 0.49% (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>\$ 102.92</b>	<b>\$ 103.34</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	<b>3.50</b>	3.39
Total expenses	<b>(0.30)</b>	(0.28)
Realized gains (losses) for the year	<b>(1.01)</b>	0.19
Unrealized gains (losses) for the year	<b>(1.06)</b>	(0.80)
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>1.13</b>	2.50
<b>Distributions:</b>		
From income (excluding dividends)	<b>(3.21)</b>	(2.97)
From dividends	-	-
From capital gains	-	(0.01)
Return of capital	-	-
<b>Total Annual Distributions<sup>(2)</sup></b>	<b>(3.21)</b>	(2.98)
<b>Net asset value, end of year</b>	<b>\$ 100.95</b>	<b>\$ 102.92</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>

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 periods. These tables are not intended to be a reconciliation of the net assets per unit.

2 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	<b>\$ 43,827,476</b>	\$48,873,634
Number of units outstanding <sup>(1)</sup>	<b>434,153</b>	474,857
Management expense ratio <sup>(2)</sup>	<b>0.30%</b>	0.27%
Management expense ratio before waivers or absorptions	<b>0.30%</b>	0.27%
Trading expense ratio <sup>(3)</sup>	<b>n/a</b>	n/a
Portfolio turnover rate <sup>(4)</sup>	<b>57.64%</b>	71.71%
Net asset value per unit	<b>\$ 100.95</b>	\$ 102.92

<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 year ended on December 31, 2018, compared with FTSE TMX Canada Mid-Term Bond Index. FTSE TMX Canada Universe Bond Index and its sub-indices are designed to track the performance of the bonds denominated in Canadian dollars. The FTSE TMX Canada indices are the most widely used measure of performance of marketable government and corporate bonds in the Canadian market.

For the Year ended December 31, 2018	1 Year
Series O*	1.2%
Benchmark	1.3%
Series F**	n/a
Benchmark	n/a

\* On June 27, 2000, the Fund was launched offering Series O. The table above shows the one completed financial year the investment 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

FTSE TMX Canada Mid-Term Corporate Bond Index is designed to be a broad measure of the Canadian investment-grade mid-term corporate bond market, which include securities with a maturity between 5 and 10-years and have credit ratings ranging from AAA to BBB. This index is also split into sub-sectors based on major industry groups: Financial, Communication, Industrial, Energy, Infrastructure, Real Estate and Securitization.

## Summary of Investment Portfolio

As at December 31, 2018

### Top 25 Investments

Holdings	Net Asset Value of the Fund (%)
1 TELUS Corp., 3.75%, Mar 10, 2026	4.4
2 The Toronto-Dominion Bank, 3.23%, Jul 24, 2024	4.3
3 Royal Bank of Canada, 3.30%, Sep 26, 2023	3.7
4 The Bank of Nova Scotia, 2.62%, Dec 02, 2026	3.5
5 Choice Properties Real Estate Investment Trust, 4.06%, Nov 24, 2025	3.5
6 Toronto Hydro Corp., 2.52%, Aug 25, 2026	3.3
7 Rogers Communications Inc., 4.00%, Mar 13, 2024	2.7
8 Saputo Inc., 2.83%, Nov 21, 2023	2.6
9 Bell Canada, 3.80%, Aug 21, 2028	2.5
10 Sun Life Financial Inc., 3.05%, Sep 19, 2028	2.5
11 Bank of Montreal, 2.70%, Sep 11, 2024	2.2
12 Reliance LP, 3.84%, Mar 15, 2025	2.2
13 Metro Inc., 3.39%, Dec 06, 2027	2.2
14 Toromont Industries Ltd., 3.84%, Oct 27, 2027	2.0
15 Granite REIT Holdings LP, 3.87%, Nov 30, 2023	1.9
16 407 International Inc., 3.35%, May 16, 2024	1.8
17 CCL Industries Inc., 3.86%, Apr 13, 2028	1.7
18 bcIMC Realty Corp., 2.84%, Jun 03, 2025	1.6
19 First Capital Realty Inc., 3.60%, May 06, 2026	1.5
20 Lower Mattagami Energy LP, 3.42%, Jun 20, 2024	1.5
21 Loblaw Cos. Ltd., 6.50%, Jan 22, 2029	1.5
22 Shaw Communications Inc., 4.40%, Nov 02, 2028	1.5
23 Real Estate Asset Liquidity Trust, 3.64%, Nov 12, 2052	1.5
24 Bell Canada, 3.60%, Sep 29, 2027	1.5
25 Alectra Inc., 2.49%, May 17, 2027	1.4
	<b>59.0</b>
<b>Total Net Asset Value (000's)</b>	<b>\$43,827</b>

### Sector Allocation

	Percentage of Net Asset Value of the Fund (%)
Canadian Corporate Bonds	90.5
Foreign Bonds	4.4
Canadian Federal Bonds	1.2
Canadian Mortgage-Backed Securities	1.5
Canadian Provincial Bonds	1.6
Cash and Cash Equivalents	0.8
	<b>100.0</b>

### Asset Mix

	Percentage of Net Asset Value of the Fund (%)
Canadian Fixed Income	94.8
U.S. Fixed Income	3.2
International Fixed Income	1.2
Cash and Cash Equivalents	0.8
	<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.