



# Genus Short-Term 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 by investing in a combination of fixed income securities issued by the Federal, Provincial and Municipal governments, as well Corporate bond securities.

### 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 was an approximately 15% decrease in percentage of the portfolio invested in A rated bonds that was used to increase the portfolio's overall percentage in AA rated issues. In addition, the portfolio reduced its exposure to Government of Canada bonds by approximately 5%, and used the proceeds to increase its exposure to Provincial bonds.

### Results of Operations

The Fund's net asset value increased to \$55.0 million as at December 31, 2018 from \$45.1 million as at December 31, 2017. Over the same period, the Fund's net return was 1.7% versus the 1.9% benchmark. The Fund's net return is after deduction of expenses.

During the first half of 2018, the Fund returned 0.55% and performed in line with its benchmark. The Fund benefited from the manager's yield curve positioning in an environment in which saw short-term market interest rates rise due to the Bank of Canada increasing its target interest rate. Within the portfolio's allocation to Corporate bonds, an absence from the Energy sector during second half of the period detracted from performance as it was one of the best performing sectors.

Canadian fixed income markets were volatile during the second half of 2018. After rising during the third quarter of 2018, the 5-year Government of Canada bond yields decreased 45 basis points throughout the fourth quarter to end the year at 1.89%. Similarly, the 2-year yield decreased 35 basis points, which resulted in a significantly flatter 2- to 5-year curve, which even briefly inverted mid-December, but finally ending the year at 2 basis points. The average credit spread between the FTSE TMX Canada Short Term Provincial Bond and FTSE TMX Canada Federal Bond subindices increased by 9 basis points during the fourth quarter, after having tightened during the third quarter. Corporate bond spreads experienced a steady widening trend due to slower global growth forecasts, renewed trade tensions, and general aversion to risky assets. The average credit spread between the FTSE TMX Canada Short Term Corporate Bond and FTSE TMX Canada Short Term Federal Bond subindices ended the year at 30 basis points higher than where it began. The managers added to their Provincial holdings throughout the last part of the year as Provincial spreads offered a more compelling value. The managers also increased their allocation to the Communications and Infrastructure sectors and reduced the Financial and Securitization sectors.

### 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 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, 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 period 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>\$ 81.59</b>	<b>\$ 82.74</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	2.36	2.30
Total expenses	(0.18)	(0.18)
Realized gains (losses) for the year	(1.70)	(0.54)
Unrealized gains (losses) for the year	0.94	(0.99)
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>1.42</b>	<b>0.59</b>
<b>Distributions:</b>		
From income (excluding dividends)	(2.12)	(2.02)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total Annual Distributions<sup>(2)</sup></b>	<b>(2.12)</b>	<b>(2.02)</b>
<b>Net asset value, end of year</b>	<b>\$ 80.86</b>	<b>\$ 81.59</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>\$ 55,000,068</b>	\$45,059,009
Number of units outstanding <sup>(1)</sup>	<b>680,223</b>	552,252
Management expense ratio <sup>(2)</sup>	<b>0.22%</b>	0.17%
Management expense ratio before waivers or absorptions	<b>0.22%</b>	0.17%
Trading expense ratio <sup>(3)</sup>	<b>n/a</b>	n/a
Portfolio turnover rate <sup>(4)</sup>	<b>124.17%</b>	99.12%
Net asset value per unit	<b>\$ 80.86</b>	\$ 81.59

<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.

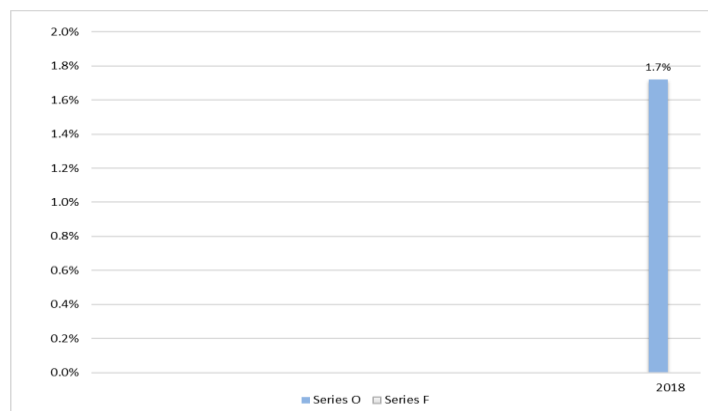
4 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio 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 blended benchmark of 60% FTSE TMX Canada Short-Term Corporate Bond Index, 20% FTSE TMX Canada Short-Term Federal Bond Index, and 20% FTSE TMX Canada Short-Term Provincial 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.

The broad-based index is the FTSE TMX Canada Short Term Corporate Bond Index.

For the Year ended December 31, 2018	1 Year
Series O*	1.7%
Benchmark	1.9%
Broad-based index	1.8%
Series F**	n/a
Benchmark	n/a
Broad-based index	n/a

\* On May 1, 1989, 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 Short Term Corporate Bond Index is designed to be a broad measure of the Canadian investment-grade short-term corporate bond market, which include securities with a maturity of 5-years and under, 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.

FTSE TMX Canada Short Term Federal Bond Index is designed to be a broad measure of the short-term Government of Canada bond market, which includes securities with a maturity of 5-years and under.

FTSE TMX Canada Short term Provincial Bond Index is designed to be a broad measure of the Canadian short-term Provincial Government bond market, which includes securities with a maturity of 5-years and under, and have credit ratings ranging from AAA to BBB.

**Summary of Investment Portfolio**

As at December 31, 2018

**Top 25 Investments**

Holdings	Net Asset Value of the Fund (%)
1 Province of Ontario, 4.00%, Jun 02, 2021	10.7
2 Canadian Government Bond, 2.00%, Nov 01, 2020	6.6
3 Province of Quebec, 3.00%, Sep 01, 2023	4.5
4 Canadian Mortgage Pools, 1.84%, Dec 01, 2022	4.4
5 Royal Bank of Canada, 1.92%, Jul 17, 2020	4.2
6 Bank of Montreal, 1.61%, Oct 28, 2021	3.4
7 Province of Ontario, 3.15%, Jun 02, 2022	3.4
8 Bank of Montreal, 2.27%, Jul 11, 2022	3.0
9 The Toronto-Dominion Bank, 2.05%, Mar 08, 2021	2.7
10 The Toronto-Dominion Bank, 1.99%, Mar 23, 2022	2.3
11 Royal Bank of Canada, 2.36%, Dec 05, 2022	2.1
12 Manulife Financial Capital Trust II, 7.41%, Dec 31, 2108	2.0
13 Hydro One Inc., 1.84%, Feb 24, 2021	1.9
14 Royal Bank of Canada, 3.30%, Sep 26, 2023	1.8
15 Canadian Imperial Bank of Commerce, 3.45%, Apr 04, 2028	1.7
16 The Bank of Nova Scotia, 2.98%, Apr 17, 2023	1.6
17 Bell Canada, 4.70%, Sep 11, 2023	1.5
18 Saputo Inc., 2.20%, Jun 23, 2021	1.5
19 Province of Quebec, 3.50%, Dec 01, 2022	1.4
20 Federation des Caisses Desjardins du Quebec, 3.06%, Sep 11, 2023	1.4
21 Nissan Canada Financial Services Inc., 2.61%, Mar 05, 2021	1.4
22 Loblaw Cos., Ltd., 3.92%, Jun 10, 2024	1.4
23 TELUS Corp., 2.35%, Mar 28, 2022	1.4
24 407 International Inc., 2.47%, Sep 08, 2022	1.3
25 Rogers Communications Inc., 5.34%, Mar 22, 2021	1.2
	<b>68.8</b>
<b>Total Net Asset Value (000's)</b>	<b>\$55,000</b>

**Sector Allocation**

	Percentage of Net Asset Value of the Fund (%)
Canadian Corporate Bonds	58.7
Canadian Provincial Bonds	23.3
Canadian Federal Bonds	9.0
Canadian Mortgage-Backed Securities	5.0
Cash and Cash Equivalents	3.2
Foreign Bonds	0.8
	<b>100.0</b>

**Asset Mix**

	Percentage of Net Asset Value of the Fund (%)
Canadian Fixed Income	96.0
Cash and Cash Equivalents	3.2
U.S. Fixed Income	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.