

# Counsel Canadian Core Fixed Income

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended September 30, 2018

**Fund Manager**

Counsel Portfolio Services Inc.

**Sub-Advisor**

Mackenzie Financial Corporation

This Interim Management Report of Fund Performance contains financial highlights but does not contain either the annual or interim financial statements of the investment fund. If you have not received a copy of the financial statements with this report, you may obtain a copy at no cost, by calling toll-free at 1-877-216-4979, by writing to us at Counsel Portfolio Services Inc, 5015 Spectrum Way, Suite 300, Mississauga, Ontario, L4W 0E4, by visiting our website at [www.counsel-services.com](http://www.counsel-services.com) or by visiting the SEDAR website at [www.sedar.com](http://www.sedar.com).

Securityholders 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. For more information, please refer to the Fund's Simplified Prospectus and Annual Information Form, which may also be obtained, at no cost, using any of the methods outlined above.

Every effort has been made to ensure that the information contained in this report is accurate as of September 30, 2018; however, the Fund cannot guarantee the accuracy or the completeness of this material. Please refer to the Fund's Simplified Prospectus and audited annual financial statements for more information.

## **CAUTION ON FORWARD-LOOKING STATEMENTS**

This report may contain forward-looking statements which reflect our current expectations or forecasts of future events. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as: "expects", "anticipates", "intends", "plans", "believes", "estimates", "preliminary", "typical" and other similar expressions. In addition, these statements may relate to future corporate actions, future financial performance of a fund or a security and their future investment strategies and prospects. Forward-looking statements are inherently subject to, among other things, risks, uncertainties and assumptions which could cause actual events, results, performance or prospects to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, the volatility of global equity and capital markets, business competition, technological change, changes in securities legislation, changes in government regulations, changes in tax law, unexpected judicial or regulatory proceedings, catastrophic events and the ability of Counsel Portfolio Services Inc. to attract or retain key employees. The foregoing list of important risks, uncertainties and assumptions is not exhaustive. Please consider these and other factors carefully and do not place undue reliance on forward-looking statements.

The forward-looking information contained in this report is current only as of the date of this report. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

# Management Discussion of Fund Performance

November 13, 2018

This Interim Management Report of Fund Performance is intended to present the significant factors and developments that have affected the Fund's performance and outlook since March 31, 2018, the Fund's last fiscal year-end. For information on the Fund's longer-term performance, please refer to the *Past Performance* section of the report. In this report, "Counsel" refers to Counsel Portfolio Services Inc., the manager of the Fund.

The Fund is not available to retail investors and is only available to other institutional investors (primarily other Counsel Funds).

## Results of Operations

### Investment Performance

The performance of the Fund's Series O securities is discussed below. The performance of all other series offered by the Fund is shown in the *Past Performance* section of this report. Series returns may differ for a number of reasons, including if the series was not issued and outstanding for the entire reporting period and because of different levels of fees and expenses charged to each series. Please refer to the *Series Information* section of this report for the varying management and administration fees payable by each series.

During the six-month period, the Fund's Series O securities returned -0.12%. This compares with a -0.45% return of the FTSE TMX Canada Bond Universe Total Return Index (the "Index"). All index and series returns are calculated on a total return basis in Canadian dollar terms.

The Fund outperformed the Index due to being overweight investment grade corporate bonds and underweight government bonds. The Fund's duration positioning within provincial and Federal bonds were the main contributors to performance.

During the six-month period, the Fund aimed to be hedged against foreign currencies, primarily the U.S. Dollar ("USD"). During the period, the USD appreciated 0.32% against the Canadian Dollar ("CAD"). As a result, the currency hedge detracted from the Fund's performance.

### Net Assets

The Fund's NAV declined by \$12.9 million, or 4.7%, to \$262.1 million as at September 30, 2018, from \$275.0 million at March 31, 2018. Of this decrease, \$12.6 million was attributable to net redemptions and \$0.3 million due to investment performance (after deducting fees and expenses).

Certain other Counsel Funds ("Top Funds") and/or investment products managed by Counsel's affiliates have large investments in the Fund, see *Other Related Party Transactions* for details. As a result of these investments, the Fund is subject to large transaction risk as discussed in the Simplified Prospectus. Counsel manages this risk to reduce the possibility of any adverse effect on the value of the Fund or on its investors, through such processes as requiring advance notice of large redemptions.

### Fees and Expenses

The Management Expense Ratio ("MER") for Series O of 0.00%, during the period ended September 30, 2018, was unchanged from the year ended March 31, 2018. No expenses (including management or administration fees) are charged to Series O, other than certain specific fund costs (primarily interest). The MERs (before and after waivers or absorptions, if any) are presented in the *Financial Highlights* section of this report.

## Recent Developments

The Bank of Canada ("BoC") appears to be on a more gradual rate-hike path than the U.S. Federal Reserve. After an early July rate hike, the BoC paused in early September on a mixture of uncertain trade impacts and domestic housing market softening. With the settlement of North American trade negotiations, it is expected that the BoC will resume with rate increases with one more hike this year. The cumulative effects of higher rates will eventually feed through into higher costs for new borrowings and debt refinancing, pressuring profit margins and previous valuation assumptions. All of this means that the expected rewards for taking a risk in any one area of the market are less certain today, and likely to be interrupted by macroeconomic risks. Mackenzie Investments, the Fund's sub-advisor, expects to be increasingly selective within corporate credit sectors and will actively manage the Fund's duration to lessen the impact of rising rates.

## Related Party Transactions

### Management and Administration Services

Top Funds represent nearly all of the Fund's investors. As a result, Counsel pays all costs and expenses (other than certain specified fund costs) required to operate the Fund. No management or administration fees are paid by the Fund.

### Other Related Party Transactions

Other investment funds managed by Counsel ("Top Funds") invest in Series O securities offered by the Fund on a prospectus-exempt basis in accordance with the investment objectives of those funds. At September 30, 2018, Top Funds owned nearly 100% of the Fund's NAV. As of September 30, 2018, Counsel had not received notice of any large redemptions. All related party transactions are based on the NAV per security on each transaction day.

The Fund did not rely on an approval, positive recommendation, or standing instruction from the Counsel Funds' Independent Review Committee ("IRC") with respect to any related party transactions.

## Series Information

The Fund may issue an unlimited number of securities for each series. The number of issued and outstanding securities of each series is disclosed in *Financial Highlights*. A 10-year history of the major changes affecting the Fund can be found in the Fund's Annual Information Form, available at [www.counsel.services.com](http://www.counsel.services.com).

	Date of Inception	Minimum Investment (\$)	Management Fee (%)	Administration Fee (%)
Series O <sup>1,3</sup>	January 7, 2016	-	-	-
Series R <sup>2,3</sup>	January 7, 2016	-	-	-

<sup>1</sup> There are no management or administration fees for this series since these securities are designed to facilitate fund-of-fund investing where duplication of management fees is prohibited.

<sup>2</sup> This series is not available for sale and is held solely by Counsel.

<sup>3</sup> Securities of this series are not subject to sales charges or redemption charges.

## Past Performance

The indicated rates of return are the historical annual compound total returns, including changes in NAV per security and assuming reinvestment of all distributions. They do not take into account sales, redemption, distribution or optional sales charges, management fees directly payable by investors or income taxes payable by any investor that would have reduced returns. Please refer to *Series Information* for further information. The past performance of the Fund is not necessarily an indication of how it will perform in the future.

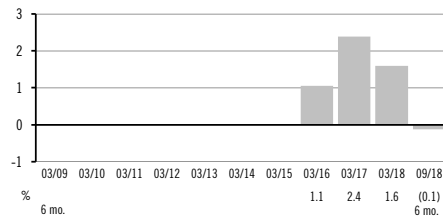
If you hold this Fund outside of a registered plan, income and capital gains distributions paid to you increase your income for tax purposes, whether paid in cash or reinvested in additional securities. The amount of reinvested taxable distributions is added to the adjusted cost base of the securities that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the Fund, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

## Year-by-Year Returns

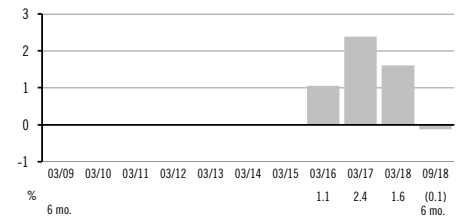
The bar chart shows how much an investment made on the first day of each financial year would have increased or decreased by the end of the respective periods. For the first year of a series, the percentage

shown will be the actual return of the series from its inception date, which can be found under *Series Information*. The chart illustrates how the Fund's performance has changed over time.

**SERIES O**



**SERIES R**



## Summary of Investment Portfolio

as at September 30, 2018

The largest holdings of the Fund (up to 25) as at the end of the period and the major asset classes in which the Fund was invested are indicated below. The investments and percentages may have changed by the time you purchase securities of this Fund. The top 25 holdings are made available quarterly, 60 days after quarter-end, except for March 31, which is the fiscal year-end for the Fund, when they are available after 90 days. Please see the front page for information about how they can be obtained.

### Summary of Top 25 Holdings

	% of net asset value
Government of Canada 2.00% 06-01-2028	8.5
Province of Ontario 2.90% 06-02-2028	6.0
Province Of Quebec 2.75% 09-01-2028	5.2
Canada Housing Trust No. 1 F/R 09-15-2023	4.6
Province of Ontario F/R 06-27-2022	3.8
United States Treasury 3.00% 02-15-2048	3.4
Province of Ontario 2.90% 06-02-2049	3.1
National Bank of Canada 1.96% 06-30-2022	2.0
Government of Canada 1.25% 12-01-2047 Real Return	1.9
Hollis Receivables Term Trust II 1.79% 02-26-2020	1.8
Royal Bank of Canada 2.95% 05-01-2023	1.5
Province of Alberta 3.05% 12-01-2048	1.2
Canadian Imperial Bank of Commerce 2.97% 07-11-2023	1.2
The Toronto-Dominion Bank 1.91% 07-18-2023 DPNT	1.1
Bank of Montreal 2.27% 07-11-2022 DPNT	1.0
Province of Ontario 2.60% 09-08-2023	1.0
Fortified Trust 1.67% 07-23-2021	0.9
Sun Life Financial Inc. F/R 09-19-2028 Callable 2023	0.9
Province of Ontario 4.60% 06-02-2039	0.9
Canadian Imperial Bank of Commerce 2.47% 12-05-2022	0.8
The Bank of Nova Scotia 2.98% 04-17-2023	0.8
The Bank of Nova Scotia 2.36% 11-08-2022	0.7
Eagle Credit Card Trust 2.63% 10-17-2022	0.7
Genesis Trust II 2.43% 05-15-2019	0.7
AT&T Inc. 3.83% 11-25-2020 Series MPL	0.7
	<b>54.4</b>

### Top 25 Short Holdings

Holdings	% of net asset value
CBOT U.S. 10 Year Treasury Note*	0.2
OSE Japan 10 Year Bond**	-
	<b>0.2</b>

\* Notional principal values represent-18.6% of NAV.

\*\* Notional principal values represent-3.9% of NAV.

## Summary of Composition of the Portfolio

	% of net asset value
<b>EFFECTIVE ASSET TYPE</b>	
Corporate Bonds	54.5
Provincial Bonds	24.1
Federal Bonds	16.4
Foreign Government Bonds	(19.0)
Cash and cash equivalents	0.4
Other	23.6
<b>Total</b>	<b>100.0</b>

<b>EFFECTIVE REGIONAL ALLOCATION</b>	
Canada	107.4
Pacific ex Japan	1.2
United Kingdom	1.2
Europe ex U.K.	0.9
Japan	(3.9)
United States	(7.2)
Cash and cash equivalents	0.4
	<b>100.0</b>

<b>EFFECTIVE CREDIT RATING</b>	
AAA	25.5
AA	32.3
A	21.8
BBB	18.9
	<b>98.5</b>

<b>CURRENCY EXPOSURE</b>	
Canadian dollar	100.1
United States dollars	(0.1)
	<b>100.0</b>

## Financial Highlights

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 current period and previous five financial years (as applicable). In the year a series is established, "period" represents from inception to the end of that period.

Footnotes are presented after *Ratios and Supplemental Data*.

### Net Assets per Security<sup>1</sup>

Series O (in \$)	6 mo	12 mo	12 mo	12 mo	12 mo	12 mo
	Sep. 30	Mar. 31	Mar. 31	Mar. 31	Mar. 31	Mar. 31
	2018	2018	2017	2016	2015	2014
<sup>2</sup> Net assets, beginning of period	10.01	10.11	10.09	10.00	n/a	n/a
<b>Increase (decrease) from operations:</b>						
Total revenue	0.13	0.28	0.24	0.03	n/a	n/a
Total expenses	-	-	-	-	n/a	n/a
Realized gains (losses) for the period	(0.05)	(0.03)	(0.04)	-	n/a	n/a
Unrealized gains (losses) for the period	(0.10)	(0.08)	0.06	0.09	n/a	n/a
<sup>3</sup> Total increase (decrease) from operations	(0.02)	0.17	0.26	0.12	n/a	n/a
<b>Distributions:</b>						
From income (excluding Canadian dividends)	(0.13)	(0.26)	(0.22)	(0.01)	n/a	n/a
From Canadian dividends	-	-	-	-	n/a	n/a
From capital gains	-	-	-	-	n/a	n/a
Return of capital	-	-	-	-	n/a	n/a
<sup>4</sup> Total annual distributions	(0.13)	(0.26)	(0.22)	(0.01)	n/a	n/a
<sup>2</sup> Net assets at period end	9.87	10.01	10.11	10.09	n/a	n/a
<b>Series R (in \$)</b>	<b>6 mo Sep. 30 2018</b>	<b>12 mo Mar. 31 2018</b>	<b>12 mo Mar. 31 2017</b>	<b>12 mo Mar. 31 2016</b>	<b>12 mo Mar. 31 2015</b>	<b>12 mo Mar. 31 2014</b>
<sup>2</sup> Net assets, beginning of period	10.01	10.12	10.09	10.00	n/a	n/a
<b>Increase (decrease) from operations:</b>						
Total revenue	0.13	0.28	0.24	0.04	n/a	n/a
Total expenses	-	-	-	-	n/a	n/a
Realized gains (losses) for the period	(0.05)	(0.03)	(0.04)	-	n/a	n/a
Unrealized gains (losses) for the period	(0.10)	(0.08)	0.06	0.09	n/a	n/a
<sup>3</sup> Total increase (decrease) from operations	(0.02)	0.17	0.26	0.13	n/a	n/a
<b>Distributions:</b>						
From income (excluding Canadian dividends)	(0.13)	(0.26)	(0.22)	(0.01)	n/a	n/a
From Canadian dividends	-	-	-	-	n/a	n/a
From capital gains	-	-	-	-	n/a	n/a
Return of capital	-	-	-	-	n/a	n/a
<sup>4</sup> Total annual distributions	(0.13)	(0.26)	(0.22)	(0.01)	n/a	n/a
<sup>2</sup> Net assets at period end	9.87	10.01	10.12	10.09	n/a	n/a

### Ratios and Supplemental Data

Series O	6 mo	12 mo	12 mo	12 mo	12 mo	12 mo
	Sep. 30	Mar. 31	Mar. 31	Mar. 31	Mar. 31	Mar. 31
	2018	2018	2017	2016	2015	2014
<sup>2</sup> Total net asset value (pricing NAV) (\$'000's)	262,049	275,012	32,999	5,033	n/a	n/a
Number of securities outstanding ('000's)	26,555	27,464	3,263	499	n/a	n/a
<sup>5</sup> Management expense ratio (%)	-	-	-	-	n/a	n/a
<sup>5</sup> Management expense ratio before waivers or absorptions (%)	-	-	-	-	n/a	n/a
<sup>6</sup> Trading expense ratio (%)	-	-	-	0.25	n/a	n/a
<sup>7</sup> Portfolio turnover rate (%)	51.68	125.54	216.61	34.81	n/a	n/a
	<b>6 mo Sep. 30 2018</b>	<b>12 mo Mar. 31 2018</b>	<b>12 mo Mar. 31 2017</b>	<b>12 mo Mar. 31 2016</b>	<b>12 mo Mar. 31 2015</b>	<b>12 mo Mar. 31 2014</b>
<b>Series R</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<sup>2</sup> Total net asset value (pricing NAV) (\$'000's)	1	1	1	1	n/a	n/a
Number of securities outstanding ('000's)	0	0	0	0	n/a	n/a
<sup>5</sup> Management expense ratio (%)	-	-	-	-	n/a	n/a
<sup>5</sup> Management expense ratio before waivers or absorptions (%)	-	-	-	-	n/a	n/a
<sup>6</sup> Trading expense ratio (%)	-	-	-	0.25	n/a	n/a
<sup>7</sup> Portfolio turnover rate (%)	51.68	125.54	216.61	34.81	n/a	n/a

<sup>1</sup> These calculations are prescribed by securities regulations and are not intended to be a reconciliation between opening and closing net assets per security. The information presented is derived from the Fund's financial statements prepared in accordance with IFRS.

<sup>2</sup> The net assets presented here and in the financial statements and this table may differ from the NAV.

<sup>3</sup> NAV and distributions per security figures are based on the actual number of securities outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of securities outstanding over the financial period.

<sup>4</sup> Distributions were paid in cash, reinvested in additional securities of the Fund, or both.

<sup>5</sup> MER and MER before waivers or absorptions ("Gross MER") are based on total expenses borne by the Fund, excluding commissions and other portfolio transaction costs, for the stated period and is expressed as an annualized percentage of average daily NAV during the period. In the period a series is established, the MERs and Gross MERs are annualized from the date of inception to the end of the period.

Where the Fund invests in securities of an Underlying Fund, the MERs and Gross MERs presented for the Fund include the portion of MERs of the Underlying Fund(s) attributable to this investment.

<sup>6</sup> The trading expense ratio ("TER") represents total commissions and other portfolio transaction costs incurred as a percentage of daily average NAV during the period. Where the Fund invests in securities of an Underlying Fund, the TERs presented for the Fund include the portion of TERs of its Underlying Fund(s) attributable to this investment.

<sup>7</sup> The portfolio turnover rate ("PTR") indicates how actively the portfolio advisor manages the investments. A PTR of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher PTR in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high PTR and the performance of the Fund. Costs incurred to realign the Fund's portfolio after a fund merger, if any, are excluded from the PTR.



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