

# PEMBROKE

PRIVATE WEALTH MANAGEMENT

THE GBC GROWTH AND INCOME FUND

**INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**  
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

INCEPTION DATE  
NOVEMBER 1, 2006

THE PORTFOLIO MANAGEMENT TEAM  
PEMBROKE MANAGEMENT LTD.

This interim Management Report of Fund Performance contains financial highlights, but does not contain either interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-800-668-7383, by writing to us at 150 King Street West, Suite 1210, Toronto, Ontario M5H 1J9 or by visiting our website at [www.pml.ca](http://www.pml.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods (except on the SEDAR website) to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

THE GBC GROWTH AND INCOME FUND

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**Investment Objective and Strategies**

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The GBC Growth and Income Fund (the “Fund”) seeks to provide investors with a reasonable balance between long-term capital growth and income to diversify risk. The Fund invests primarily in equities, bonds and other marketable securities. To achieve the Fund’s investment objective involves creating a balanced portfolio by investing primarily in shares of small and mid-cap Canadian publicly-listed issuers, as well as Canadian federal and provincial bonds, high quality corporate bonds and money market instruments. The Fund may also invest in shares of small and mid-cap U.S. publicly-listed issuers.

While no fixed percentage of the Fund’s net assets is dedicated to investing in the securities of other mutual funds, the Fund may invest in securities of other mutual funds, including primarily The GBC Canadian Bond Fund.

**Risk**

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The overall risk of the Fund is as described in the Simplified Prospectus. There were no material changes to the Fund over the financial period that affected the overall level of risk associated with an investment in the Fund. The Fund is suitable for investors who have a medium tolerance for risk and are seeking a reasonable balance between long-term capital and income to diversify risk. The Fund may hold non-Canadian assets and as a result may be exposed to currency risk. It is not the Fund’s policy to hedge currency exposure as Pembroke Management Ltd. (“Pembroke”) does not believe that hedging will add value in the long term.

**Results of Operations**

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For the six-month period ended June 30, 2018, the Fund posted a return of -4.62%. In comparison, the Fund’s benchmark index, which is comprised of three components: the S&P/TSX Composite (60%), the FTSE TMX Canada Universe Bond Index (35%) and the FTSE TMX Canada 91 Day T-Bill Index (5%) posted a return of 1.44% for the same period. For the twelve months ended December 31, 2017, the Fund posted a return of 11.38% compared to the Fund’s benchmark which posted a 6.35% return.

The Fund’s declines were driven by weakness in the equity portion of the portfolio. The fixed income portion of the Fund, represented by The GBC Canadian Bond Fund, earned modest absolute returns in the first half of 2018.

Income in the Fund is generated from a combination of dividends and interest. The equity portion of the Fund has a current annualized gross yield of 3.7%, while the fixed income segment of the Fund is primarily invested in securities rated “A+” that on average have a collective yield to maturity of 2.9% and an adjusted portfolio duration of 4.5 years. The asset mix of the Fund did not change materially through the period, with approximately 31% of the portfolio invested in fixed income securities at June 30, 2018.

Two stocks were significant detractors to performance in the first half of 2018. Shares of Collectors Universe (“CLCT”), a leading provider of third-party authentication and grading services for high-value collectibles such as coins and trading cards, declined during the period. The company reported disappointing quarterly results including weak coin grading volumes that affected overall profitability and cash flow generation. Management also chose to adopt a more modest dividend payout policy. With no net debt, high returns on capital, and high free cash generation, Pembroke believes the current allocation of capital to dividends is conservative.

Shares of Quarterhill (“QTRH”), a diversified holding company focused on deploying capital into technology investments with recurring revenues and predictable cash flows, were weak in the first half of the year. The company reported quarterly results that were marred by lumpiness in its legacy patent licensing business. The company has a strong balance sheet with significant cash reserves that management intends to use to further reduce QTRH’s exposure to the volatile patent licensing business.

In contrast, two stocks were significant contributors for the Fund in the first half of 2018. Shares of Richards Packaging (“RPI.UN”), a leading, full-service North American distributor of plastic and glass containers to small and medium sized businesses, performed well in the period. Performance was driven by steady operational performance and growing investor recognition of the company’s record and prospects. RPI.UN continues to reap the benefits of an acquisition made in 2015 that allowed it to expand into the healthcare packaging and dispensing systems market. The company generates a significant amount of free cash flow, its dividend is conservatively funded, and management is building financial capacity to take advantage of additional acquisition opportunities in the future.

Shares in Sylogist (“SYZ”), a provider of enterprise software solutions servicing not-for-profit, local government, and education customers, posted gains in the first half of the year as the company delivered encouraging revenue growth, margin expansion, and early benefits from an acquisition made in late 2017. The company has a pristine balance sheet and generates robust free cash flow., SYZ’s dividend policy is conservative and it has ample capacity to continue its acquisition activity.

THE GBC GROWTH AND INCOME FUND

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**Results of Operations (Cont'd)**

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As at June 30, 2018, the total net asset value of the Fund was \$49 million compared with \$51.9 million as at December 31, 2017. The cash position was 4.1% of net asset value. The number of units outstanding in the Fund as at June 30, 2018 was 3.7 million compared with 3.7 million as at December 31, 2017.

Unrealized appreciation on investments as at June 30, 2018 was \$4.7 million as compared to \$7.9 million as at December 31, 2017 resulting in a decrease in the unrealized appreciation on investments of \$3.2 million. The Fund had net realized losses on investments sold during the period of \$0.1 million.

**Fees and Expenses**

During the six-month period, the Fund paid \$0.1 million in operating expenses. The management expense ratio ("MER") for unitholders was 0.33%. There are no management fees charged to the Fund starting January 1, 2018. Refer to the Management fee section for further details on this change.

**Unitholder Activity**

Throughout the six-month period, \$7.3 million flowed into the Fund by way of subscriptions and \$7 million flowed out of the Fund as a result of redemptions.

**Related Party Transactions**

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Pembroke Private Wealth Management Ltd. ("PPW") is the Fund's Manager. The Fund Manager provides the day-to-day management of the business and operations of the Fund. The fees paid to the Fund Manager are shown in the "Management Fees" section of this report. Pembroke is the portfolio manager of the Fund. Pembroke is the parent company of the Fund Manager, PPW. Pembroke's fees are paid by the Fund Manager, for services including investment, management, administration, advisory and accounting. The related party transactions take place in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**Recent Developments**

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**Outlook**

The Pembroke investment team continues to identify attractive investments across a variety of sectors through thorough company-specific research. While the geopolitical and economic environment is dynamic and ever-changing, the small cap equity universe continues to offer investors the opportunity to deploy capital into fast-growing companies with attractive risk and reward characteristics.

The fixed income market has been difficult for investors given the prevailing environment of low yields. The Fund's bond portfolio, however, is well positioned for higher interest rates given its exposure to floating rate securities and its relatively short-term maturity profile.

## THE GBC GROWTH AND INCOME FUND

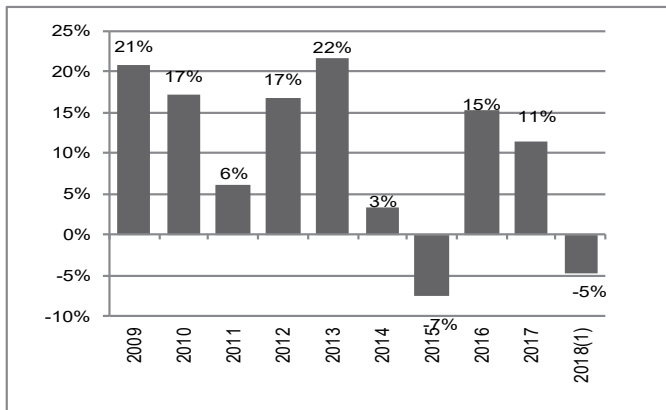
**Past Performance**

The indicated rates of return are the historical annual compounded total return changes in unit values and reinvestment of all distributions and do not take into account sales, redemptions, distributions or other optional charges that would have reduced returns. Mutual funds are not guaranteed; their values may increase or decrease and past performance may not be repeated.

The Fund's performance numbers have been prepared under the assumption that all distributions are reinvested in additional units of the Fund. If you hold this Fund outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes, whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gains or increase your capital losses 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 indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year. The percentage figures indicated have been rounded to the nearest whole number due to space constraints.



(1) Six-month return to June 30, 2018

## THE GBC GROWTH AND INCOME FUND

**Summary of Investment Portfolio**

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Updates are available quarterly. The prospectus and other information on The GBC Canadian Bond Fund is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Industry Sector	% of Net Asset Value
Mutual Funds - Bonds	30.7%
Consumer Discretionary	15.5%
Industrials	14.4%
Financials	9.6%
Information Technology	8.7%
Real Estate	6.8%
Materials	4.9%
Energy	3.3%
Consumer Staples	2.4%
Cash	4.1%
Other Net Current Assets	-0.4%
<b>Total</b>	<b>100.0%</b>

Summary of Underlying Asset Allocation	% of Net Asset Value
Canadian Equities	61.8%
Canadian Fixed Income	30.7%
US Equities	3.8%
Cash	4.1%
Other Net Current Assets	-0.4%
<b>Total</b>	<b>100.0%</b>

**Top 25 Holdings**

Company	% of Net Asset Value	Industry Sector
1 The GBC Canadian Bond Fund	30.7%	Mutual Funds
2 Sylogist	3.1%	Information Technology
3 Richards Packaging	3.1%	Materials
4 Evertz Technologies	2.7%	Information Technology
5 Chesswood Group	2.4%	Financials
6 Transcontinental	2.4%	Industrials
7 Canadian Western Bank	2.4%	Financials
8 Rocky Mountain Dealerships	2.4%	Industrials
9 Sleep Country Canada	2.2%	Consumer Discretionary
10 Tricon Capital Group	2.1%	Real Estate
11 Cineplex	2.1%	Consumer Discretionary
12 Hardwoods Distribution	2.1%	Industrials
13 Guardian Capital Group	2.0%	Financials
14 Automotive Properties Real Estate Investments	1.9%	Real Estate
15 ZCL Composites	1.9%	Energy
16 Morneau Shepell	1.8%	Industrials
17 EnerCare	1.6%	Consumer Discretionary
18 Jamieson Wellness	1.6%	Consumer Staples
19 New Look Vision	1.6%	Consumer Discretionary
20 PRO Real Estate Investment Trust	1.6%	Real Estate
21 Stingray Digital Group	1.6%	Consumer Discretionary
22 James River Group Holdings	1.5%	Financials
23 Exchange Income Corporation	1.5%	Industrials
24 Vecima Networks	1.4%	Information Technology
25 TecSys	1.4%	Information Technology
<b>Top 25 Holdings</b>	<b>79.1%</b>	

## THE GBC GROWTH AND INCOME FUND

**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 financial periods indicated. This information is derived from the Fund's audited annual financial statements (excluding June 30, 2018 information). The information presented is based on prescribed regulations and, as a result, is not expected to add up due to the increase (decrease) in net assets attributable to holders of redeemable units being based on the average units outstanding during the period and all other numbers being based on the actual units outstanding at the relevant point in time. The June 30, 2018 interim financial statements are unaudited.

THE FUND'S NET ASSETS PER UNIT						
	June 30, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
<b>Net assets attributable to holders of redeemable units, beginning of period <sup>(1)</sup></b>	13.97	13.43	12.06	13.27	13.73	11.72
<b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>						
Total revenue	0.22	0.45	0.48	0.47	0.56	0.49
Total expenses	(0.03)	(0.26)	(0.25)	(0.23)	(0.27)	(0.25)
Realized gains (losses) for the period	(0.02)	0.96	0.60	0.07	0.85	0.95
Unrealized gains (losses) for the period	(0.82)	0.36	1.00	(1.26)	(0.67)	1.34
<b>Total Increase (decrease) in net assets attributable to holders of redeemable units <sup>(2)</sup></b>	<b>(0.65)</b>	<b>1.51</b>	<b>1.83</b>	<b>(0.95)</b>	<b>0.47</b>	<b>2.53</b>
<b>Distributions to holders of redeemable units:</b>						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	(0.18)	(0.10)	(0.23)	(0.23)	(0.27)	(0.18)
From capital gains	-	(0.70)	(0.21)	-	(0.64)	(0.27)
Return on capital	-	(0.18)	-	-	-	-
<b>Total distributions to holders of redeemable units <sup>(3)</sup></b>	<b>(0.18)</b>	<b>(0.98)</b>	<b>(0.44)</b>	<b>(0.23)</b>	<b>(0.91)</b>	<b>(0.45)</b>
<b>Net assets attributable to holders of redeemable units, end of period <sup>(4)</sup></b>	<b>13.14</b>	<b>13.97</b>	<b>13.43</b>	<b>12.06</b>	<b>13.27</b>	<b>13.73</b>

(1) This information is derived from the Fund's audited annual financial statements.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) in net assets attributable to holder's of redeemable units is based on the weighted average number of units outstanding over the financial period.

(3) Distributions were paid in cash and/or reinvested in additional units of the Fund.

(4) This table is not intended to be a reconciliation of beginning to ending net assets per unit.

**RATIOS AND SUPPLEMENTAL DATA (based on Trading NAV)**

	June 30, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Total net asset value (\$) (000's) <sup>(1)</sup>	49,039	51,909	52,341	51,797	60,426	58,223
Number of redeemable units outstanding (000's) <sup>(1)</sup>	3,732	3,715	3,896	4,295	4,552	4,242
Management expense ratio (%) <sup>(2)(5)</sup>	0.33	1.81	1.86	1.72	1.81	1.80
Management expense ratio before waivers or absorptions (%) <sup>(2)(5)</sup>	0.33	1.81	1.86	1.73	1.84	1.84
Trading expense ratio (%) <sup>(3)</sup>	0.16	0.15	0.15	0.15	0.15	0.17
Portfolio turnover rate (%) <sup>(4)</sup>	12.12	26.94	22.06	30.05	34.43	35.16
Net asset value per unit (\$)	13.14	13.97	13.43	12.06	13.27	13.73

(1) This information is provided as at June 30 or December 31 of the period shown, as applicable.

(2) The management expense ratio ("MER") is calculated in accordance with National Instrument 81-106, based on expenses for the stated period (including Harmonized Sales Tax, Goods and Service Tax, income tax and interest) but excluding foreign withholding taxes, commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. PPW may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. The GBC Growth and Income Fund expenses were waived or absorbed for some of the periods presented. The waiver or absorption of operating expenses can continue for an indefinite period of time and can be terminated by PPW at its discretion and without prior notice.

(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 advisor trades 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 period. The higher a fund's portfolio turnover rate 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 turnover rate and the performance of a fund.

(5) As a comparative, if the New Fee Payment Model change, effective January 1st, 2018, would have been in effect throughout fiscal year 2017 the adjusted MER of the Fund would be 0.28%

## THE GBC GROWTH AND INCOME FUND

**Financial Highlights (Cont'd)****Management Fees**

Further to the special meetings of holders of the GBC Mutual Funds held on January 8, 2018 (the "Meetings"), PPW announced that unitholders of the Fund approved a New Fee Payment Model. Under this new fee payment structure effective January 1, 2018, management fees are no longer charged to the Fund. Instead, the management fees are charged directly to unitholders. Subject to the maximum fees set forth below, unitholders will be charged management fees based on their assets under management. Such management fees will be payable directly to PPW by the redemption (without charge) of a sufficient number of units of the Fund held. This new approach results in enhanced fee transparency, aligns the mutual fund fee structure with the pooled fund fee structure and in certain cases results in reduced fees.

Following this approval, the amount of management fees unitholders pay will be determined based on the amount of assets under management, subject to the following maximum annual management fees:

Name of the Fund	Assets under management		
	Under \$1 million	Between \$1 million and \$5 million	Above \$5 million
The GBC Money Market Fund	0.10%	0.10%	0.10%
The GBC Canadian Bond Fund	0.65%	0.50%	0.40%
<b>The GBC Growth and Income Fund</b>	<b>1.30%</b>	<b>1.20%</b>	<b>0.85%</b>
The GBC Canadian Growth Fund	1.70%	1.50%	1.00%
The GBC American Growth Fund Inc.	1.50%	1.50%	1.00%
The GBC International Growth Fund	1.50%	1.50%	1.00%

Management fees were used by the Manager to pay costs for managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, and providing other services. For the period ended June 30, 2018, none of the management fees received by the Manager were used to fund commission payments and other dealer compensation (collectively "distribution-related costs") paid to registered dealers and brokers for units of the Fund bought and held by investors.

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THE GBC GROWTH AND INCOME FUND

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**Caution Regarding Forward-looking Statements**

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This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments and the effects of competition in the geographic and business areas in which the Fund may invest. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Further, it should be noted 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.

P E M B R O K E

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Pembroke Private Wealth Management Ltd.  
is a mutual fund dealer and manager of the GBC Funds.  
Pembroke Management Ltd. is an investment adviser.

Custodial service provided by RBC Investor Services Trust.  
Unitholder Recordkeeping provided by L&T Infotech Financial Services Technologies Inc.  
Annual audit performed by Deloitte LLP.

