



## 2017 SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# PALOS EQUITY INCOME FUND

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FOR THE PERIOD ENDED JUNE 30, 2017

**Portfolio Manager**  
Palos Management Inc. ("Palos")

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President & Senior Portfolio Manager

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Portfolio Manager

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Financial Analyst

*This interim management report of fund performance ("MFRP") contains financial highlights but does not contain either interim or annual financial statements of the Palos Equity Income Fund (the "Fund"). You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-514-397-0188 or toll free 1-855-PALOS-88 (1-855-725-6788), by writing to us at Palos Equity Income Fund, Investor Relations, 1 Place Ville-Marie, Suite 1670, Montréal, Québec H3B 2B6 or by visiting our website at [www.palos.ca](http://www.palos.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders 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.*

## **A Note on Forward-looking Statements**

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

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## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

This management discussion of Fund performance represents the management's view of the significant factors and developments during the past six months that have affected the Fund's performance and outlook since December 31, 2016, the Fund's most recent fiscal year-end. The Fund is a mutual fund managed and advised by Palos Management Inc. (the "Manager"). For information on the Fund's longer-term performance, please refer to the Past Performance section of the report. This report should be read in conjunction with the Annual Management Report of Fund Performance for the year ended December 31, 2016.

### Results of Operations

As at June 30, 2017, the total net asset value of the Fund was \$25,816,050.76, an increase of 5.7% from December 31, 2016. This includes \$1,563,625 in net contributions and \$634,602 in distributions reinvested in the Fund by its unitholders.

The S&P/TSX Composite Index was up 0.73% for the same period ending June 30, 2017. A large portion of the index's performance can be attributed to the Energy and Materials sectors, which were down 13.34% and 0.71% respectively year-to-date. These represent a combined weight of approximately 30.00% of the index and were countered by better performing sectors such as the Consumer Discretionary and Industrials sectors, which were up 12.20% and 11.72% respectively. The Utilities sector has also helped the portfolio and is up 10.01% year-to-date. The macroeconomic landscape remains a significant factor with the new U.S. president decisions impacting markets as well as global commodity prices coming under scrutiny and displaying significant volatility.

On the energy front, the oil price has come down from \$56 and has been range bound between \$42 and \$52 for most of the year. This has come with quite the volatility in pricing as we've seen the commodity go on several downturns and then recover quite rapidly. The underlying securities have suffered more from this phenomenon than the actual commodity, seeing as their sensitivity to the oil price was constantly being questioned. Core holdings such as Tamarack Valley Energy (TSX: TVE), Crescent Point Energy (TSX: CPG), Vermilion Energy (TSX: VET) and ARC Resources (TSX: ARX) are all down between 20% and 50% year-to-date. The Manager has reduced its exposure to the sector while shifting towards companies that have slightly more gas exposure since the Manager believes that Natural Gas can offer more upside in the near-term.

On the Industrials front, WSP Global (TSX: WSP) and Waste Connections Inc. (TSX: WCN) are both up approximately 20%, significantly helping the portfolio keep track of its corresponding index. There have been several sources of funding going to Infrastructure projects as well as Engineering & Construction (E&C) projects, which is helping global players such as WSP continue to expand their pipeline of projects and grow on a global scale. If we consider the Utilities sector, two specific names stand out for their performance so far in 2017. Crius Energy Trust (TSX: KWH-U) and Algonquin Power & Utilities (TSX: AQN) are both up 24.08% and 22.63% respectively and outperforming their peers.

Although the Financials segment is seeing some improvement due to an improving currency in the Canadian dollar, the economy remains weak. The aforementioned oil prices being where they are

as well as household debt remaining elevated help confirm the Manager's view to remain underweight Canadian Banks while overweighting Life Insurance companies and selective specialty U.S. Banks.

Under the assumption of reinvested distribution, the source of distribution, whether it is from income, dividends, capital gains or return of capital, would not have a material impact on the performance or the objective of the Fund. Under the same assumption but with distributions withdrawn, the impact would translate into opportunity cost regardless of the source of distribution.

The management expense ratio ("MER") for Series A units is 2.36% and Series F units is 2.03% during the period. The decrease of the MER of the Series A from the 2.60% year ended December 31, 2016 is explained by a decrease in fixed cost. The increase of the MER of the Series F from the 1.74% year ended December 31, 2016 is mainly due to performance fees.

### Recent Developments

Following up on the highlights above, the Manager is cautious on the Canadian economy, but prefers it to the U.S. recovery at this point. Although there is still belief in the U.S. recovery, the new president's impact has yet to be reflected.

The Fund maintains a reduced exposure level to the market in order to provide the ability to take advantage of opportunities that can arise.

### Related Party Transactions

Palos Management Inc., which acts as the investment fund manager and portfolio advisor to the Fund, is deemed to be a related party to the Fund. Palos Management Inc. and the Fund were not party to any other related party transactions during the last year.

The Fund's independent Review Committee (the "IRC") has considered whether Palos Management Inc.'s roles as investment fund manager and portfolio advisor constitutes a conflict of interest requiring standing instructions and has concluded that it does not. Nevertheless, the IRC will review the arrangement from time to time to ensure that Palos Management Inc., in its dual capacity as investment fund manager and as portfolio manager, is performing adequately in both roles. In its analysis, the IRC will consider the following criteria, among others: the performance of the Fund relative to other funds in the same category, and the quantum of the fees paid to the Manager in relation to the performance of the Fund and the amount of assets under management in the Fund. Palos Management Inc. has relied on the approval of the IRC in proceeding in this manner.

**Manager, Trustee and Portfolio Advisor:** Palos Management Inc. is the manager, and portfolio advisor of the Fund. Computershare Trust Company of Canada is the trustee of the Fund.

**Custodian:** NBCN Inc., a subsidiary of National Bank, is custodian of the Fund.

**Registrar:** SGGG Fund Services Inc. is the registrar of the Fund and keeps records of who owns the units of the Fund.

**MANAGEMENT FEES**

Management fees paid by the Fund are calculated monthly, based on 1/12<sup>th</sup> of the annualized management fee per series applied to the NAV per series as at the last business day of the preceding month.

Series	Trailer commissions (%)	Other (%)
A	0.75	0.75
F	0.00	0.75

Other – includes day-to-day administration of the Fund, portfolio advisory services and Manager’s compensation.

## FINANCIAL HIGHLIGHTS

### Series A

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 past five years.

The Fund's Net Assets per Unit <sup>(1)</sup>	June 30, 2017	2016	2015	2014	2013	2012	2011
<b>Net Assets, beginning of period</b>	<b>\$6.38</b>	<b>\$5.93</b>	<b>\$6.73</b>	<b>\$7.09</b>	<b>\$6.82</b>	<b>\$7.37</b>	<b>\$8.65</b>
<b>Increase (decrease) from operations:</b>							
Total revenue	0.09	0.17	0.20	0.24	0.27	0.30	0.36
Total expenses	(0.08)	(0.17)	(0.21)	(0.20)	(0.34)	(0.29)	(0.49)
Realized gains (losses) for the period	0.10	0.30	0.14	0.77	0.63	(0.06)	(0.08)
Unrealized gains (losses) for the period	-	0.66	(0.14)	(0.36)	0.51	0.27	(0.35)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.11</b>	<b>0.96</b>	<b>(0.01)</b>	<b>0.45</b>	<b>1.07</b>	<b>0.22</b>	<b>(0.56)</b>
<b>Distributions:</b>							
From income (excluding dividends)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
From dividends	0.01	0.00	0.00	0.00	0.00	0.00	0.00
From capital gains	0.10	0.13	0.00	0.59	0.11	0.00	0.00
Return of capital	0.09	0.37	0.80	0.21	0.69	0.80	0.80
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>0.20</b>	<b>0.50</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>
<b>Net Assets, end of period</b>	<b>\$6.28</b>	<b>\$6.38</b>	<b>\$5.93</b>	<b>\$6.73</b>	<b>\$7.09</b>	<b>\$6.82</b>	<b>\$7.37</b>

Ratios/Supplemental Data	June 30, 2017	2016	2015	2014	2013	2012	2011
Total Net Asset Value (\$000's) <sup>(1)</sup>	17,347	18,649	17,587	19,195	17,643	16,071	14,219
Number of units outstanding (000's)	2,763	2,924	2,941	2,852	2,489	2,358	1,925
Management expense ratio <sup>(2)</sup>	2.36%	2.60%	3.00%	2.69%	4.85%	4.03%	5.37%
Management expense ratio before waivers or absorptions	2.43%	2.60%	3.00%	2.72%	5.11%	4.03%	5.37%
Trading expense ratio <sup>(3)</sup>	0.21%	0.25%	0.17%	0.35%	0.16%	0.09%	0.22%
Portfolio turnover rate	54.83%	108.62%	91.47%	168.61%	113.53%	107.02%	111.72%
Net Asset Value per unit	\$6.28	\$6.38	\$5.93	\$6.73	\$7.09	\$6.82	\$7.39

## NOTES TO FINANCIAL HIGHLIGHTS

### Net Assets per Unit:

- (1) The information is derived from the Fund's unaudited financial statements as at June 30, 2017 and audited annual financial statements as at December 31 of each year. In the period a fund is established, the financial information is provided from the date of inception to the end of the period. Prior to January 1, 2014, in the cases where the net assets per unit presented in the financial statements differ from the net asset value calculated for Fund pricing purposes, an explanation of these differences can be found in the notes to the financial statements. This difference is due to the fact that the net asset value calculated for Fund pricing purposes is based on the actual trade price, whereas the net assets per unit presented in the financial statements is based on the closing "bid" price, as required by GAAP.
- (2) Net assets and distributions are based on the actual number of unit outstanding at the relevant time. The increase/decrease in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing net assets per units.
- (3) Certain distributions were paid in cash to unitholders who ask for cash payment. For the other unitholders, the distributions were reinvested in additional units of the Fund.

**Ratios and Supplemental Data:**

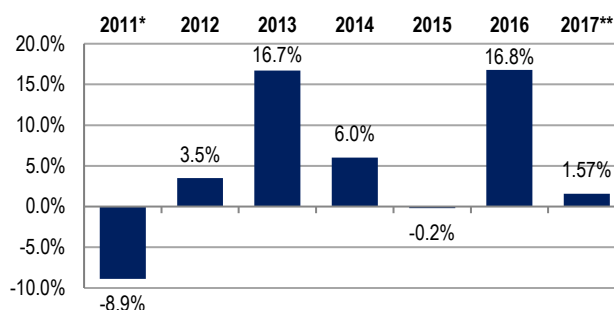
- (1) This information is provided as at the end of the year shown.
- (2) Management expense ratio represents the total expenses (excluding commissions and other portfolio transactions costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of 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 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 necessary a relationship between a high turnover rate and the performance of a fund.

**PAST PERFORMANCE**

The following information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

**Year-by-Year Returns**

The following charts show the investment fund's performance for each of the years shown, and illustrate how the investment fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



\* Since the commencement of operation, from February 18, 2011.

\*\* For the 6 months period ended June 30, 2017

## FINANCIAL HIGHLIGHTS

### Series F

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 past four years.

The Fund's Net Assets per Unit <sup>(1)</sup>	June 30, 2017	2016	2015	2014	2013	2012
<b>Net Assets, beginning of period</b>	<b>\$6.13</b>	<b>\$6.13</b>	<b>\$6.92</b>	<b>\$7.21</b>	<b>\$6.84</b>	<b>\$7.18</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	0.09	0.17	0.21	0.24	0.27	0.23
Total expenses	(0.07)	(0.13)	(0.20)	(0.18)	(0.23)	(0.19)
Realized gains (losses) for the period	0.09	0.30	0.12	0.41	0.64	(0.08)
Unrealized gains (losses) for the period	(0.04)	0.81	(0.19)	(0.56)	0.63	0.21
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.07</b>	<b>1.15</b>	<b>(0.06)</b>	<b>(0.09)</b>	<b>1.31</b>	<b>0.17</b>
<b>Distributions:</b>						
From income (excluding dividends)	0.00	0.00	0.00	0.00	0.00	0.00
From dividends	0.02	0.00	0.00	0.00	0.00	0.00
From capital gains	0.09	0.32	0.00	0.40	0.11	0.00
Return of capital	0.09	0.18	0.80	0.40	0.69	0.60
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>0.20</b>	<b>0.50</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.60</b>
<b>Net Assets, end of period</b>	<b>\$6.59</b>	<b>\$6.13</b>	<b>\$6.13</b>	<b>\$6.92</b>	<b>\$7.20</b>	<b>\$6.84</b>

Ratios/Supplemental Data	June 30, 2017	2016	2015	2014	2013	2012
Total Net Asset Value (\$000's) <sup>(1)</sup>	8,792	5,707	2,638	1,874	671	326
Number of units outstanding (000's)	1,334	855	430	271	93	48
Management expense ratio <sup>(2)</sup>	2.03%	1.74%	2.85%	1.83%	3.40%	3.55%
Management expense ratio before waivers or absorptions	2.03%	1.74%	2.85%	1.88%	3.77%	3.55%
Trading expense ratio <sup>(3)</sup>	0.21%	0.22%	0.17%	0.34%	0.22%	0.10%
Portfolio turnover rate	54.83%	108.62%	91.47%	168.61%	113.53%	107.02%
Net Asset Value per unit	\$6.59	\$6.67	\$6.13	\$6.93	\$7.21	\$6.84

## NOTES TO FINANCIAL HIGHLIGHTS

### Net Assets per Unit:

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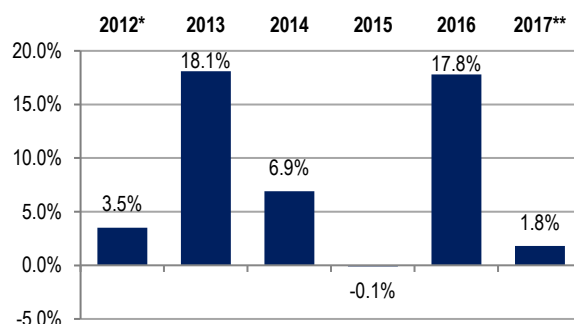
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**Year-by-Year Returns**

The following charts show the investment fund's performance for each of the years shown, and illustrate how the investment fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



\* Since the commencement of operation, from April 9, 2012.

\*\* For the 6-month period ended June 30, 2017.



**SUMMARY OF INVESTMENT PORTFOLIO**

As at June 30, 2017

**Portfolio by Category**

The major portfolio categories and top 25 holdings of the Fund at the end of the period are indicated in the following tables. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available.

**Regional Weightings (%)**

Canada	100.00
United States	0.00
Total	100.00

**Sector Weightings (%)**

Consumer Discretionary	10.17
Consumer Staples	3.27
Energy	21.18
Financials	18.09
Health Care	0.69
Industrials	13.68
Information Technology	5.73
Materials	12.55
Utilities	8.51
Real Estate	3.37
Cash	2.76
Total	100.00

**Portfolio Long/Short Breakdown (%)**

Long positions	97.24
Short positions	0.0
Cash	2.76
Total	100.00

**Asset Class Weightings (%)**

Common Stocks	88.43
Fixed Income	8.81
Cash	2.76
Total	100.0

**Top 25 Holdings (%)**

Bank of Nova Scotia	3.87
Toronto-Dominion Bank	3.37
Royal Bank of Canada	3.24
Veresen Inc.	2.38
Keyera Corp.	2.37
Lundin Mining Corp.	2.11
DHX Media Ltd 5.875% 02DEC2021	2.03
CCL Industries Inc.	2.01
AltaGas Ltd SUB REC	1.92
Algonquin Power & Utilities Corp.	1.83
Crius Energy Trust	1.80
Franco-Nevada Corp.	1.79
Sun Life Financial Inc.	1.77
Northland Power Inc. CV 4.75% 30JUN2020	1.72
WSP Global Inc.	1.64
Shopify Inc.	1.59
Waste Connections Inc.	1.48
EnerCare Inc.	1.47
Bank of Montreal	1.46
Kinaxis Inc.	1.43
InterRent Real Estate Investment Trust	1.43
Dollarama Inc.	1.42
Invescoor Restaurant Group Inc.	1.40
CGI Group Inc.	1.39
Boralex Inc. CV 4.50% 30JUN2020	1.38
Top 25 Holdings	48.31

The total Net Asset Value of the Fund as at June 30, 2017 was \$ 25,816,050.76.

The prospectus and other information about the Fund are available on the internet at [www.sedar.com](http://www.sedar.com).

For more information, contact your investment advisor or:

**Palos Management Inc.**

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