

BAROMETER CAPITAL MANAGEMENT INC.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
for the year ended December 31, 2018

Barometer Disciplined Leadership Balanced Fund



This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-866-601-6888, by writing to us at Barometer Capital Management Inc., Mutual Fund Account Documentation, 1 University Avenue, Suite 1800, P.O. Box 25, Toronto, Ontario M5J 2P1, or by visiting our website at www.barometercapital.ca or SEDAR at www.sedar.com. Unitholders may also contact us using one of these methods to request a copy of the investment fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Forward-Looking Statements (“FLS”)

The annual Management Report of Fund Performance may contain forward-looking statements. FLS means disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action, and includes any future-oriented financial information (“FOFI”) with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection. FOFI is FLS about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action.

FLS can be identified by the use of forward-looking terminology such as “may”, “will”, “should”, “expect”, “anticipate”, “target”, “project”, “estimate”, “intend”, “continue” or “believe”, or the

negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of one of the Barometer Group of Funds (each a “Fund”) may differ materially from those reflected or contemplated in such forward-looking information and statements. Material risk factors that could affect actual results are identified under the heading “What are the Risks of Investing in the Fund?” in the Fund’s Simplified Prospectus. Investors are also cautioned that FLS is based on a number of factors and assumptions, including a Fund’s current plans, estimates, opinions and analysis made in light of its experience, current conditions and expectations of future developments, as well as other relevant factors. 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.

BAROMETER DISCIPLINED LEADERSHIP BALANCED FUND MANAGEMENT REPORT OF FUND PERFORMANCE

Management Discussion of Fund Performance for the year ended December 31, 2018

This annual Management Report of Fund Performance represents the portfolio management team's view of the significant factors and developments affecting the investment fund's performance and outlook to December 31, 2018, the investment fund's fiscal year end. Every effort has been made to ensure the information contained in this Management Report of Fund Performance is accurate and complete, however, the investment fund cannot guarantee the accuracy or the completeness of this material. For more information, please refer to the Barometer Group of Funds' Simplified Prospectus ("Prospectus") and Annual Information Form. In this report, "Barometer", "Manager", "Trustee", or "Portfolio Advisor" refers to Barometer Capital Management Inc., the Manager, Trustee and Portfolio Advisor of the Fund. The "Fund" refers to the Barometer Disciplined Leadership Balanced Fund. In addition, "net asset value" or "NAV" refers to the value of the Fund as calculated for transaction purposes, on which the discussion of Fund performance is based. All dollar figures are reported in Canadian dollars and are expressed in millions, unless otherwise indicated.

Investment Objective and Strategies

The Fund seeks to provide long-term capital appreciation by investing in a combination of equity and fixed income securities without geographic restrictions. Holdings are not restricted by market capitalization size or sector, and there is an emphasis in investing in actively traded securities.

Risk

The risks associated with investing in the Fund remain as discussed in the Prospectus. This Fund is suitable for long-term investors who are seeking North American equity, global equity and fixed income exposure, and can tolerate low-medium risk.

For the year ended December 31, 2018, there were no changes affecting the overall level of risk associated with an investment in the Fund. Therefore, the overall level of Fund risk and investor risk tolerance remains as stated in the Prospectus.

Results of Operations

During the year ended December 31, 2018, Class A units returned -8.4%, Class F units returned -7.4% and Class I units returned -6.3%. The Fund's benchmark is a 50/25/25 blend of the FTSE TMX Canada Universe Bond Index, S&P/TSX Composite Total Return Index, and MSCI World Net Total Return Index (CAD), which returned -1.7% for the year. It is important to note that the Fund's return reflects the effect of fees and expenses for professional management, while the benchmark does not have such costs.

The net asset value of the Fund decreased by 3.1% from \$110.6 million on December 31, 2017, to \$107.2 million on December 31, 2018. This change was composed primarily of net subscriptions of \$9.6 million along with a decrease in investment performance for the year ended December 31, 2018. The Fund also paid cash distributions totalling \$0.6 million during the year.

The Fund underperformed the blended benchmark by -6.6%, -5.6%, and -4.6%, for each respective class, primarily due to its exposure in the leading equity sectors that corrected significantly in the fourth quarter.

Technology, industrials and financials represented some of the largest exposures in the portfolio.

After a strong start to 2018, the U.S. markets and most global markets experienced declining asset values as the year progressed. This became more pronounced in the fourth quarter with concerns over trade disputes and rising interest rates putting downward pressure on equity values, especially the leadership sectors within the U.S. As the trade dispute between the U.S. and China remains unresolved, this continues to worry investors about a negative outcome.

With the U.S. raising interest rates, this led to other countries, especially those that import commodities or have U.S. dollar debt, to raise their own interest rates in order to provide funding. The net result is a significant amount of global tightening and reduced global capital to maintain the value of assets, especially for equities and credit markets.

Less liquidity has put pressure on a wide variety of asset classes. As the month of November concluded, approximately 90% of asset classes were in negative territory for the year (source: Deutsche Bank). December followed with more declines. The fourth quarter of 2018 was the third worst performing fourth quarter since 1950 for the S&P 500. Many of the best performing sectors and stocks year to date before the drawdown of equity values were the worst performers in October and December of 2018.

Despite the actions of equity markets, many fundamental indicators remain positive. Throughout the year and including the difficult fourth quarter, most companies have been exceeding their earnings and revenue estimates. With lower U.S. corporate taxes and strong GDP growth there remains strong growth potential for companies.

Economic indicators such as the PMI (Purchasing Manager Index) has remained in the growth range and unemployment remains at multi-year lows. However, market sentiment plays a role in investors risk appetite, which has clearly been negative. With the overall uncertainty in many global conditions, the year remained a challenging one.

Individually, the FTSE TMX Canada Universe Bond Index, S&P/TSX Composite Total Return Index, and MSCI World Net Total Return Index (CAD) posted returns of 1.3%, -8.9%, and -0.7%, respectively, with most sectors experiencing volatility and weakness during the year. With the weakness in equities in the fourth quarter, bonds rebounded and ended the year with a small but positive return.

Throughout 2018, the Manager repositioned the Fund into different sectors which increased its exposure to the fixed income, health care and real estate sectors while at the same time reducing its exposure to the industrials and information technology sectors.

The healthcare sector weighting increased to approximately 11.8% from 2.9% over the year, as the sector began to perform better. Growth in healthcare companies continued to impress and the market was willing to pay more for growth in a non-cyclical sector.

BAROMETER DISCIPLINED LEADERSHIP BALANCED FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

Management Discussion of Fund Performance for the year ended December 31, 2018

Positions which had a positive impact on the Fund's performance in this sector included Eli Lilly & Co. and United Health Group Inc. which gained approximately 5.3% and 3.5%, respectively.

The real estate sector weighting increased to approximately 8.7% from 2.5% over the year, as the REIT market began to perform better as fears of interest rate hikes and further cap rate compression subsided in the fourth quarter. Allied Properties Real Estate Investment Trust had a positive impact on the Fund's performance in this sector which gained 9.1%.

During the year, the Fund reduced its exposure in the industrials sector weighting to 3.8% from 16.7%, as a result of cyclical stocks in this sector underperforming. Additionally, sentiment toward stocks that sell military defense products came under pressure after the nuclear deal between the U.S. and North Korea was announced. The Fund reduced its weighting in both of these types of stocks. Industrial related positions such as Westshore Terminals Investment Corporation and Delta Air Lines Inc. had a negative impact on the Fund's performance by 15.6% and 14.8%, respectively.

In addition, the Fund's information technology sector was reduced from 14.3% to 7.8%, due to a sell off in technology stocks in the fourth quarter. Information technology positions such as Nvidia Corporation and CGI Group Inc. had a negative impact on the Fund's performance by 11.3% and 4.4%, respectively.

The bond market was mixed throughout 2018 as bonds suffered from rising interest rates and benefited from volatile equity markets and a flight to safety by investors. The Fund's fixed income positions, which made up approximately 50% of the portfolio by the end of the year, proved beneficial as it provided overall stability to the portfolio by providing less volatility and positive returns. Hydro One Ltd. and Government of Canada Treasury Bills were added to the portfolio which had a positive impact on the Fund's performance by 32.2% and 2.1%, respectively.

The investment performance of the Fund includes income and expenses which vary year over year. The Fund's income and expenses changed compared to the previous year, mainly as a result of fluctuations in average net assets, portfolio activity, and changes in the Fund's investments.

Recent Developments

It has been a difficult period for investors as equities have been repriced during this recent correction. However, if we look at the fundamentals typical in bear markets, such as 2000 and 2008, we see marked differences to today. Previously mentioned indicators such as credit spreads, corporate earnings, economic growth and unemployment levels, provide evidence that the U.S. economy remains constructive despite the actions of the equity markets. Also, with the threat of further interest rates increases the markets remains risk adverse.

The markets would react positively to a resolution between China and the U.S. While recent headlines suggest reasons for optimism, market dynamics continue to call for caution. Barometer's portfolios remain defensively positioned and until further improvements in breadth and other technical factors occur

Barometer will remain in a defensive posture.

The Fund adopted IFRS 9 Financial Instruments on January 1, 2018. The adoption of this new standard did not impact the carrying values of the financial instruments in these financial statements.

Related Party Transactions

Related party transactions consist of services provided by the Manager to the Fund. Pursuant to the management agreement, the Manager receives a management fee from the Fund amounting to 1.95% and 0.95% from Class A and Class F unitholders of the Fund, respectively. The Manager may also receive a negotiated management fee directly from Class I unitholders. Management fees are accrued in arrears daily (plus applicable taxes) and paid monthly. The management fee is in consideration for providing management, portfolio management, and administrative services and facilities to the Fund, as well as trailing commissions paid to dealers for Class A units.

Units	As a percentage of Management Fees		
	Management Fees (%)	Dealer Compensation (%)	General Administration, Investment Advice and Profit (%)
Class A	1.95	51	49
Class F	0.95	-	100
Class I	-	-	-

For the year ended December 31, 2018, the management fee earned, inclusive of applicable taxes, was \$1.8 million.

As compensation for its services as a portfolio advisor of the Fund, the Portfolio Advisor is entitled to receive a performance fee (the "Performance Fee") from the Class A units and Class F units of the Fund equal to 20% of the amount by which the NAV per unit of that class of the Fund at the end of a year (the "Year-End Class NAV per Unit") exceeds the annual target NAV per unit of that class of the Fund (the "Year-End Target Class NAV per Unit"), multiplied by the number of outstanding units of that class of the Fund at the end of that year (the "Year-End Class Units"), plus applicable taxes.

The Performance Fees are calculated and accrued daily and paid at the end of each year or upon redemption. The Performance Fee accrued for the year ended December 31, 2018 was \$0.04 million.

BAROMETER DISCIPLINED LEADERSHIP BALANCED FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

Financial Highlights – December 31, 2018

The following tables show selected key financial information about the Class A, F and I units of the Fund, respectively, and are intended to help you understand the Fund's financial performance for the past 4 years.

The Fund's Net Asset Value (NAV) per Class A Unit (1) (2)	2018	2017	2016	2015
Net asset value, beginning of year	\$11.41	\$10.90	\$10.13	\$10.00
Increase (decrease) from operations:				
Total revenue	0.29	0.37	0.30	0.26
Total expenses	(0.29)	(0.29)	(0.38)	(0.27)
Realized gains/(losses) for the year	(0.21)	0.58	0.39	(0.50)
Unrealized gains/(losses) for the year	(0.74)	0.14	0.79	0.79
Total increase (decrease) from operations (3)	\$(0.95)	\$0.80	\$1.10	\$0.28
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	(0.30)	(0.30)	(0.30)	(0.31)
Total annual distributions (3) (4)	(\$0.30)	(\$0.30)	(\$0.30)	(\$0.31)
Net asset value, end of year (3)	\$10.18	\$11.41	\$10.90	\$10.13
Ratios and Supplemental Data				
Total net asset value (5)	\$ 40,351,745	\$44,287,105	\$40,160,275	\$33,228,416
Number of units outstanding (5)	3,965,367	3,882,015	3,685,258	3,280,639
Management expense ratio (6)	2.49%	2.56%	3.54%	2.59%
Trading expense ratio (7)	0.31%	0.37%	0.25%	0.26%
Portfolio turnover rate (8)	203.83%	196.68%	153.89%	216.81%
Net asset value per unit	\$10.18	\$11.41	\$10.90	\$10.13

The Fund's Net Asset Value (NAV) per Class F Unit (1) (2)	2018	2017	2016	2015
Net asset value, beginning of year	\$11.66	\$11.04	\$10.18	\$10.00
Increase (decrease) from operations:				
Total revenue	0.30	0.38	0.31	0.05
Total expenses	(0.17)	(0.21)	(0.30)	(0.19)
Realized gains/(losses) for the year	(0.21)	0.58	0.42	(0.10)
Unrealized gains/(losses) for the year	(0.78)	0.18	0.79	0.16
Total increase (decrease) from operations (3)	(0.86)	\$0.93	\$1.22	(\$0.08)
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	(0.07)	-	-	-
From capital gains	-	-	-	-
Return of capital	(0.23)	(0.30)	(0.30)	(0.32)
Total annual distributions (3) (4)	(\$0.30)	(\$0.30)	(\$0.30)	(\$0.32)
Net asset value, end of year (3)	\$10.52	\$11.66	\$11.04	\$10.18
Ratios and Supplemental Data				
Total net asset value (5)	\$ 64,466,770	\$62,937,005	\$50,092,139	\$34,275,108
Number of units outstanding (5)	6,128,396	5,398,764	4,538,294	3,368,554
Management expense ratio (6)	1.38%	1.75%	2.81%	1.81%
Trading expense ratio (7)	0.31%	0.37%	0.25%	0.26%
Portfolio turnover rate (8)	203.83%	196.68%	153.89%	216.81%
Net asset value per unit	\$10.52	\$11.66	\$11.04	\$10.18

BAROMETER DISCIPLINED LEADERSHIP BALANCED FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

Financial Highlights – December 31, 2018

The Fund's Net Asset Value (NAV) per Class I Unit (1) (2)	2018	2017	2016	2015
Net asset value, beginning of year	\$12.38	\$11.53	\$10.37	\$10.00
Increase (decrease) from operations:				
Total revenue	0.32	0.40	0.31	0.27
Total expenses	(0.05)	(0.04)	(0.04)	(0.04)
Realized gains/(losses) for the year	(0.25)	0.61	0.40	(0.49)
Unrealized gains/(losses) for the year	(0.45)	0.17	0.71	0.80
Total increase (decrease) from operations (3)	\$(0.43)	\$1.14	\$1.38	\$0.54
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	(0.01)	-	-
From capital gains	-	-	-	-
Return of capital	(0.29)	(0.28)	(0.30)	(0.30)
Total annual distributions (3) (4)	\$(0.29)	\$(0.29)	\$(0.30)	\$(0.30)
Net asset value, end of year (3)	\$11.31	\$12.38	\$11.53	\$10.37
Ratios and Supplemental Data				
Total net asset value (5)	\$ 2,373,086	\$3,381,155	\$3,143,784	\$3,570,593
Number of units outstanding (5)	209,775	273,206	272,586	344,441
Management expense ratio (6)	0.30%	0.26%	0.24%	0.34%
Trading expense ratio (7)	0.31%	0.37%	0.25%	0.26%
Portfolio turnover rate (8)	203.83%	196.68%	153.89	216.81%
Net asset value per unit	\$11.31	\$12.38	\$11.53	\$10.37

Notes:

- (1) This information is derived from the Fund's audited annual financial statements for December 31, 2018 and is not a reconciliation of beginning and ending net assets per unit.
- (2) The Fund commenced operations on January 1, 2015; as a result, financial highlights are currently available for the past four years.
- (3) Net assets 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 period.
- (4) Distributions were paid in cash or automatically reinvested in additional units of the Fund, or both.
- (5) This information is provided as at December 31, of the year shown, as applicable.
- (6) Management expense ratio is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average NAV during the year.
- (7) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the year. Included in the trading expense ratio are the forward fees.
- (8) The Fund's portfolio turnover rate indicates how actively the Fund's advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the units in its portfolio once in the course of the year. The higher a funds' portfolio turnover rate in the 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.

BAROMETER DISCIPLINED LEADERSHIP BALANCED FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

Past Performance – December 31, 2018

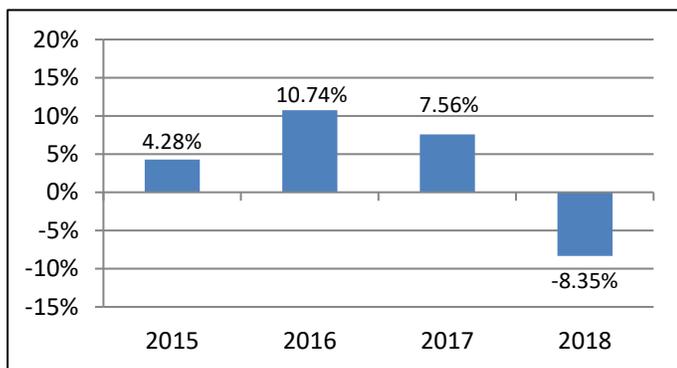
The following information shown assumes that all distributions made by the Fund in the year shown were reinvested in additional securities of the investment fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past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

Year-by-Year Returns

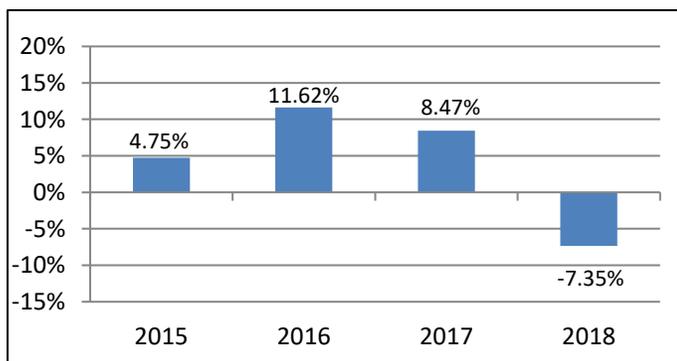
The following bar charts show the Fund's annual performance for each of the years shown, as applicable, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment in Class A, F and I units, respectively, made on the first day of each financial year would have grown or decreased by the last day of the financial year.

The annual returns for the years ended December 31, are as follows:

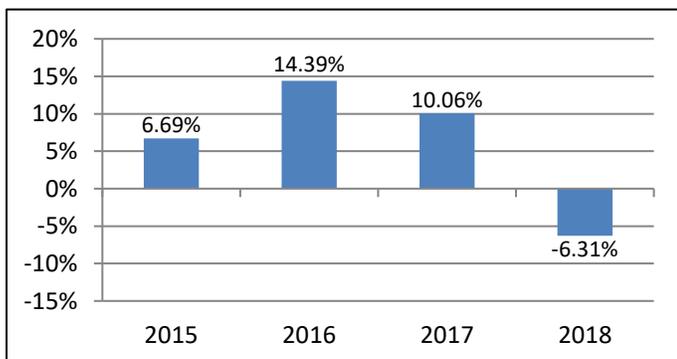
Class A



Class F



Class I



Benchmark(s) Information

The benchmark for the Fund is determined by a compounded 50:25:25 blend of the FTSE TMX Canada Universe Bond Index, MSCI World Net Total Return Index denominated in Canadian dollars and the S&P/TSX Composite Total Return Index. The FTSE TMX Canada Universe Bond Index is comprised of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued in Canada.¹ The MSCI World Net Total Return Index (CAD) is a free float-adjusted market capitalization weighted index that is designed to capture large and mid-cap representations across developed markets. The MSCI World Net Total Return Index (CAD) consists of 23 developed country indices.² The S&P/TSX Composite Total Return Index is the headline index for the Canadian Equity market. It is the broadest in the S&P/TSX family and is the basis for multiple sub-indices including but not limited to Equity Indices, Income Trust Indices, Capped Indices, GICS Indices and Market Cap based Indices.³

¹ "FTSE TMX Canada Universe Bond Index." Ground Rules for FTSE TMX Canada Universe and Maple Bond Index Series v2.2 Web. June 30, 2018.

² "MSCI World Net Total Return Index (CAD)." MSCI Index Fact Sheet. Web. October 31, 2018.

³ "S&P/TSX Composite Total Return Index." S&P Dow Jones Indices by S&P Global. Web. November 30, 2018.

Annual Compound Returns

The following table shows the Fund's annual compound return for each class of the Fund, and for each of the periods indicated ending December 31. The returns are compared against a 50:25:25 blend of FTSE TMX Canada Universe Bond Index, MSCI World Net Total Return Index (CAD) and the S&P/TSX Composite Total Return Index for the same period.

	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception†
Fund, Class A	(8.4)%	(0.7)%	3.0%	3.3%
Fund, Class F	(7.4)%	0.3%	3.9%	4.1%
Fund, Class I	(6.3)%	1.5%	5.7%	5.9%
Blended Benchmark††	(1.7)%	2.6%	4.1%	4.0%
FTSE TMX Canada Universe Bond Index	1.3%	2.0%	1.9%	2.3%
MSCI World Net Total Return Index (CAD)	(0.7)%	6.4%	5.8%	8.7%
S&P/TSX Composite Total Return Index	(8.9)%	(0.3)%	6.4%	2.5%

† The performance start date for Class A, F and I units was January 1, 2015.

†† The Blended Benchmark is composed of:
 50% FTSE TMX Canada Universe Bond Index
 25% MSCI World Net Total Return Index (CAD)
 25% S&P/TSX Composite Total Return Index

BAROMETER DISCIPLINED LEADERSHIP BALANCED FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

Summary of Investment Portfolio as at December 31, 2018

The following table shows selected key financial information about the Fund, and is intended to assist in the understanding of the Fund's financial performance for the year ended December 31, 2018.

Portfolio Composition		Top 25 Holdings	
Sector Allocation	% of Net Asset Value	Issuer	% of Net Asset Value
Fixed Income	36.89	U.S. Treasury Note 2.875% 31OCT23	5.63
Health Care	11.81	U.S. Treasury Bill 05DEC19	4.91
Financials	9.76	U.S. Treasury Note 2.875% 30NOV23	4.12
Real Estate	8.70	U.S. Treasury Note 2.875% 15AUG28	3.44
Information Technology	7.78	Visa Inc.	3.24
Energy	6.88	Verizon Communications Inc.	3.19
Communications Services	5.84	Fairfax Financial Holdings Ltd. 4.85% 17APR28	3.18
Utilities	4.41	Fiera Capital Corp. 5% 30JUN23 CONV. \$18.85	3.16
Industrials	3.84	Eli Lilly & Co.	3.14
Consumer Staples	2.89	UnitedHealth Group Inc.	3.14
Cash and cash equivalents	1.68	Allied Properties Real Estate Investment Trust	3.13
Foreign Currency Forward Contracts	(0.48)	Canadian Government Bond 2% 01SEP23	3.02
Total Portfolio Allocation	100.00%	Alimentation Couche-Tard Inc.	2.89
		Boston Scientific Corp.	2.89
		Canadian Apartment Properties REIT	2.81
		Granite Real Estate Investment Trust	2.76
		Canadian Government Bond 0.75% 01MAR21	2.72
		The Walt Disney Co.	2.65
		Harvest Health & Recreation Inc.	2.64
		Microsoft Corp.	2.60
		CME Group Inc.	2.59
		Cargojet Inc. 4.65% 31DEC21 CONV. \$58.65	2.47
		Enbridge Inc.	2.41
		Brookfield Infrastructure Partners LP PFD 5%	2.39
		Pembina Pipeline Corp. PFD 4.90%	2.39
		Total Percentage of Net Asset Value Represented by Holdings	77.51%
Total Net Asset Value (in millions)	\$107.2		

The "Top 25 Holdings" of the Fund, as a percentage of Net Asset Value of the Fund, have been presented in accordance with National Instrument 81-106.

The Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates of the Investment Portfolio are available within 60 days of each quarter end.

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