

BAROMETER CAPITAL MANAGEMENT INC.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
for the year ended December 31, 2017

Barometer Disciplined Leadership Equity 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.

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Management Discussion of Fund Performance for the year ended December 31, 2017

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, 2017, 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 Equity 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 equity securities without geographic restrictions. Holdings are not restricted by market capitalization size or sector, and there is an emphasis on 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 and global equity exposure, and can tolerate medium investment risk.

For the year ended December 31, 2017, 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, 2017, Class A units returned 10.7% and Class F units returned 11.9%. The Fund's benchmark is a 30/70 blend of the S&P/TSX Composite Total Return Index and the MSCI World Index (CAD), which returned 12.6% 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 0.1% from \$31.5 million on December 31, 2016, to \$31.4 million on December 31, 2017. Net redemptions of \$3.4 million offset by positive investment performance resulted in a slight decrease in net asset value for the year ended December 31, 2017.

The Fund underperformed the blended benchmark by 1.9% and 0.7%, for each respective class. This is in part due to the underperformance of the material and energy sectors which the Fund was equal weight and underweight, respectively, to the MSCI World index, which was 70% of the benchmark.

2017 was constructive for our investment themes which benefitted from continued economic expansion, anticipated stimulus from U.S. tax reforms and strengthened corporate earnings. Despite the market appearing weak earlier in the year, Barometer's risk models remained constructive — thus the portfolio remained invested in leadership positions with exposure to an improving global economy.

While markets strengthened, corporate share buybacks continued to accelerate. At the same time, dividend yields are, on average, low; as many of the companies in the portfolio are reducing the share count of their stock consistently and materially each year. This phenomenon is commonly referred to as the "buyback yield".

Canadian markets lagged in 2017 as energy stocks did not follow the rising price of commodities, relying on financials to ensure the Canadian indexes remained in positive territory. Inflation has remained muted and the upward direction in interest rates appears to be a function of the competing forces of technology driven deflation and a tightening of excess capacity in the global economy.

Individually, the S&P/TSX Composite Total Return Index and MSCI World Index (CAD) posted returns of 9.1% and 14.0%, respectively, with many sectors experiencing growth during the year.

Throughout 2017, the Manager repositioned the Fund into different sectors which increased its exposure to the consumer discretionary, consumer staples and healthcare sectors, while reducing its exposure to the energy and materials sectors.

The consumer discretionary and consumer staples sectors combined were increased to approximately 20.2% from 5.7% over the year, as U.S. consumer confidence improved and the U.S. economy continued to grow. Positions which had a positive impact on the Fund in this sector included D.R. Horton Inc. and Overstock.com which gained 38.8% and 38.2%, respectively.

The healthcare sector increased to 11.2% from 1.9%, as the investment team increased diversity and found a number positions with attractive growth stories. Healthcare positions that had a positive impact on the Fund were AbbVie Inc. and iRhythm Technologies, Inc. which gained 25.6% and 24.2%, respectively.

During the year, the Fund eliminated its exposure in the energy sector, as energy companies had been experiencing an overall decline due to energy prices stubbornly not following the price of oil. Existing positions in the materials sector were also reduced, as commodity prices weakened, with positions trimmed to manage risk. Materials positions such as Teck Resources Ltd. and Hudbay Minerals Inc. had negative impacts on the Fund's performance by 10.5% and 13.4%, 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

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Recent Developments

As we move into 2018, many investors fear a market pull back after experiencing such a strong year of growth. This investor sentiment was also witnessed after the 2016 “Trump bump”, which drove strong returns into the final quarter of that year. Upon review of 2017, improvements in economic indicators at the time, such as the PMI (Purchasing Managers’ Index), foreshadowed the acceleration in global GDP growth now described by economists as a “global synchronised expansion”. This only added momentum to already strong U.S. sectors and broaden out the market beyond technology to include financials, industrials and consumer discretionary driving market returns. Examining the current environment, economic fundamentals in the U.S. continue to strengthen and global growth is accelerating. Reviewing an economic checklist that includes credit spreads, market breadth, PMI’s labour market and market trends, the balance of evidence is positive and all point to a continued constructive environment.

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.

The percentages and major services paid out of management fees are set out below:

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

For the year ended December 31, 2017, the management fee earned, inclusive of applicable taxes, was \$0.5 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, 2017 was \$0 million.

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Financial Highlights – December 31, 2017

The following tables show selected key financial information about the Class A and F 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)	2017	2016	2015	2014
Net asset value, beginning of year	\$11.85	\$11.40	\$10.68	\$10.00
Increase (decrease) from operations:				
Total revenue	0.11	0.14	0.13	0.12
Total expenses	(0.33)	(0.32)	(0.34)	(0.30)
Realized gains/(losses) for the year	0.98	0.75	0.75	(0.57)
Unrealized gains/(losses) for the year	0.50	(0.09)	0.10	1.04
Total increase (decrease) from operations (3)	\$1.26	\$0.48	\$0.64	\$0.29
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total annual distributions (3) (4)	-	-	-	-
Net asset value, end of year (3)	\$13.11	\$11.85	\$11.40	\$10.68
Ratios and Supplemental Data				
Total net asset value (5)	\$14,425,739	\$16,682,531	\$17,449,480	\$15,180,240
Number of units outstanding (5)	1,100,129	1,408,151	1,530,413	1,421,220
Management expense ratio (6)	2.66%	2.75%	2.80%	2.74%
Trading expense ratio (7)	0.80%	1.00%	0.61%	0.88%
Portfolio turnover rate (8)	372.88%	483.06%	366.22%	401.08%
Net asset value per unit	\$13.11	\$11.85	\$11.40	\$10.68
The Fund's Net Asset Value (NAV) per Class F Unit (1) (2)				
Net asset value, beginning of year	\$12.26	\$11.67	\$10.81	\$10.00
Increase (decrease) from operations:				
Total revenue	0.12	0.15	0.13	0.12
Total expenses	(0.21)	(0.20)	(0.21)	(0.18)
Realized gains/(losses) for the year	1.09	0.75	0.65	(0.63)
Unrealized gains/(losses) for the year	0.44	(0.09)	0.14	1.09
Total increase (decrease) from operations (3)	\$1.44	\$0.61	\$0.71	\$0.40
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total annual distributions (3) (4)	-	-	-	-
Net asset value, end of year (3)	\$13.72	\$12.26	\$11.67	\$10.81
Ratios and Supplemental Data				
Total net asset value (5)	\$17,010,883	\$14,786,423	\$17,082,536	\$11,599,737
Number of units outstanding (5)	1,240,204	1,206,439	1,464,261	1,073,305
Management expense ratio (6)	1.55%	1.64%	1.69%	1.61%
Trading expense ratio (7)	0.80%	1.00%	0.61%	0.88%
Portfolio turnover rate (8)	372.88%	483.06%	366.22%	401.08%
Net asset value per unit	\$13.72	\$12.26	\$11.67	\$10.81

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Financial Highlights – December 31, 2017

Notes:

- (1) This information is derived from the Fund's audited annual financial statements for December 31, 2017 and is not a reconciliation of beginning and ending net assets per unit.
- (2) The Fund commenced operations on January 1, 2014; 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) As at December 31, 2017, 2016, 2015 and 2014, there were no distributions to be reinvested.
- (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.

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Past Performance – December 31, 2017

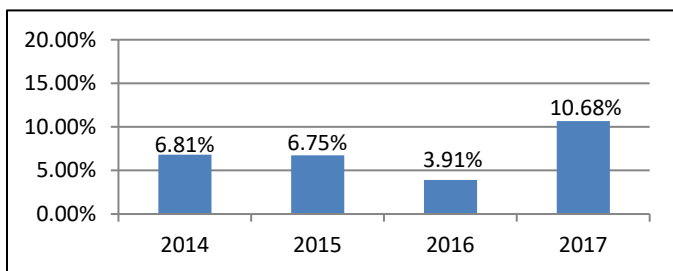
The following information shown assumes that all distributions made by the Fund in the year shown were reinvested in additional securities of the investment fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past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

Year-by-Year Returns

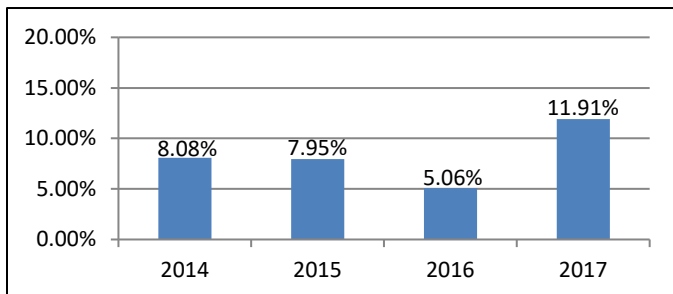
The following bar charts show the Fund's annual performance for each of the years shown, as applicable, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment in Class A and F units, respectively, made on the first day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



Benchmark(s) Information

The benchmark for the Fund is determined by a compounded 30:70 blend of the S&P/TSX Composite Total Return Index and the MSCI World Index denominated in Canadian dollars. 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.¹ The MSCI World 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 Index (CAD) consists of 23 developed country indices.²

¹ "S&P/TSX Composite Total Return Index." S&P Dow Jones Indices by S&P Global. Web. November 30, 2017.

² "MSCI World Index (CAD)." MSCI Index Fact Sheet. Web. October 31, 2017.

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 30:70 blend of S&P/TSX Composite Total Return Index and the MSCI World Index (CAD) for the same period.

	Past 1 Year	Past 2 Years	Past 3 Years	Since Inception [†]
Fund, Class A	10.7%	7.2%	7.1%	7.0%
Fund, Class F	11.9%	8.4%	8.3%	8.2%
Blended Benchmark ^{††}	12.6%	11.0%	10.5%	11.3%
S&P/TSX Composite Total Return Index	9.1%	14.9%	6.6%	7.6%
MSCI World Index (CAD)	14.0%	9.2%	12.1%	12.7%

[†] The performance start date for Class A and F units was January 1, 2014.

^{††} The Blended Benchmark is composed of:
30% S&P/TSX Composite Total Return Index
70% MSCI World Index (CAD)

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Summary of Investment Portfolio as at December 31, 2017

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, 2017.

Portfolio Composition		Top 25 Holdings	
Sector Allocation	% of Net Asset Value	Issuer	% of Net Asset Value
Information Technology	25.87	Canopy Growth Corp.	4.69
Financials	22.76	Overstock.com Inc.	3.64
Consumer Discretionary	17.72	iRhythm Technologies Inc.	3.53
Industrials	14.88	E*TRADE Financial Corp.	3.40
Health Care	11.22	SVB Financial Group.	3.35
Consumer Staples	2.45	United Rentals Inc.	3.29
Materials	2.44	XPO Logistics Inc.	3.28
Cash and Cash Equivalents	1.92	Tencent Holdings Ltd.	3.10
Foreign Currency Forward Contracts	0.74	D.R. Horton Inc.	3.05
		T. Rowe Price Group Inc.	3.05
Total Portfolio Allocation	100.00%	Waste Connections Inc.	3.01
		AbbVie Inc.	3.00
		Santander Consumer USA Holdings Inc.	2.88
		Comerica Inc.	2.87
		Adobe Systems Inc.	2.86
		Spin Master Corp.	2.84
		Eldorado Resorts Inc.	2.80
		Fortive Corp.	2.79
		The Charles Schwab Corp.	2.78
		Citizens Financial Group Inc.	2.73
		Marriott International Inc.	2.70
		Wynn Resorts Ltd.	2.69
		salesforce.com inc.	2.65
		Twitter Inc.	2.64
		Intel Corp.	2.57
		Total Percentage of Net Asset Value Represented by Holdings	76.19%
Total Net Asset Value (in millions)	\$31.4		

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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