

FIXED-INCOME FUND

**SOCIAL HOUSING
CANADIAN BOND FUND***December 31, 2017*

The Board of Directors of Encasa Financial Inc. approved this annual management report of fund performance on March 19, 2018.

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.

Encasa Financial Inc. is the manager (the “Manager”) of the Fund. RBC Global Asset Management Inc. (“RBC GAM”), an indirect wholly-owned subsidiary of Royal Bank of Canada (“Royal Bank”), is the portfolio manager of the Fund.

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Fund. You can get a copy of the interim and the annual financial statements at your request, and at no cost, by calling 1-888-791-6671 x 237, by writing to Social Housing Investment Funds c/o Encasa Financial Inc., 119 Spadina Avenue, Suite 400, Toronto, Ontario, M5V 2L1, or by visiting the Manager’s website at www.encasa.ca or SEDAR at 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 relating to the Fund.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The investment objective of the Fund is to provide investors with relatively high yields and stability of capital by investing in a well-diversified portfolio of fixed income securities issued primarily by Canadian governments and corporations that conduct themselves in a socially responsible manner. Through a mix of interest income and capital appreciation, the Fund aims to provide a competitive rate of return while controlling the interest rate and credit risks to which it is exposed. To achieve the Fund's investment objective, the portfolio manager invests primarily in high-quality Canadian corporate and government bonds. The Fund may also invest a portion of its assets in foreign bonds. The average term to maturity of the portfolio typically falls between five and 12 years.

Risk

There were no significant changes that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology. The risk classification for this Fund has not changed.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$160 million as of December 31, 2017, from \$142 million at the end of 2016. The increase was due mainly to net inflows.

Over the past year, the Fund's Series A units gained 1.7%. The benchmark gained 2.5%. The Fund's return is after the deduction of fees and expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Canadian bonds posted modest returns as the impact of subdued inflation offset interest-rate hikes from the Bank of Canada (the "BOC") and investors perceived that Donald Trump's election as U.S. president would bolster economic growth. Against this backdrop, the portfolio manager did not have a strong view on the overall direction of bond yields, and therefore kept the Fund's average maturity close to that of its benchmark for most of the period. Overall, this strategy had a neutral impact on relative performance.

Strategies involving corporate and provincial bonds led performance relative to the benchmark during 2017. Corporate bonds benefited, in particular, when the premium required by investors to invest in them fell amid demand for income in a low-yield environment. The strong performance of corporate bonds over the past two years raised valuations to levels that prompted the portfolio manager to reduce exposure in this area to a slight underweight position relative to the benchmark, and to shift the emphasis of the portfolio to higher-quality issuers. Provincial bonds also performed well and exposure was reduced in this area. Proceeds were used to add to the Fund's holdings of federal-agency bonds, specifically those issued by Canada Housing Trust, which are fully guaranteed by the federal government and offer higher yields than Government of Canada bonds.

Portfolio turnover is normally high for the Fund, as the portfolio manager attempts to generate better returns through active security selection and optimal term exposure.

Recent Developments

Several years of slow global economic growth and resulting growth-enhancing monetary policies have led to historically low global interest rates. However, the portfolio manager believes that interest rates could turn up as central banks lean towards removing stimulus in response to a stronger global economy.

In Canada, stronger-than-expected economic growth in 2017, especially in the first half of the year, prompted the BOC to begin raising its overnight policy rate for the first time in seven years. The BOC, however, continues to emphasize that future rate decisions will depend on whether economic growth is sustained. Investors are pricing in several more rate hikes for 2018, and the portfolio manager will use any significant movements in rates as opportunities to find attractive areas of investment.

Related-Party Transactions

Portfolio Manager, Registrar and Fund Accounting Agent

RBC GAM, a wholly-owned subsidiary of Royal Bank, is the portfolio manager, registrar and fund accounting agent of the Fund and provides or arranges for certain other services for the Fund. The fees paid to RBC GAM are paid by the Manager and not the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking and brokerage. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributor

Phillips, Hager & North Investment Funds Ltd. is the principal distributor of the Fund and a wholly-owned subsidiary of RBC GAM. The fees paid to Phillips, Hager & North Investment Funds Ltd. are paid by RBC GAM and not the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and custodian of the Fund. RBC IS holds title to the Fund's property on behalf of unitholders and also holds the assets of the Fund. The fees paid to RBC IS are paid by RBC GAM and not the Fund.

Brokers and Dealers

From time to time, brokerage business for the Fund was allocated to investment dealers that are affiliates of Royal Bank and RBC GAM ("related-party dealers"). The Fund has relied on the standing instructions ("Standing Instructions") from its Independent Review Committee ("IRC") with respect to the allocation of brokerage to related-party dealers and requires RBC GAM to develop criteria for brokers and to allocate brokerage on the basis of best execution in the particular circumstances of a trade and that trades allocated to related-party dealers be on competitive terms and conditions, including as to brokerage commissions.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied, or may have relied, on the Standing Instructions from the IRC with respect to one or more of the following transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

- (d) inter-fund trading. These Standing Instructions impose terms and conditions on inter-fund trades, including that an investment decision in respect of inter-fund trading is influenced solely by the best interests of each Fund, the trade is made in compliance with the requirements of National Instrument 81-107 *Independent Review Committee for Investment Funds*, and that the terms of the purchase and sale are no less beneficial to the Fund than those generally available to other market participants in an arm's-length transaction.

The applicable Standing Instructions require that Related-Party Trading Activities be conducted in accordance with applicable RBC GAM policies and that RBC GAM and the Manager report to the IRC on a quarterly basis.

The Standing Instructions related to the transactions described in (a), (b) and (c) listed above, impose terms and conditions on Related-Party Trading Activities, including that the investment be in accordance with the investment objectives of each Fund and in the best interests of each Fund and that an investment decision in respect of Related-Party Trading Activities:

- (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates;
- (ii) represents the business judgment of RBC GAM uninfluenced by considerations other than the best interests of the Fund;
- (iii) is in compliance with RBC GAM policies and procedures; and
- (iv) achieves a fair and reasonable result for the 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 past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Fund's Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	10.54	0.31	(0.10)	(0.03)	(0.01)	0.17	(0.21)	–	–	–	(0.21)	10.51
Dec. 31, 2016	10.78	0.35	(0.10)	0.13	(0.23)	0.15	(0.25)	–	(0.15)	–	(0.40)	10.54
Dec. 31, 2015	10.98	0.37	(0.10)	0.22	(0.17)	0.32	(0.26)	–	(0.26)	–	(0.52)	10.78
Dec. 31, 2014	10.48	0.38	(0.10)	0.13	0.44	0.85	(0.27)	–	(0.09)	–	(0.36)	10.98
Dec. 31, 2013	10.95	0.37	(0.10)	(0.03)	(0.43)	(0.19)	(0.27)	–	(0.02)	–	(0.29)	10.47
Series B												
Dec. 31, 2017	9.58	0.28	(0.10)	(0.03)	(0.01)	0.14	(0.18)	–	–	–	(0.18)	9.55
Dec. 31, 2016	9.80	0.32	(0.10)	0.12	(0.26)	0.08	(0.21)	–	(0.14)	–	(0.35)	9.58
Dec. 31, 2015	10.00	0.34	(0.18)	0.20	(0.15)	0.21	(0.24)	–	(0.24)	–	(0.48)	9.80
Dec. 31, 2014 ³	10.00 [†]	0.03	(0.01)	0.01	0.04	0.07	(0.05)	–	(0.09)	–	(0.14)	10.00

¹ 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. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions were reinvested in additional units of the Fund.

³ From November 24, 2014.

[†] Initial offering net asset value per unit.

FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	MER (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	10.51	157 178	14 956	0.90	0.90	97.55	—
Dec. 31, 2016	10.54	140 254	13 305	0.91	0.91	137.31	—
Dec. 31, 2015	10.78	133 259	12 360	0.90	0.90	212.98	—
Dec. 31, 2014	10.98	126 091	11 487	0.90	0.90	196.60	—
Dec. 31, 2013	10.48	115 512	11 021	0.91	0.91	303.53	—
Series B							
Dec. 31, 2017	9.55	3 059	320	1.02	1.27	97.55	—
Dec. 31, 2016	9.58	1 762	184	1.04	1.39	137.31	—
Dec. 31, 2015	9.80	1 254	128	1.00	1.81	212.98	—
Dec. 31, 2014 ⁴	10.00	192	19	1.00	1.00	196.60	—

¹ The management expense ratio ("MER") is based on total expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. The Manager may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by the Manager of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by the Manager.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. 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 the Fund's portfolio turnover rate 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 necessarily a relationship between high turnover rate and the performance of a fund.

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. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From November 24, 2014.

Management Fees

Encasa Financial Inc. is the Manager of the Fund. Management fees for each series of the Fund are calculated at the annual percentages, before taxes, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.85%	—	100%
Series B	1.00%	—	100%

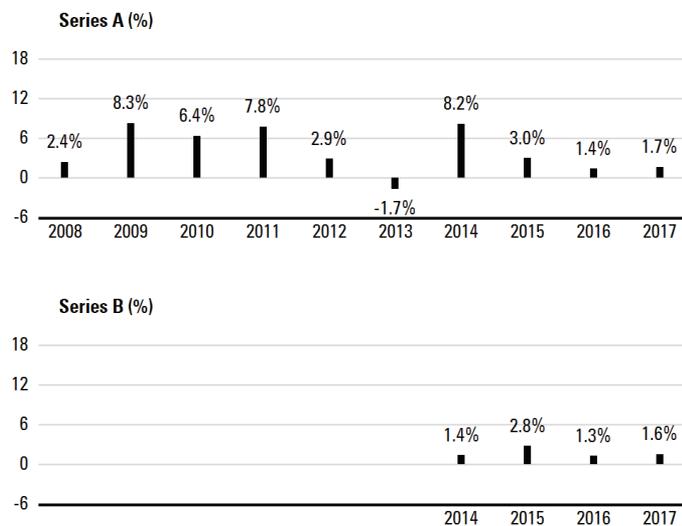
* Includes all costs related to management, portfolio management, registrar, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

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.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

FTSE TMX Canada Universe Bond Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	1.7	2.0	2.5	4.0	—
Benchmark	2.5	2.6	3.0	4.7	—
Series B	1.6	1.9	—	—	2.3
Benchmark	2.5	2.6	—	—	2.9

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series B units have been available for sale to unitholders since November 2014. Inception dates are not provided for series that have been in existence for more than 10 years.

The 2014 year-by-year return for Series B represents the return from November 2014 to December 2014 only.

INDEX DESCRIPTION

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

SUMMARY OF INVESTMENT PORTFOLIO
(after consideration of derivative products, if any)
As at December 31, 2017
Investment Mix

	% of Net Asset Value
Federal Bonds	42.2
Provincial Bonds	29.8
Corporate Bonds	23.4
Municipal Bonds	1.0
Mortgage-Backed Securities	0.1
Cash/Other	3.5

Top 25 Holdings

	% of Net Asset Value
Government of Canada 0.750% Sep 1 2020	5.3
Canada Housing Trust No. 1 1.750% Jun 15 2022	3.3
Canada Housing Trust No. 1 2.400% Dec 15 2022	3.2
Cash & Cash Equivalents	3.1
Province of Ontario 6.200% Jun 2 2031	2.8
Canada Housing Trust No. 1 1.250% Jun 15 2021	2.7
Province of Ontario 5.600% Jun 2 2035	2.7
Province of Ontario 3.500% Jun 2 2043	2.6
Government of Canada 3.250% Jun 1 2021	2.2
Government of Canada 0.500% Mar 1 2022	2.0
Province of Ontario 4.600% Jun 2 2039	1.9
Government of Canada 1.000% Jun 1 2027	1.9
Royal Bank of Canada 1.400% Apr 26 2019	1.8
Province of Ontario 2.400% Jun 2 2026	1.7
Province of Quebec 8.500% Apr 1 2026	1.6
Enbridge Pipelines Inc. 3.000% Aug 10 2026	1.6
Province of Ontario 3.500% Jun 2 2024	1.5
Government of Canada 1.250% Feb 1 2020	1.4
Government of Canada 0.750% Mar 1 2021	1.4
Canada Housing Trust No. 1 3.350% Dec 15 2020	1.4
Government of Canada 2.750% Dec 1 2048	1.3
Government of Canada 1.000% Sep 1 2022	1.3
Canada Housing Trust No. 1 2.350% Jun 15 2027	1.2
Government of Canada 1.500% Jun 1 2026	1.2
Province of Alberta 2.350% Jun 1 2025	1.1
Top 25 Holdings	52.2

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling 1-888-771-7473, by writing to Social Housing Investment Funds c/o Phillips, Hager & North Investment Funds Ltd., 155 Wellington Street West, 21st Floor, Toronto, Ontario, M5V 3K7, or by visiting the Manager's website at www.encasa.ca or SEDAR at www.sedar.com.