

FIXED-INCOME FUND

**SOCIAL HOUSING  
CANADIAN BOND FUND***December 31, 2018*

The Board of Directors of Encasa Financial Inc. approved this annual management report of fund performance on March 22, 2019.

**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”) and the portfolio manager (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](http://www.encasa.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 relating to the Fund.*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The investment objective of the Fund is to generate a relatively high level of total investment return by investing primarily in bonds of Canadian governments and companies. The investments of the Fund are primarily bonds of Canadian governments and companies which do not mature for at least one year and with a rating not lower than BBB by an approved credit rating agency. The Fund may also invest in bonds or other debt instruments which are issued by foreign issuers. The Fund invests primarily in securities of companies that conduct themselves in a socially responsible manner. The average term to maturity of the Fund's portfolio is typically five to twelve 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.

The Manager previously adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). The Manager 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 the Manager'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 fell to \$150 million as of December 31, 2018, from \$160 million at the end of 2017. The decrease was due to net redemptions.

Over the past year, the Fund's Series A units gained 0.6%. The benchmark gained 1.4%. The Fund's return is after the deduction of fees and expenses, while the benchmark return does 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.

The bond market was volatile in December due to several factors including: monetary policy tightening, weak commodity prices, slowing economic indicators, continuing trade rhetoric between the U.S. and China and finally, a U.S. Government shutdown just before Christmas. Interest rates fell across the yield curve due to the risk-off environment, which added value as the portfolio was actively traded with a longer relative duration. Security selection within the Provincial

and Corporate sectors was a negative contributor to performance as the portfolio holdings were more sensitive to spread widening.

### Recent Developments

Macro economic data show signs that North American economic growth has peaked and markets now appear worried that central bank tightening will cause a recession. This is not our base case forecast, but slowing growth combined with little inflationary pressure, suggest interest rates will trade in a lower range over the next year. Portfolio duration will be actively traded to take advantage of expected volatility. Portfolio credit exposure has been positioned defensively with a focus on credit fundamentals.

Effective as of the close of business on September 28, 2018, RBC Global Asset Management Inc. ("RBC GAM") was replaced as portfolio manager with Encasa Financial Inc. and Addenda Capital Inc. was appointed as portfolio sub-adviser to the Social Housing Canadian Bond Fund.

### Related-Party Transactions

#### *Portfolio Manager, Registrar and Fund Accounting Agent*

Effective as of the close of business on September 28, 2018, Encasa Financial Inc. was appointed as portfolio manager and National Bank Financial Inc. was appointed registrar and fund accounting agent of the Fund. The fees paid to National Bank Financial Inc. are paid by the Manager and not the Fund.

#### *Distributor*

Effective as of the close of business on September 28, 2018, Worldsource Financial Management Inc. was appointed as the principal distributor of the Fund. The fees paid to Worldsource Financial Management Inc. are paid by the Manager and not the Fund.

#### *Trustee and Custodian*

Effective as of the close of business on September 28, 2018, Natcan Trust Company was appointed as the trustee and custodian of the Fund. Natcan Trust Company holds title to the Fund's property on behalf of unitholders and also holds the assets of the Fund. The fees paid to Natcan Trust Company are paid by the Manager and not the Fund.

**Brokers and Dealers**

Effective as of the close of business on September 28, 2018, Encasa Financial Inc. was appointed as portfolio manager. Prior to then, 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 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 required 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**

Effective as of the close of business on September 28, 2018, Encasa Financial Inc. was appointed as portfolio manager. Prior to then, 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 required 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, imposed 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.

### Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations <sup>1</sup>					Annual Distributions <sup>2</sup>					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	Total	
<b>Series A</b>												
<b>Dec. 31, 2018</b>	<b>10.51</b>	<b>0.32</b>	<b>(0.10)</b>	<b>(0.38)</b>	<b>0.21</b>	<b>0.05</b>	<b>(0.24)</b>	–	–	–	<b>(0.24)</b>	<b>10.35</b>
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
<b>Series B</b>												
<b>Dec. 31, 2018</b>	<b>9.55</b>	<b>0.29</b>	<b>(0.10)</b>	<b>(0.37)</b>	<b>0.22</b>	<b>0.04</b>	<b>(0.19)</b>	–	–	–	<b>(0.19)</b>	<b>9.41</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 <sup>3</sup>	10.00 <sup>†</sup>	0.03	(0.01)	0.01	0.04	0.07	(0.05)	–	(0.09)	–	(0.14)	10.00

<sup>1</sup> Net asset value 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.

<sup>2</sup> Distributions were paid in cash or reinvested in additional units of the Fund.

<sup>3</sup> From November 24, 2014.

<sup>†</sup> Initial offering net asset value per unit.

### Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	MER (%) <sup>1</sup>	MER Before Absorption (%) <sup>1</sup>	Portfolio Turnover Rate (%) <sup>2</sup>	Trading Expense Ratio (%) <sup>3</sup>
<b>Series A</b>							
<b>Dec. 31, 2018</b>	<b>10.35</b>	<b>146,974</b>	<b>14,205</b>	<b>0.92</b>	<b>0.92</b>	<b>249.61</b>	–
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	–
<b>Series B</b>							
<b>Dec. 31, 2018</b>	<b>9.41</b>	<b>3,226</b>	<b>343</b>	<b>1.03</b>	<b>1.20</b>	<b>249.61</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 <sup>4</sup>	10.00	192	19	1.00	1.00	196.60	–

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> From November 24, 2014.

## FINANCIAL HIGHLIGHTS (cont.)

### 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%

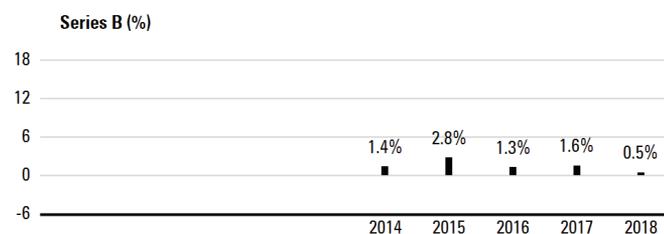
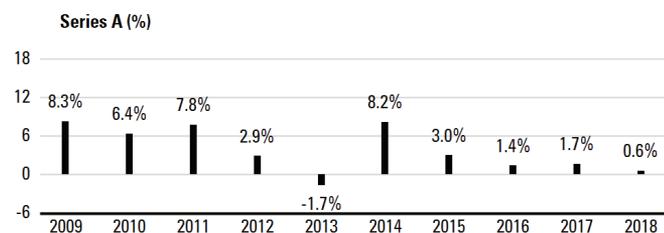
\* Includes all costs related to management, portfolio management, registrar, general administration and profit.

## 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 series of the Fund 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, 2018, 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	0.6	1.3	3.0	3.8	–
Benchmark	1.4	1.9	3.5	4.2	–
Series B	0.5	1.1	–	–	1.7
Benchmark	1.4	1.9	–	–	2.4

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, 2018*

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	43.99
Federal Bonds	33.74
Provincial/Municipal Bonds	21.10
Mortgage-Backed Securities	0.05
Cash/Other	1.12

**Top 25 Holdings**

	% of Net Asset Value
Canada Housing Trust No 1 2.55% 15DEC2023	13.79
Hydro-Quebec 6% 15AUG2031	3.39
Canadian Government Bond 1.50% 01JUN2023	3.28
Province of Ontario Canada 5.60% 02JUN2035	3.18
Canadian Government Bond 3.50% 01DEC2045	2.89
Province of Quebec Canada 8.50% 01APR2026	2.75
Canada Housing Trust No 1 1.25% 15JUN2021	2.47
Canadian Government Bond 1.50% 01JUN2026	1.97
Canadian Government Bond 5.75% 01JUN2029	1.93
Province of British Columbia Canada 4.70% 18JUN2037	1.85
The Toronto-Dominion Bank 2.045% 08MAR2021	1.81
South Coast British Columbia Transportation Authority 3.25% 23NOV2028	1.77
Sun Life Capital Trust II 5.863% 31DEC2108	1.71
Province of Quebec Canada 6% 01OCT2029	1.69
Royal Bank of Canada 3.45% 29SEP2026	1.68
Financement-Quebec 5.25% 01JUN2034	1.61
Province of Ontario Canada 2.90% 02DEC2046	1.57
Canadian Government Bond 4% 01JUN2041	1.56
Province of Manitoba Canada 4.65% 05MAR2040	1.50
Bank of Montreal 2.89% 20JUN2023	1.50
Ontario School Boards Financing Corp. 5.80% 07NOV2028	1.44
OPB Finance Trust 1.88% 24FEB2022	1.37
Manulife Financial Corp. 3.317% 09MAY2028	1.33
Province of Alberta Canada 3.90% 01DEC2033	1.27
Province of Ontario Canada 3.50% 02JUN2043	1.26
<b>Top 25 Holdings</b>	<b>60.57</b>

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, 119 Spadina Avenue, Suite 400, Toronto, Ontario M5V 2L1, or by visiting the Manager's website at [www.encasa.ca](http://www.encasa.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).