

CANADIAN EQUITY FUND

**ENCASA EQUITY FUND***(formerly, Encasa Canadian Equity Fund)*

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*December 31, 2020*

The Board of Directors of Encasa Financial Inc. approved this annual management report of fund performance on March 24, 2021.

**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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*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 financial statements at your request, and at no cost, by calling 1-888-791-6671 x 237, by writing to Encasa 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 guidelines, proxy voting disclosure record or quarterly portfolio disclosure relating to the Fund.*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

Up until July, 1, 2020, the investment objective of the Fund was to seek long-term capital growth by investing primarily in a diversified portfolio consisting of equity securities of companies located in Canada. Effective July 1, 2020, the name of the Fund was changed from “Encasa Canadian Equity Fund” to “Encasa Equity Fund” and the investment objective for the Fund was changed to seek long-term capital growth by investing in a diversified portfolio consisting of equity securities of companies primarily located outside of Canada. In both periods, the Fund primarily invested in securities of companies that conduct themselves in a socially responsible manner, and invested in growth companies that have: superior management; industry leadership; a high level of profitability compared to their competitors; a sound financial position; strong earnings growth; and a reasonable valuation.

### 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 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 \$141 million as of December 31, 2020, from \$128 million at the end of 2019. The increase in net assets was attributable to an increase from operations of \$11.2 million and net proceeds of \$1.6 million.

Over the past year, the Fund’s Series A units gained 8.6%. The benchmark gained 8.8%. 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 Fund benefited by being overweight in the Information Technology sector and being underweight Energy. The Fund also benefited from its allocation to cash. Within sectors, the Fund derived gains from stock selection by holding names like Nvidia Corp. and Zoom Video Communications (Information Technology), Vestas Wind Systems (Industrials) and Fortescue Metals Group (Materials). The Fund lost some ground during the year in stock selection by holding Enerplus Corp. and Enbridge (Energy), Electronic Arts (Communication Services) and Berkeley Group Holdings and Best Buy (Consumer Discretionary).

The year 2020 was marked by impressive swings throughout the year. Starting strong with tailwinds inherited from 2019, the year was poised for good performance. However, the year quickly turned down due to two simultaneous black swan events—the COVID-19 pandemic and to a lesser extent, an oil price war—both of which derailed the global economy and shocked the markets. (A black swan event is a rare, unpredictable development that can have potentially severe consequences.)

During the first quarter alone, the S&P 500 fell 19.60% (11.75% in CAD terms), its worst quarter since the 2008 financial crisis. The defensive sectors (Consumer Staples, Health Care and Utilities) and Information Technology fared better, with Energy and Financials most affected (negatively) by central bank rate cuts and uncertainty about the future of oil prices. Similarly, in Canada, the TSX fell by 20.90% over the first quarter, with the best-performing sectors being Consumer Staples, Communication Services, Utilities, and Information Technology. The Energy, Health Care and Consumer Discretionary sectors took the deepest dives.

However, the remaining quarters saw sizable recoveries in the indices. The markets turned positive for the remainder of the year, fueled by the U.S. Federal Reserve’s massive liquidity injections, vaccine milestones being achieved throughout the year and vaccine approvals in December that gave investors additional reason to hope for a return to normal and a path forward. Closing out the year, election uncertainty waned as Joe Biden’s victory became evident, with investors anticipating more generous stimulus for Americans affected by the COVID-19 pandemic.

The S&P 500 rose 18.40% (16.32% in CAD terms) for the year. The year’s leading sectors were those that were well-positioned to benefit from the pandemic, such as Information Technology, Consumer Discretionary and Materials. Conversely, Energy, Financials and Real Estate finished the year in negative territory. In Canada, the TSX rose 5.60% for the year. Canada’s best-performing sectors in 2020 were also Information Technology, Consumer Discretionary and Materials, while Energy, Health Care and Real Estate were down.

**Recent Developments**

Optimism from positive vaccine news and the U.S. election helped push the U.S. stock market to a new record high. Sectors also rotated significantly: with the prospect of reaching herd immunity by mid-2021, the more cyclical and economically sensitive sectors—namely Financials, Industrials and Materials—began to pull the market higher. Financials, in particular, outperformed as the yield curve steepened, with U.S. 10-year government bond yields breaking 1% in early 2021.

Most recently, markets saw momentum fade despite favorable conditions including a dovish-toned Federal Reserve with Jerome Powell's vow to keep the monetary taps wide open. Investors seem to have taken a breather to assess the balance between their former optimism and negative developments, including new COVID-19 variants and the effectiveness of current vaccines against the new variants. In addition, markets saw a spike in volatility related to hedge-fund deleveraging and increased speculative retail trading activity in a retail-vs-institutional battle that lasted a couple of weeks and left some deep losses for retail and institutional investors.

For the first quarter of 2021, we view economically sensitive sectors, such as Financials and Industrials positively. From a style perspective, there has been a significant rebound in value stocks, which have underperformed for years. We expect to take advantage of this rotation by investing more in value stocks (with an eye out for high earnings yields and book-to-price ratios) and will rotate out of stocks that show diminishing momentum, to arrive at a balanced exposure between the two factors. In terms of country exposure, because of the global nature of vaccine approvals and stimulus plans, we believe the economic recovery will be synchronized and worldwide. This will enable the markets in Europe, Australasia and the Far East (EAFE) to catch up to the U.S. Meanwhile, the Canadian market is poised to benefit from higher material prices and a steepening yield curve. As a result, we have also expanded our positions in Canada and EAFE while reducing our U.S. market exposure back to a neutral position.

Effective September 15, 2020, KPMG LLP replaced PricewaterhouseCoopers LLP as the Funds' auditor.

**Related-Party Transactions*****Portfolio Manager, Registrar and Fund Accounting Agent***

Encasa Financial Inc. is the Portfolio Manager of the Fund. Encasa has appointed Genus Capital Management Inc. as portfolio sub-adviser in respect of the Encasa Equity Fund. National Bank Financial Inc. is the registrar and fund accounting agent of the Fund. The Fees paid to Genus Capital Management Inc. and National Bank Financial Inc. are paid by the Manager and not the Fund.

***Distributor***

Worldsource Financial Management Inc. is 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***

Natcan Trust Company is 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***

The Manager, through the sub-adviser, has developed criteria for selecting brokers including best execution.

**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		
<b>Series A</b>												
<b>Dec. 31, 2020</b>	<b>19.69</b>	<b>0.46</b>	<b>(0.24)</b>	<b>1.37</b>	<b>0.11</b>	<b>1.70</b>	–	<b>(0.22)</b>	<b>(1.14)</b>	–	<b>(1.35)</b>	<b>20.03</b>
Dec. 31, 2019	17.57	0.48	(0.22)	0.51	1.78	2.55	–	(0.36)	(0.01)	–	(0.37)	19.69
Dec. 31, 2018	21.67	0.54	(0.25)	2.72	(4.34)	(1.33)	–	(0.14)	(2.51)	–	(2.65)	17.57
Dec. 31, 2017	19.42	0.49	(0.23)	0.78	1.74	2.78	–	(0.23)	(0.31)	–	(0.54)	21.67
Dec. 31, 2016	17.44	0.48	(0.21)	0.41	1.69	2.37	–	(0.26)	(0.13)	–	(0.39)	19.42

<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.

**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, 2020</b>	<b>20.03</b>	<b>140,549</b>	<b>7,018</b>	<b>1.13</b>	<b>1.13</b>	<b>130.91</b>	<b>0.20</b>
Dec. 31, 2019	19.69	127,724	6,486	1.12	1.12	107.29	0.17
Dec. 31, 2018	17.57	116,134	6,611	1.08	1.08	87.45	0.10
Dec. 31, 2017	21.67	128,917	5,948	1.12	1.12	17.96	0.06
Dec. 31, 2016	19.42	117,291	6,040	1.17	1.17	23.91	0.10

<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.

**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:

Series A	Management Fees	Breakdown of Services	
		Distribution	Other*
	1.00%	6%	94%

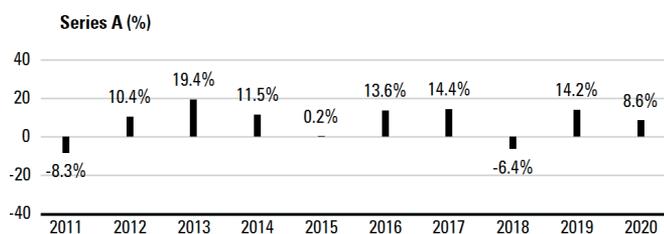
\* Includes all costs related to management, portfolio management, registrar, general administration and profit.

**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. 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, 2020, compared with the following benchmarks:

The blended benchmark is composed of:

- 35% S&P/TSX Composite Index
- 65% MSCI World Index (CAD)

The broad-based indices are the S&P/TSX Composite Index and the MSCI World Index (CAD).

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years
Series A	8.6	5.1	8.6	7.4
Blended benchmark	8.8	7.7	9.9	8.0
S&P/TSX Composite Index	5.6	5.7	9.3	5.8
MSCI World Index (CAD)	14.5	11.8	10.9	13.3

The blended benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the blended benchmark and broad-based index.

**INDEX DESCRIPTIONS**

**S&P/TSX Composite Index** This index is a benchmark Canadian market cap weighted index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange (TSX) with about 250 companies included in it.

**MSCI World Index (CAD)** This index is a market cap weighted index that captures the Canadian dollar performance of large and mid-cap companies across 23 Developed Markets (DM) countries. With 1,585 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**SUMMARY OF INVESTMENT PORTFOLIO**

*(after consideration of derivative products, if any)*  
*As at December 31, 2020*

**Investment Mix**

	% of Net Asset Value
United States Equities	45.6
Canadian Equities	34.6
Overseas Equities	19.5
Cash/Other	0.3

**Top 25 Holdings**

	% of Net Asset Value
Royal Bank of Canada	4.58
The Toronto-Dominion Bank	2.93
Manulife Financial Corp.	2.88
Microsoft Corp.	2.64
Shopify Inc.	2.45
Magna International Inc.	2.21
The Bank of Nova Scotia	2.16
Fortescue Metals Group Ltd.	2.14
Canadian Pacific Railway Ltd.	2.12
Vestas Wind Systems A/S	2.02
The Home Depot Inc.	2.02
Cascades Inc.	2.01
Bank of Montreal	1.98
KDDI Corp.	1.90
Interfor Corp.	1.81
Cadence Design Systems Inc.	1.71
Lam Research Corp.	1.67
Merck & Co Inc.	1.66
Dollar General Corp.	1.62
The Sherwin-Williams Co.	1.60
Activision Blizzard Inc.	1.57
Randstad Holding NV	1.56
Epiroc AB	1.54
DaVita HealthCare Partners Inc.	1.54
Skanska AB	1.50
<b>Top 25 Holdings</b>	<b>51.82</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 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).