

FIXED-INCOME FUND

**ENCASA CANADIAN BOND FUND***December 31, 2022*

The Board of Directors of Encasa Financial Inc. approved this annual management report of fund performance on March 22, 2023.

**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 financial statements at your request, and at no cost, by calling 1-888-791-6671, 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 interim financial report, proxy voting guidelines, 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 using a responsible investment approach. 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 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 year. 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 year.

### Results of Operations

The Fund's net asset value fell to \$135.0 million as of December 31, 2022, from \$158.3 million at the end of 2021. The decrease in net assets was attributable to a decrease from operations of \$20.4 million and net redemptions of \$2.9 million.

Over the past year, the Fund's Series A units lost 12.9%. The benchmark lost 11.7%. 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 information on returns.

The Bank of Canada slowed its pace of monetary policy tightening during the fourth quarter, raising the overnight target rate by 100 basis points (bps) to 4.25%. Similarly, the Federal Reserve tightened by a total of 125 bps, finishing the year at a target range of 4.25% – 4.50%. Both central banks suggested that they have not finished tightening for this cycle. During most of the year, rates rose across the curve

even as the Bank of Canada signaled a slower pace of tightening and inflation data continued moving lower. Short term rates rose more than longer term. Corporate spreads narrowed during the quarter after hitting the widest levels of the year in October. A long duration tilt and underweight in short term bonds added relative value as short rates rose and the yield curve inverted significantly. The overweight allocation to the corporate sector hurt performance as credit spreads widened for most of the year. Underlying security selection within the corporate holdings was positive.

### Recent Developments

Unemployment remains stable as tight labour markets create supportive conditions. Economic growth is expected to slow down in 2023 but should remain positive as domestic demand is supported by strong labour market dynamics and excess household savings. Unemployment has been slow to adjust due to tight labour markets. Recession risk increases as the year progresses due to the maintenance of restrictive monetary policy. Central banks have begun to "step down" the pace of monetary policy tightening at the end of 2022. Some further tightening is expected in 2023 and they will reach the terminal level for this cycle and pause to assess the impact. Against the backdrop of slowing economic growth, but higher than target inflation, central banks will focus on price stability and will not pivot to stimulate growth in the near term. Expect continued steady planned reductions in balance sheet holdings which will reduce liquidity and support for risk assets. Inflation pressure should continue to moderate throughout 2023 but will remain above central bank targets in terms of both level and scope. Service inflation is persistent, while good inflation declines. Dislocations in the labour markets with more job openings than available workers continue to put pressure on wages. Uncertainty related to slowing economic momentum and determined central banks will contribute to market volatility. Despite a declining trend, consumer price inflation proves more persistent causing central banks to maintain tighter policy conditions for longer. Higher interest rates and higher inflation cause more significant demand destruction and a deeper recession.

### Related-Party Transactions

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

Encasa Financial Inc. acts as the Manager and the Portfolio Manager of the Fund and earns fees from the Fund for such services. Encasa has appointed Addenda Capital Inc. as portfolio sub-adviser in respect of the Encasa Canadian Bond Fund. National Bank Financial Inc. through its National Bank Independent Network division has been appointed as registrar and fund accounting agent of the Fund. The Fees paid to Addenda Capital 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.

## 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, 2022</b>	<b>10.71</b>	<b>0.31</b>	<b>(0.09)</b>	<b>(0.64)</b>	<b>(0.97)</b>	<b>(1.39)</b>	<b>(0.22)</b>	–	–	–	<b>(0.22)</b>	<b>9.11</b>
Dec. 31, 2021	11.32	0.30	(0.10)	(0.22)	(0.38)	(0.40)	(0.20)	–	–	–	(0.20)	10.71
Dec. 31, 2020	10.80	0.31	(0.10)	0.36	0.35	0.92	(0.28)	–	(0.12)	–	(0.40)	11.32
Dec. 31, 2019	10.35	0.32	(0.10)	0.37	0.10	0.69	(0.23)	–	–	–	(0.23)	10.80
Dec. 31, 2018	10.51	0.32	(0.10)	(0.38)	0.21	0.05	(0.24)	–	–	–	(0.24)	10.35

<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 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, 2022</b>	<b>9.11</b>	<b>135,015</b>	<b>14,817</b>	<b>0.90</b>	<b>0.90</b>	<b>131.61</b>	–
Dec. 31, 2021	10.71	158,237	14,768	0.91	0.91	119.88	–
Dec. 31, 2020	11.32	167,634	14,809	0.91	0.91	163.05	–
Dec. 31, 2019	10.80	152,145	14,091	0.90	0.90	231.05	–
Dec. 31, 2018	10.35	146,974	14,205	0.92	0.92	249.61	–

<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:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.85%	8%	92%

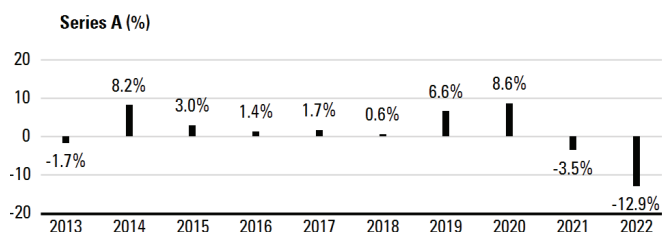
\* Includes all costs related to management, portfolio management, registrar, general administration and profit.

**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 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, 2022, compared with the following benchmark:

**FTSE TMX Canada Universe Bond Index**

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years
Series A	(12.9)	(3.0)	(0.4)	1.0
Benchmark	(11.7)	(2.2)	0.3	1.6

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.

**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, 2022

**Investment Mix**

	% of Net Asset Value
Corporate Bonds	40.1
Provincial/Municipal Bonds	29.0
Federal Bonds	26.0
Supranationals	3.3
Mortgage-Backed Securities	0.8
Cash/Other	0.8

**SUMMARY OF INVESTMENT PORTFOLIO (cont.)**
*(after consideration of derivative products, if any)*
*As at December 31, 2022*
**Top 25 Holdings**

	% of Net Asset Value
Hydro-Quebec 6% 15FEB40	6.91
Canada Housing Trust No 1 2.35% 15JUN23	5.96
Province of Ontario Canada 1.55% 01NOV29	5.26
Canadian Government Bond 1.75% 01DEC53	3.93
Canadian Government Bond 2.25% 01DEC29	3.39
Province of Ontario Canada 2.90% 02JUN49	2.61
Canadian Government Bond 2% 01DEC51	2.60
The Bank of Nova Scotia 2.49% 23SEP24	2.48
Canadian Government Bond 5.75% 01JUN33	2.44
Canadian Government Bond 2.75% 01SEP27	2.42
Canadian Government Bond 1.50% 01JUN31	2.09
Province of Ontario Canada 2.90% 02DEC46	1.86
Hydro-Quebec 6.50% 15FEB35	1.80
Province of Ontario Canada 1.35% 02DEC30	1.68
Manulife Financial Corp. 3.317% 09MAY28	1.47
The 55 Ontario School Board Trust 5.90% 02JUN33	1.45
Province of British Columbia Canada 2.80% 18JUN48	1.36
Royal Bank of Canada 2.609% 01NOV24	1.20
Canadian Treasury Bill 0% 19JAN23	1.18
Sun Life Financial Inc. 2.38% 13AUG29	1.06
The Toronto-Dominion Bank 3.105% 22APR30	1.05
International Bank for Reconstruction & Development 1.80% 19JAN27	1.03
Fair Hydro Trust 3.357% 15MAY33	1.02
Ontario School Boards Financing Corp. 5.80% 07NOV28	0.99
TCHC Issuer Trust 4.877% 11MAY37	0.95
<b>Top 25 Holdings</b>	<b>58.19</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).