



**VALUE
PARTNERS**
INVESTMENTS

VPI MORTGAGE POOL

**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2019**

MANAGER

VALUE PARTNERS INVESTMENTS INC.

PORTFOLIO MANAGER

HSBC GLOBAL ASSET MANAGEMENT (CANADA) LIMITED

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Pool. If you have not received a copy of the annual financial statements with this annual management report of fund performance, you may obtain a copy at your request, and at no cost, by calling toll-free at 1-866-323-4235, by writing to us at 300-175 Hargrave Street, R3C 3R8, by visiting our website at www.valuepartnersinvestments.ca or by visiting the SEDAR website at www.sedar.com. You may also contact us using one of these methods to request a copy of the Pool's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.



Annual Management Discussion of Fund Performance

March 17, 2020

Investment Objective and Strategies

VPI Mortgage Pool's objective is to seek to earn a high level of income while protecting invested capital primarily through investments with exposure to residential first mortgages on property in Canada and other debt obligations. To achieve this objective, the Pool currently invests primarily in Institutional Series units of the HSBC Mortgage Fund (the "Underlying Fund").

The Underlying Fund invests primarily in uninsured Canadian-dollar-denominated mortgages. The Underlying Fund may also invest a portion of its assets in other debt obligations such as government bonds, corporate bonds, mortgage-backed securities, debentures and other fixed income securities and may hold cash & cash equivalents. The Underlying Fund may maintain a significant portion of its assets in Canadian and U.S. short-term fixed income securities during periods of high market volatility.

Risk

Overall, the risks associated with investing in the Pool have not materially changed and remain as discussed in the prospectus. During the year, there was no material change to the Underlying Fund that affected the overall risk level of the Underlying Fund.

The Pool is considered suitable for investors who want to earn interest income and protect their capital. The Pool is considered suitable for investors with a short-term time horizon and a low tolerance for risk.

Results of Operations

Net assets of the Pool decreased by approximately \$1.3 million for the year ended December 31, 2019 due largely to net redemptions of \$1.7 million. The Pool also experienced an increase in net assets from operations of \$0.9 million and paid out income distributions to unitholders of \$0.6 million. The increase in net assets from operations was due to \$933 thousand of interest income and \$443 thousand of unrealized appreciation in value of investments. This was offset by a \$56 thousand net realized loss on sale of investments, and \$393 thousand of management fees and operating expenses, net of \$101 thousand of expenses absorbed by the Manager.

During the year, the Portfolio Manager purchased and disposed of units in the Underlying Fund as cash proceeds became available or cash redemptions were required from unitholders. As per the Pool's objective, the only investment made during the year was in units of the Underlying Fund.

Each series of the Pool experienced a return in the range of 2.4% to 3.5% over the past year which was comparable to the 3.1% return of the benchmark FTSE TMX Short Term Bond Index.

The Canadian bond market posted strong returns in 2019. Corporate bonds led the way, outpacing provincial and federal debt. The spread between conventional mortgage rates and government bond yields widened sharply over the first eight months of the year as five-year Government of Canada yields fell nearly 80 basis points while mortgage rates only fell marginally. Over the ensuing four months, the five-year Government of Canada yield rose nearly 50 basis points as risk tolerance improved and safe-haven assets sold off.

The Portfolio Manager increased the Underlying Fund's allocation to mortgages in the second half of the year to take advantage of the widened spread between mortgage rates and bond yields. Given the attractive carry and return profile versus other fixed income options, the Portfolio Manager expects to maintain the increased mortgage allocation for the foreseeable future.

Revenues and Expenses

Revenues of the Pool amounted to \$933 thousand, representing interest income distributed from the Underlying Fund. The Pool also experienced \$443 thousand of unrealized appreciation in the value of investments, realized a \$56 thousand loss on the sale of investments, and incurred \$393 thousand in management fees and operating expenses net of \$101 thousand of expenses absorbed by the Manager to maintain the Pool's MER at a competitive level.



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ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2019

VPI MORTGAGE POOL

Recent Developments

Economic Conditions

As the outbreak of COVID-19 spreads across the globe, the Portfolio Manager envisions a global recession as being the most likely scenario. The Portfolio Manager has seen central banks and federal governments act in concert to add accommodation in the first few months of 2020 and expects that to continue throughout the year. The Bank of Canada cut its benchmark interest rate twice in March to 0.75% and markets are expecting the Bank of Canada to follow the US Federal Reserve in cutting its overnight rate to close to zero in 2020. As the COVID-19 situation continues to unfold, the Bank of Canada has stated it "stands ready" to act again if necessary.

The Underlying Fund has an overweight position in mortgages, corporate bonds, real returns bonds and select global credits, consistent with the economic and market environments described above.



VPI MORTGAGE POOL

Portfolio Allocation

| | | | |
|------------------|-------|--------------------|------|
| Mutual Funds | 98.5% | Cash & Equivalents | 1.4% |
| Other Net Assets | 0.1% | | |

Top 25 Holdings

| Issuer | Percentage of Net Assets |
|--|---------------------------------|
| HSBC Mortgage Fund, Institutional Series | 98.5% |
| Cash & Equivalents | 1.4% |
| Other Net Assets | 0.1% |
| Total | 100.0% |

As at and for the period ended December 31, 2019, the net assets of the Pool were invested primarily in the Underlying Fund. As a result, the top 25 holdings of the Underlying Fund at the end of the period and the major asset classes in which the Underlying Fund was invested are indicated below.

Portfolio Allocation – Underlying Fund

| | | | |
|-----------------------|-------|------------------|------|
| Residential Mortgages | 79.1% | Government Bonds | 2.1% |
| Corporate Bonds | 13.4% | | |
| Cash & Equivalents | 5.4% | | |

Top 25 Holdings – Underlying Fund

| Issuer | Maturity Date | Coupon Rate | Percentage of Net Assets |
|-----------------------------------|----------------------|--------------------|---------------------------------|
| Residential Mortgages | | | 79.1% |
| Canadian Mortgage Pools | 01-Sep-24 | 1.8% | 1.2% |
| Government of Canada | 01-Dec-21 | 7.0% | 1.0% |
| Canadian Mortgage Pools | 01-Jul-24 | 1.9% | 0.8% |
| Province of Manitoba | 02-Jun-26 | 2.6% | 0.7% |
| Ivanhoe Cambridge II Inc | 27-Jun-23 | 2.9% | 0.5% |
| Canadian Mortgage Pools | 01-Oct-24 | 1.9% | 0.5% |
| Goldman Sachs Group Inc. | 12-Feb-21 | 3.6% | 0.4% |
| Royal Bank of Canada | 02-Jan-20 | 1.7% | 0.4% |
| Enbridge Inc. | 30-Jun-23 | 3.9% | 0.3% |
| PACCAR Financial Ltd. | 03-Jan-20 | 1.9% | 0.3% |
| TMX Group Ltd. | 03-Oct-23 | 4.5% | 0.3% |
| Alimentation Couche-Tard Inc. | 01-Nov-22 | 3.9% | 0.3% |
| Empire Life Insurance Co. | 06-Dec-26 | 3.4% | 0.3% |
| Anheuser-Busch InBev Finance Inc. | 15-May-24 | 2.6% | 0.3% |
| Bank of America Corp. | 22-Jun-22 | 3.2% | 0.3% |
| Canadian Natural Resources Ltd. | 11-Feb-22 | 3.3% | 0.3% |
| Goldman Sachs Group Inc. | 23-Aug-22 | 2.6% | 0.3% |
| Brookfield Property Finance ULC | 03-Jul-23 | 4.4% | 0.3% |
| Aviva PLC | 10-May-21 | 4.5% | 0.2% |
| Brookfield Asset Management Inc. | 01-Mar-21 | 5.3% | 0.2% |
| Bank of China | 20-Mar-20 | 2.1% | 0.2% |
| Citigroup Inc. | 18-Nov-21 | 3.4% | 0.2% |
| Export-Import Bank of Korea | 24-Feb-20 | 1.9% | 0.2% |
| Morgan Stanley | 07-Feb-24 | 3.0% | 0.2% |
| Total | | | 88.8% |

The above summary of investment portfolio may change due to ongoing portfolio transactions of the Pool and the Underlying Fund. An update will be made available within 60 days of each subsequent quarter-end. Additional information about the Underlying Fund, including its prospectus, is available at www.SEDAR.com.



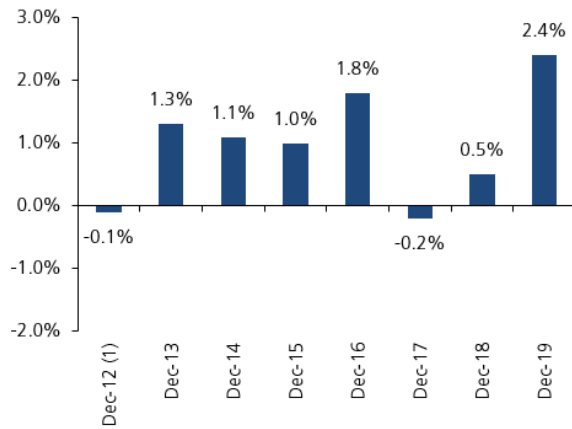
Past Performance

The historical performance information shown below assumes that all distributions were reinvested in the Pool and does not account for any sales, redemptions, distributions or optional charges or income taxes payable by an investor that would have reduced returns. Mutual fund returns are not guaranteed, their values change frequently, and past performance may not be repeated.

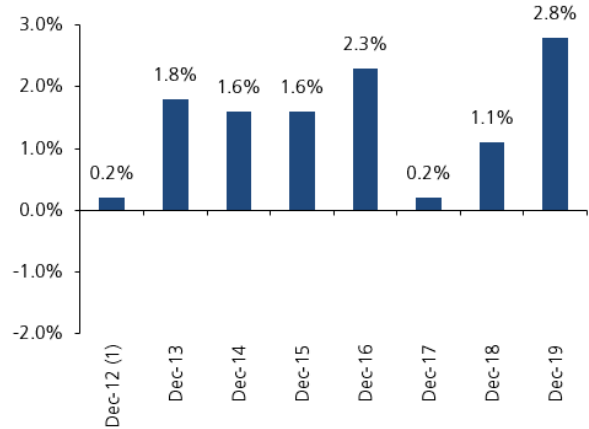
Year-by-Year Returns

The bar charts below show the performance of each series of the Pool (net of fees) for the year ended December 31, 2019, and the previous years ended December 31 or since inception to December 31. It shows in percentage terms, how an investment made on January 1 or on inception would have increased or decreased by the end of the respective periods.

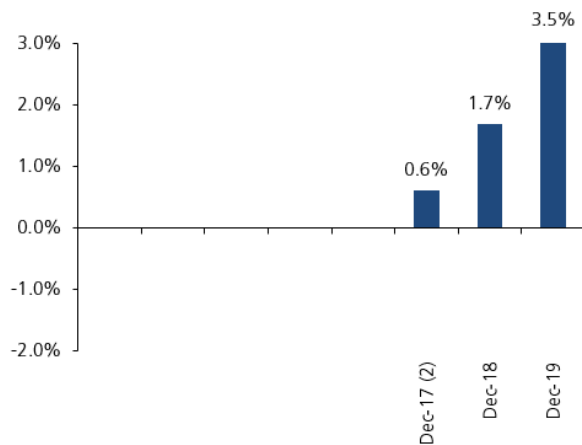
Series A



Series F



Series O



(1) 2012 return is since inception on October 30, 2012

(2) 2017 return is since inception on July 5, 2017.

The past performance for the Underlying Fund is available in the Underlying Fund’s annual and interim management report of fund performance and its annual and interim financial statements, all available on www.SEDAR.com.



Annual Compound Returns

The following table shows the annual compound total return of each series of the Pool compared to the FTSE TMX Short Term Bond Index for the periods shown ended December 31, 2019. All index returns are calculated on a total return basis, meaning that performance was calculated under the assumption that all distributions were reinvested.

| | 5 Year | 3 Year | 1 Year | Since Inception ⁽²⁾ |
|---|--------|--------|--------|--------------------------------|
| Series A ⁽¹⁾ (Inception: October 30, 2012) | 1.1% | 0.9% | 2.4% | 1.1% |
| FTSE TMX Short-Term Bond Index | 1.7% | 1.7% | 3.1% | 1.9% |
| Series F ⁽¹⁾ (Inception: October 30, 2012) | 1.6% | 1.4% | 2.8% | 1.6% |
| FTSE TMX Short-Term Bond Index | 1.7% | 1.7% | 3.1% | 1.9% |
| Series O ⁽¹⁾ (Inception: July 5, 2017) | n/a | n/a | 3.5% | 2.4% |
| FTSE TMX Short-Term Bond Index | n/a | n/a | 3.1% | 1.9% |

(1) The percentage return differs for each series because the management fee rate and expenses differ for each series.

(2) The return since inception for each series will differ when the inception date differs.

The FTSE TMX Short-Term Bond Index is a broad measure of the total return for the Canadian short-term bond market, covering marketable Canadian bonds with a term-to-maturity between one and five years.

Management Fees

The Pool pays an annual management fee on each of its series (excluding Series O) to Value Partners Investments Inc. (“the Manager”). The management fee is calculated daily as a percentage of the net asset value of each series as of the close of business on each business day. In consideration for the management fees, the Manager may pay a percentage sales commission and/or trailing commission to registered dealers or brokers for units bought and held in the Pool depending on which series of units were purchased. The Manager also pays a portion of the management fee to the Portfolio Manager for its services in managing the investment portfolio.

For the period ended December 31, 2019, approximately 29% of the management fee revenues received by the Manager from the Pool were paid to registered dealers and brokers as sales and/or trailing commissions. Since each series may have a different commission structure, this percentage may vary by series. For unitholders eligible for the Management Fee Reduction Program, approximately 19% of the gross management fees were returned to unitholders as management fee rebates. The remainder of the management fee revenue, after payment of fees to the Portfolio Manager for its services, was retained by the Manager for corporate purposes.

Related Party Transactions

Value Partners Investments Inc. is the manager of the Pool and is responsible for the overall business and operations of the Pool. For the year ended December 31, 2019, the Pool paid \$304 thousand in management fees (excluding taxes) to the Manager. For the year ended December 31, 2019, the Manager absorbed \$101 thousand of the Pool’s operating expenses. In addition, the Manager or parent company of the Manager also held 205,529 Series F units and 1 Series O unit of the Pool as of December 31, 2019.



Financial Highlights

The following tables show selected key financial information about each series of the Pool and are intended to help you understand the Pool's financial performance for the past five years ended December 31. *This information is derived from the Pool's audited annual financial statements and is not intended to be a reconciliation of the net asset value per unit.*

The Pool's Net Assets Per Unit (\$) ⁽¹⁾

| Series A | December 31 2019 | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Net assets, beginning of period | 9.82 | 9.86 | 9.98 | 9.93 | 9.94 |
| Increase from operations: | | | | | |
| Total revenue | 0.25 | 0.25 | 0.23 | 0.25 | 0.27 |
| Total expenses | (0.12) | (0.13) | (0.12) | (0.12) | (0.15) |
| Realized gains (losses) for the period | (0.01) | (0.04) | (0.01) | (0.01) | (0.01) |
| Unrealized gains (losses) for the period | 0.10 | (0.03) | (0.12) | 0.07 | (0.01) |
| Total increase from operations ⁽²⁾ | 0.22 | 0.05 | (0.02) | 0.19 | 0.10 |
| Distributions: | | | | | |
| From net investment income (excluding dividends) | (0.11) | (0.10) | (0.09) | (0.12) | (0.11) |
| From dividends | - | - | - | - | - |
| From capital gains | (0.01) | - | (0.01) | - | - |
| Return of capital | - | - | - | - | - |
| Total annual distributions ⁽³⁾ | (0.12) | (0.10) | (0.10) | (0.12) | (0.11) |
| Net assets, end of period | 9.93 | 9.82 | 9.86 | 9.98 | 9.93 |

| Series F | December 31 2019 | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Net assets, beginning of period | 9.61 | 9.71 | 9.88 | 9.87 | 9.91 |
| Increase from operations: | | | | | |
| Total revenue | 0.24 | 0.24 | 0.23 | 0.26 | 0.27 |
| Total expenses | (0.07) | (0.07) | (0.07) | (0.07) | (0.10) |
| Realized gains (losses) for the period | (0.02) | (0.04) | (0.01) | (0.01) | - |
| Unrealized gains (losses) for the period | 0.13 | (0.03) | (0.13) | 0.06 | (0.02) |
| Total increase from operations ⁽²⁾ | 0.28 | 0.10 | 0.02 | 0.24 | 0.15 |
| Distributions: | | | | | |
| From net investment income (excluding dividends) | (0.20) | (0.20) | (0.20) | (0.21) | (0.19) |
| From dividends | - | - | - | - | - |
| From capital gains | (0.01) | - | (0.01) | - | - |
| Return of capital | - | - | - | - | - |
| Total annual distributions ⁽³⁾ | (0.21) | (0.20) | (0.21) | (0.21) | (0.19) |
| Net assets, end of period | 9.68 | 9.61 | 9.71 | 9.88 | 9.87 |



Financial Highlights (continued)

| Series O ⁽⁴⁾ | December 31 2019 | December 31 2018 | December 31 2017 |
|--|---------------------|---------------------|---------------------|
| Net assets, beginning of period⁽⁴⁾ | 9.76 | 9.92 | 10.00 |
| Increase from operations: | | | |
| Total revenue | 0.20 | 0.22 | 0.09 |
| Total expenses | - | - | - |
| Realized gains (losses) for the period | (0.03) | (0.03) | (0.01) |
| Unrealized gains (losses) for the period | 0.17 | 0.02 | (0.08) |
| Total increase from operations⁽²⁾ | 0.34 | 0.21 | - |
| Distributions: | | | |
| From net investment income (excluding dividends) | (0.34) | (0.32) | (0.14) |
| From dividends | - | - | - |
| From capital gains | (0.01) | - | - |
| Return of capital | - | - | - |
| Total annual distributions⁽³⁾ | (0.35) | (0.32) | (0.14) |
| Net assets, end of period | 9.77 | 9.76 | 9.92 |

(1) This information is derived from the Pool's audited annual financial statements.

(2) 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.

(3) Distributions were paid in cash/reinvested in additional units of the Pool, or both.

(4) Inception date: July 5, 2017



VPI MORTGAGE POOL

Ratios and Supplemental Data

| Series A | December 31 2019 | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total net asset value (000's) ⁽¹⁾ | \$25,847 | \$23,792 | \$28,808 | \$24,165 | \$16,409 |
| Number of units outstanding (000's) ⁽¹⁾ | 2,603 | 2,423 | 2,921 | 2,421 | 1,652 |
| Management expense ratio ⁽²⁾ | 1.38% | 1.35% | 1.35% | 1.35% | 1.57% |
| Management expense ratio before waivers or absorptions | 1.66% | 1.63% | 1.51% | 1.85% | 1.91% |
| Trading expense ratio ⁽³⁾ | n/a | n/a | n/a | n/a | n/a |
| Portfolio turnover rate ⁽⁴⁾ | 53.31% | 39.56% | 53.75% | 33.84% | 42.56% |
| Net asset value per unit ⁽¹⁾ | \$9.93 | \$9.82 | \$9.86 | \$9.98 | \$9.93 |

| Series F | December 31 2019 | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total net asset value (000's) ⁽¹⁾ | \$13,451 | \$15,039 | \$14,406 | \$9,593 | \$5,208 |
| Number of units outstanding (000's) ⁽¹⁾ | 1,390 | 1,565 | 1,483 | 970 | 528 |
| Management expense ratio ⁽²⁾ | 0.88% | 0.85% | 0.85% | 0.85% | 1.07% |
| Management expense ratio before waivers or absorptions | 1.14% | 0.59% | 0.98% | 1.32% | 1.42% |
| Trading expense ratio ⁽³⁾ | n/a | n/a | n/a | n/a | n/a |
| Portfolio turnover rate ⁽⁴⁾ | 53.31% | 39.56% | 53.75% | 33.84% | 42.56% |
| Net asset value per unit ⁽¹⁾ | \$9.68 | \$9.61 | \$9.71 | \$9.88 | \$9.87 |

| Series O | December 31 2019 | December 31 2018 | December 31 2017 |
|--|---------------------|---------------------|---------------------|
| Total net asset value (000's) ⁽¹⁾ | \$264 | \$2,072 | - |
| Number of units outstanding (000's) ⁽¹⁾ | 27 | 212 | - |
| Management expense ratio ⁽²⁾ | 0.13% | 0.10% | 0.00% |
| Management expense ratio before waivers or absorptions | 0.61% | 0.65% | 0.00% |
| Trading expense ratio ⁽³⁾ | n/a | n/a | n/a |
| Portfolio turnover rate ⁽⁴⁾ | 53.31% | 39.56% | 53.75% |
| Net asset value per unit ⁽¹⁾ | \$9.77 | \$9.76 | \$9.92 |

(1) This information is provided as at the date shown.

(2) Management expense ratio is based on total expenses for the stated period (excluding distributions, commissions and other portfolio transaction costs) and is expressed as an annualized percentage of daily average net assets during the period. In the period a series is established, the management expense ratio is annualized from the date of inception to December 31.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

(4) The Pool's portfolio turnover rate indicates how actively the Pool's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Pool buying and selling all of the securities in its portfolio once in the course of the year. The higher the Pool's portfolio turnover rate in a year, the greater the trading costs payable by the Pool 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 the Pool.



VALUE
PARTNERS
INVESTMENTS

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2019

VPI MORTGAGE POOL

Other Information

Value Partners Group Inc. (VPGI) owns 100% of Value Partners Investments Inc. (VPI) and LP Financial Planning Services Ltd. (LP Financial), formerly Lawton Partners Financial Planning Services Limited, a mutual fund dealer. VPGI is 37.3% owned by Longton Ltd., whose shareholders include specified members of the Lawton family, including Paul and Sean Lawton. Paul Lawton is an officer of VPGI as well as a director and officer of both VPI and LP Financial. Sean Lawton is a director and sales representative of LP Financial.

As of December 31, 2019, sales representatives of LP Financial held, in aggregate, Class A1 shares representing 18.2% and Class C1 shares representing 6.2% of the common equity of VPGI. The remaining common equity of VPGI was held by sales representatives of other dealer firms and employees of VPGI, VPI and LP Financial. No other sales representative held more than 5 percent of the common equity of VPGI. Additional information regarding equity interests may be obtained from the Pool's annual information form or from the Manager's website at www.valuepartnersinvestments.ca.

Forward-Looking Statements

This report may contain forward-looking statements about the Pool, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Pool action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Pool and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Pool. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Pool has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.