



VPI MORTGAGE POOL

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2017

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, Winnipeg, Manitoba, 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.



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Annual Management Discussion of Fund Performance

March 1, 2018

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 risk level of the Underlying Fund or to the Underlying Fund's sensitivity to interest rate changes, changes to the shape of the yield curve, credit risk, market risk or currency risk. The magnitude of the Underlying Fund's active strategy positions remains consistent with its long-term risk profile.

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 low tolerance for risk.

Results of Operations

Net assets of the Pool increased by approximately \$9.5 million for the year ended December 31, 2017 due largely to net sales of \$10.0 million. The Pool also experienced a decrease in net assets from operations of \$30 thousand and paid out income distributions to unitholders of \$507 thousand. The decrease in net assets from operations was due to \$461 thousand of unrealized depreciation in the value of investments, \$52 thousand of net realized losses on the sale of investments offset by \$483 thousand of net investment income.

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 -0.2% to 0.2% over the past year which was comparable to the 0.1% return of the benchmark FTSE TMX Short Term Bond Index.

Overall, mortgages marginally outperformed short-term government bonds due to their higher running yield and their narrowing yield spread. The Portfolio Manager believes that mortgage rates still represent attractive value at current levels, with the yield spread wider than its historical average. The relatively high running yield of the Underlying Fund continues to be a positive for returns, and will help to offset some of the negative impacts if mortgage rates move higher. The duration of the portfolio remains conservatively positioned at less than 2 years.

Revenues and Expenses

Revenues of the Pool amounted to \$877 thousand, representing interest income distributed from the Underlying Fund. The Pool also experienced \$461 thousand of unrealized depreciation in the value of investments, realized a \$52 thousand loss on the sale of investments, and incurred \$394 thousand in management fees and operating expenses net of \$91 thousand of expenses absorbed by the Manager to maintain the Pool's MER at a competitive level.



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Recent Developments

Economic Conditions

Pro-growth policy initiatives in the US are expected to boost US and global growth in the next few years. Expansionary fiscal policy should also support many economies and coordinated global growth is expected to gain momentum in 2018. The Bank of Canada is expected to further tighten monetary policy in 2018, and the market is currently discounting two additional rate hikes by the end of the year. With longer-term yields expected to rise modestly over 2018, the Portfolio Manager's objective is to maintain the Underlying Fund's interest rate exposure below the benchmark. Potential risks to the Portfolio Manager's central outlook include disappointing global growth and a longer than anticipated road to recovery in the domestic economy. In the short term, the Portfolio Manager feels that valuations in the mortgage market are attractive, particularly when compared with money market securities, and will continue to invest excess cash in opportunities.

Series O units

Effective July 2017, the Pool introduced a new Series of units; Series O. Series O units are available to investors who have, or whose dealers have, entered into an agreement directly with the Manager to purchase Series O units or who have opened a discretionary investment management account with the Manager.



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Summary of Investment Portfolio

As at December 31, 2017

Portfolio Allocation

Mutual Funds	95.8%	Other Net Assets	0.1%
Cash & Equivalents	4.1%		

Top 25 Holdings

Issuer	Percentage of Net Assets
HSBC Mortgage Fund, Institutional Series	95.8%
Cash	4.1%
Other Net Assets	0.1%
Total	100.0%

As at and for the period ended December 31, 2017, 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	69.2%	Mortgage-backed Securities	2.0%
Bonds	20.9%	Other Net Assets	1.3%
Cash & Equivalents	6.6%		

Top 25 Holdings – Underlying Fund

Issuer	Maturity Date	Coupon Rate	Percentage of Net Assets
Mortgage Investments			69.2%
MCAP RMBS Issuer Corp.	15-Apr-19	2.17%	0.5%
Aviva PLC	10-May-21	4.50%	0.4%
Province of Ontario	02-Jun-21	4.00%	0.4%
Citigroup Inc.	18-Nov-21	3.39%	0.4%
Morgan Stanley	05-Aug-21	3.13%	0.4%
Wells Fargo & Co.	15-Mar-21	2.22%	0.4%
Royal Bank of Canada	20-Jan-26	3.31%	0.4%
Canadian Government Real Return Bond	01-Dec-21	6.70%	0.4%
Sun Life Financial Inc.	30-Jan-23	5.59%	0.4%
Genworth MI Canada Inc.	15-Jun-20	5.68%	0.4%
Canadian Natural Resources Ltd.	11-Feb-22	3.31%	0.4%
Intact Financial Corp.	03-Sep-19	5.41%	0.4%
Merrill Lynch & Co., Inc.	30-May-22	2.33%	0.4%
BP Capital Markets PLC	09-Nov-20	3.50%	0.3%
Canada Housing Trust No. 1	15-Dec-21	1.15%	0.3%
Ford Credit Canada Ltd.	02-Aug-18	3.70%	0.3%
Husky Energy Inc.	01-Feb-18	1.41%	0.3%
Ford Credit Canada Ltd.	10-May-21	2.58%	0.3%
Nova Scotia Power Inc.	08-Jan-18	1.30%	0.3%
Pembina Pipeline Corp.	29-Mar-21	4.89%	0.3%
Sydney Airport Finance Co. Pty Ltd.	27-Jul-18	4.60%	0.3%
bclMC Realty Corp.	02-Aug-18	2.79%	0.3%
Toyota Credit Canada Inc.	20-May-20	2.05%	0.3%
Empire Life Insurance Co.	16-Dec-26	3.38%	0.3%
Total			77.8%

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.



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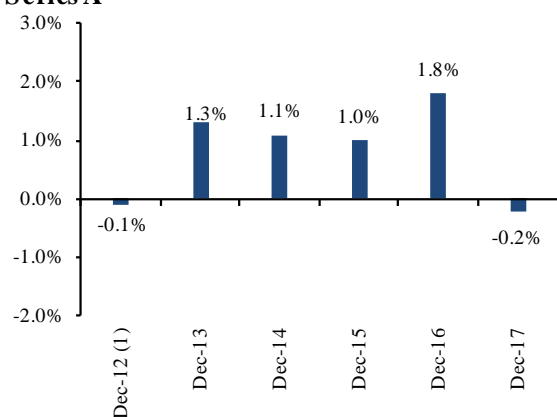
Past Performance

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.

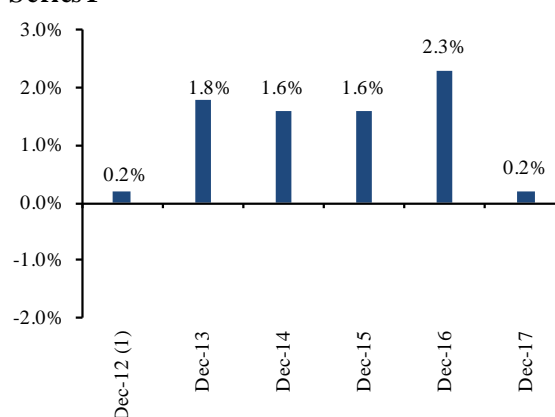
Year-by-Year Returns

The bar charts below show the performance of each series of the Pool (net of fees) for the year ended December 31, 2017, 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.

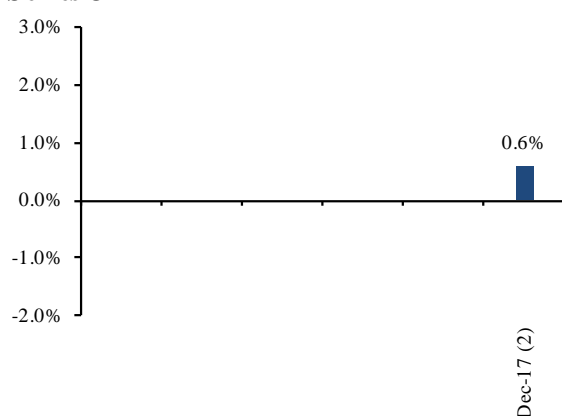
Series A



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.



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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, 2017. 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)	1.0%	0.9%	-0.2%	0.9%
FTSE TMX Short-Term Bond Index	1.7%	1.2%	0.1%	1.7%
Series F ⁽¹⁾ (Inception: October 30, 2012)	1.5%	1.4%	0.2%	1.5%
FTSE TMX Short-Term Bond Index	1.7%	1.2%	0.1%	1.7%
Series O ⁽¹⁾ (Inception: July 5, 2017)	n/a	n/a	n/a	0.6%
FTSE TMX Short-Term Bond Index	n/a	n/a	n/a	-0.2%

(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 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, 2017, approximately 30% 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 18% 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 ("Manager") of the Pool and is responsible for the overall business and operations of the Pool. For the year ended December 31, 2017, the Pool paid \$304 thousand in management fees (excluding taxes) to the Manager. For the year ended December 31, 2017, the Manager absorbed \$91 thousand of the Pool's operating expenses. In addition, the Manager or parent company of the Manager also held 169,889 Series F units and 1 Series O unit of the Pool as of December 31, 2017.



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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 four years ended December 31 and the period ended December 31, 2013. *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 2017	December 31 2016	December 31 2015	December 31 2014	December 31 2013
Net assets, beginning of period	9.98	9.93	9.94	9.94	9.99
Increase from operations:					
Total revenue	0.23	0.25	0.27	0.26	0.27
Total expenses	(0.12)	(0.12)	(0.15)	(0.15)	(0.15)
Realized gains (losses) for the period	(0.01)	(0.01)	(0.01)	0.01	-
Unrealized gains (losses) for the period	(0.12)	0.07	(0.01)	(0.01)	-
Total increase from operations ⁽²⁾	(0.02)	0.19	0.10	0.11	0.12
Distributions:					
From net investment income (excluding dividends)	(0.09)	(0.12)	(0.11)	(0.10)	(0.16)
From dividends	-	-	-	-	-
From capital gains	(0.01)	-	-	(0.01)	-
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	(0.10)	(0.12)	(0.11)	(0.11)	(0.16)
Net assets, end of period	9.86	9.98	9.93	9.94	9.94
Series F	December 31 2017	December 31 2016	December 31 2015	December 31 2014	December 31 2013
Net assets, beginning of period	9.88	9.87	9.91	9.96	10.02
Increase from operations:					
Total revenue	0.23	0.26	0.27	0.26	0.24
Total expenses	(0.07)	(0.07)	(0.10)	(0.10)	(0.10)
Realized gains (losses) for the period	(0.01)	(0.01)	-	0.01	-
Unrealized gains (losses) for the period	(0.13)	0.06	(0.02)	(0.02)	0.01
Total increase from operations ⁽²⁾	0.02	0.24	0.15	0.15	0.15
Distributions:					
From net investment income (excluding dividends)	(0.20)	(0.21)	(0.19)	(0.19)	(0.24)
From dividends	-	-	-	-	-
From capital gains	(0.01)	-	-	(0.01)	-
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	(0.21)	(0.21)	(0.19)	(0.20)	(0.24)
Net assets, end of period	9.71	9.88	9.87	9.91	9.96



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Financial Highlights (continued)

Series O ⁽⁴⁾	December 31 2017
Net assets, beginning of period⁽⁴⁾	10.00
Increase from operations:	
Total revenue	0.11
Total expenses	(0.02)
Realized gains (losses) for the period	(0.01)
Unrealized gains (losses) for the period	(0.08)
Total increase from operations ⁽²⁾	-
Distributions:	
From net investment income (excluding dividends)	(0.14)
From dividends	-
From capital gains	-
Return of capital	-
Total annual distributions ⁽³⁾	(0.14)
Net assets, end of period	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



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Ratios and Supplemental Data

Series A	December 31 2017	December 31 2016	December 31 2015	December 31 2014	December 31 2013
Total net asset value (000's) ⁽¹⁾	\$28,808	\$24,165	\$16,409	\$13,490	\$13,235
Number of units outstanding (000's) ⁽¹⁾	2,921	2,421	1,652	1,358	1,331
Management expense ratio ⁽²⁾	1.35%	1.35%	1.57%	1.54%	1.56%
Management expense ratio before waivers or absorptions	1.51%	1.85%	1.91%	1.72%	2.30%
Trading expense ratio ⁽³⁾	n/a	n/a	n/a	n/a	n/a
Portfolio turnover rate ⁽⁴⁾	53.75%	33.84%	42.56%	63.60%	46.91%
Net asset value per unit ⁽¹⁾	\$9.86	\$9.98	\$9.93	\$9.94	\$9.94
Series F	December 31 2017	December 31 2016	December 31 2015	December 31 2014	December 31 2013
Total net asset value (000's) ⁽¹⁾	\$14,406	\$9,593	\$5,208	\$3,847	\$2,161
Number of units outstanding (000's) ⁽¹⁾	1,483	970	528	388	217
Management expense ratio ⁽²⁾	0.85%	0.85%	1.07%	1.04%	1.06%
Management expense ratio before waivers or absorptions	0.98%	1.32%	1.42%	1.20%	1.56%
Trading expense ratio ⁽³⁾	n/a	n/a	n/a	n/a	n/a
Portfolio turnover rate ⁽⁴⁾	53.75%	33.84%	42.56%	63.60%	46.91%
Net asset value per unit ⁽¹⁾	\$9.71	\$9.88	\$9.87	\$9.91	\$9.96
Series O	December 31 2017				
Total net asset value (000's) ⁽¹⁾	-				
Number of units outstanding (000's) ⁽¹⁾	-				
Management expense ratio ⁽²⁾	n/a				
Management expense ratio before waivers or absorptions	n/a				
Trading expense ratio ⁽³⁾	n/a				
Portfolio turnover rate ⁽⁴⁾	53.75%				
Net asset value per unit ⁽¹⁾	\$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.



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Other Information

As at December 31, 2017, Value Partners Group Inc. (VPGI) owns 100 percent of the Manager. VPGI is 37.9 percent beneficially owned by The Longton Trust II, a discretionary family trust established for the benefit of specified members of the Lawton family, including one director/officer of the Manager. Certain of the directors, officers and shareholders of VPGI are also shareholders and sales representatives of Lawton Partners Financial Planning Services Limited, a mutual fund dealer.

As of December 31, 2017, sales representatives of Lawton Partners Financial Planning Services Limited hold, in aggregate, Class A1 shares of VPGI representing 15.9 percent of the common equity and Class C1 shares representing 6.3 percent of the common equity. The remaining common equity of VPGI was held by sales representatives of other dealer firms and employees of the Manager. No sales representative held more than 5 percent of the common equity of the Manager. 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.