



**VALUE
PARTNERS**
INVESTMENTS

VPI MORTGAGE POOL

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2018

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.



Annual Management Discussion of Fund Performance

March 15, 2019

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 decreased by approximately \$2.3 million for the year ended December 31, 2018 due largely to net redemptions of \$2.0 million. The Pool also experienced an increase in net assets from operations of \$0.3 million and paid out income distributions to unitholders of \$0.6 million. The increase in net assets from operations was due to \$1.0 million of interest income, offset by \$175 thousand of net realized loss on sale of investments, \$102 thousand in unrealized depreciation in value of investments and \$422 thousand of management fees and operating expenses, net of \$111 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 0.5% to 1.7% over the past year which was comparable to the 1.9% return of the benchmark FTSE TMX Short Term Bond Index.

Overall, mortgages performed in line with short-term government bonds over the full year, as their higher running yield offset widening mortgage yield spreads. The Portfolio Manager believes mortgage rates represent attractive value at current levels. With the yield spread now wider than its long-term historical average, the incremental yield advantage is considerable given the historically low interest rate environment. The Underlying Fund's relatively high running yield continues to be positive for returns and will help offset some of the negative impacts if mortgage rates move higher. Portfolio duration is conservatively positioned below two years.

Revenues and Expenses

Revenues of the Pool amounted to \$1.0 million, representing interest income distributed from the Underlying Fund. The Pool also experienced \$102 thousand of unrealized depreciation in the value of investments, realized a \$175 thousand loss on the sale of investments, and incurred \$422 thousand in management fees and operating expenses net of \$111 thousand of expenses absorbed by the Manager to maintain the Pool's MER at a competitive level.



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For the year ended December 31, 2018

VPI MORTGAGE POOL

Recent Developments

Economic Conditions

In North American fixed income markets, solid but slowing US economic growth drove bond yields sharply lower in Q4, which helped push year-to-date returns back into the black. The overall short-term bond market returned 1.91% in 2018. With longer-term yields expected to rise modestly over the next year, the Portfolio Manager aims to maintain the Underlying Fund's interest rate exposure at or slightly below the benchmark in the near term. The average term of the Underlying Fund remains conservative at less than two years. The residential mortgage asset class continues to perform well, with strong asset quality (delinquency rates are near their cycle lows) and attractive valuations. The Portfolio Manager feels that the corporate sector remains fundamentally sound, with stable to improving earnings growth and defensively positioned balance sheets. Sector valuations in credit markets have also improved slightly in recent quarters. The Portfolio Manager will look to hold an overweight position in mortgages and continue to prefer provincial and corporate bonds over Government of Canada bonds. The Portfolio Manager expects to remain overweight in these positions in the non-mortgage portion of the Underlying Fund.



Portfolio Allocation

Mutual Funds	98.1%	Cash & Equivalents	2.9%
Other Net Assets	-1.0%		

Top 25 Holdings

Issuer	Percentage of Net Assets
HSBC Mortgage Fund, Institutional Series	98.1%
Cash & Equivalents	2.9%
Other Net Assets	-1.0%
Total	100.0%

As at and for the period ended December 31, 2018, 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	75.2%	Mortgage-backed Securities	2.1%
Bonds	17.2%	Other Net Assets	0.2%
Cash & Equivalents	5.3%		

Top 25 Holdings – Underlying Fund

Issuer	Maturity Date	Coupon Rate	Percentage of Net Assets
Mortgage Investments			75.3%
Government of Canada RRB	01-Dec-21	4.3%	1.3%
Citigroup Inc.	18-Nov-21	3.4%	0.5%
TMX Group Ltd.	03-Oct-23	4.5%	0.5%
Genworth MI Canada Inc.	15-Jun-20	5.7%	0.4%
MCAP RMBS Issuer Corporation	15-Apr-19	2.2%	0.4%
Aviva PLC	10-May-21	4.5%	0.4%
Bruce Power Limited Partnership	23-Jun-21	2.8%	0.4%
Sun Life Financial Inc.	25-Sep-25	2.6%	0.4%
Anheuser Busch Corporation	15-May-24	2.6%	0.4%
Toronto Dominion Bank, FRN	31-Jul-19		0.4%
Saputo Inc.	13-Jun-22	1.9%	0.4%
Pembina Pipeline Corporation	29-Mar-21	4.9%	0.4%
Brookfield Asset Management	1-Mar-21	5.3%	0.4%
Alimentation Couche Tard Inc.	1-Nov-22	3.9%	0.4%
Enbridge Inc.	30-Jun-23	3.9%	0.4%
Empire Life Insurance Company	16-Dec-26	3.4%	0.3%
National Bank of Canada, BD.	02-Jan-19	1.7%	0.3%
Bank of America	22-Jun-20	3.2%	0.3%
Morgan Stanley	08-May-21	3.1%	0.3%
Canadian Western Bank, BD	13-May-19		0.3%
Canadian Natural Resources Ltd.	11-Feb-22	3.3%	0.3%
Canadian Utilities, CP	15-Jan-19		0.3%
Bank of China, BD	04-Feb-19		0.3%
Canadian Western Bank	13-Sept-21		0.3%
Total			85.1%

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.



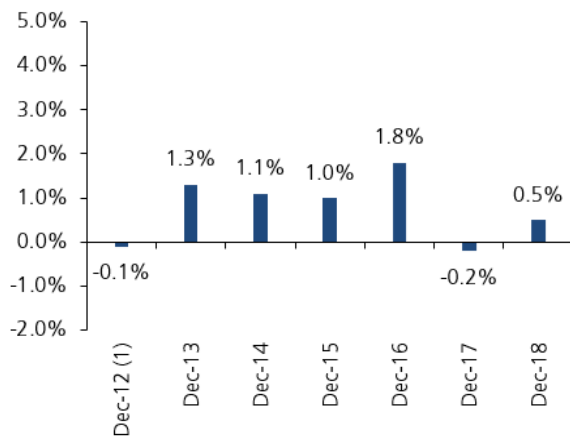
Past Performance

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.

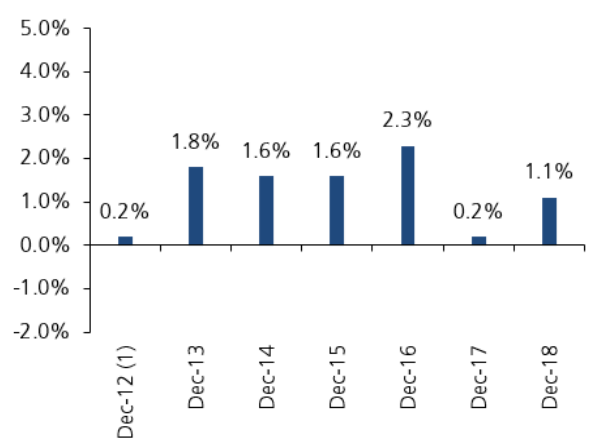
Year-by-Year Returns

The bar charts below show the performance of each series of the Pool (net of fees) for the year ended December 31, 2018, 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.

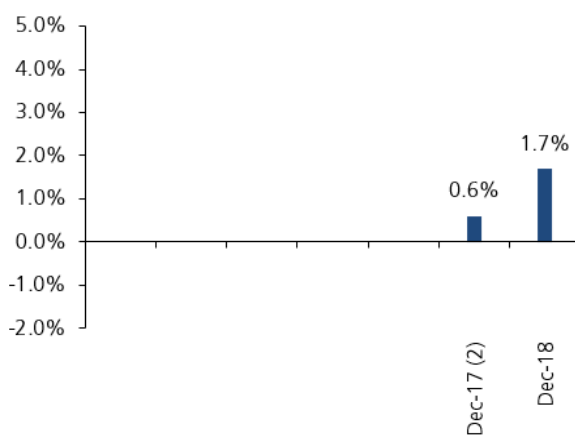
Series A



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, 2018. 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)	0.8%	0.7%	0.5%	0.9%
FTSE TMX Short-Term Bond Index	1.7%	1.0%	1.9%	1.7%
Series F ⁽¹⁾ (Inception: October 30, 2012)	1.3%	1.2%	1.1%	1.4%
FTSE TMX Short-Term Bond Index	1.7%	1.0%	1.9%	1.7%
Series O ⁽¹⁾ (Inception: July 5, 2017)	n/a	n/a	1.7%	1.6%
FTSE TMX Short-Term Bond Index	n/a	n/a	1.9%	1.2%

(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 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, 2018, 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, 2018, the Pool paid \$327 thousand in management fees (excluding taxes) to the Manager. For the year ended December 31, 2018, the Manager absorbed \$111 thousand of the Pool’s operating expenses. In addition, the Manager or parent company of the Manager also held 173,681 Series F units and 1 Series O unit of the Pool as of December 31, 2018.



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 2018	December 31 2017	December 31 2016	December 31 2015	December 31 2014
Net assets, beginning of period	9.86	9.98	9.93	9.94	9.94
Increase from operations:					
Total revenue	0.25	0.23	0.25	0.27	0.26
Total expenses	(0.13)	(0.12)	(0.12)	(0.15)	(0.15)
Realized gains (losses) for the period	(0.04)	(0.01)	(0.01)	(0.01)	0.01
Unrealized gains (losses) for the period	(0.03)	(0.12)	0.07	(0.01)	(0.01)
Total increase from operations ⁽²⁾	0.05	(0.02)	0.19	0.10	0.11
Distributions:					
From net investment income (excluding dividends)	(0.10)	(0.09)	(0.12)	(0.11)	(0.10)
From dividends	-	-	-	-	-
From capital gains	-	(0.01)	-	-	(0.01)
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	(0.10)	(0.10)	(0.12)	(0.11)	(0.11)
Net assets, end of period	9.82	9.86	9.98	9.93	9.94

Series F	December 31 2018	December 31 2017	December 31 2016	December 31 2015	December 31 2014
Net assets, beginning of period	9.71	9.88	9.87	9.91	9.96
Increase from operations:					
Total revenue	0.24	0.23	0.26	0.27	0.26
Total expenses	(0.07)	(0.07)	(0.07)	(0.10)	(0.10)
Realized gains (losses) for the period	(0.04)	(0.01)	(0.01)	-	0.01
Unrealized gains (losses) for the period	(0.03)	(0.13)	0.06	(0.02)	(0.02)
Total increase from operations ⁽²⁾	0.10	0.02	0.24	0.15	0.15
Distributions:					
From net investment income (excluding dividends)	(0.20)	(0.20)	(0.21)	(0.19)	(0.19)
From dividends	-	-	-	-	-
From capital gains	-	(0.01)	-	-	(0.01)
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	(0.20)	(0.21)	(0.21)	(0.19)	(0.20)
Net assets, end of period	9.61	9.71	9.88	9.87	9.91



Financial Highlights (continued)

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



Ratios and Supplemental Data

Series A	December 31 2018	December 31 2017	December 31 2016	December 31 2015	December 31 2014
Total net asset value (000's) ⁽¹⁾	\$23,792	\$28,808	\$24,165	\$16,409	\$13,490
Number of units outstanding (000's) ⁽¹⁾	2,423	2,921	2,421	1,652	1,358
Management expense ratio ⁽²⁾	1.35%	1.35%	1.35%	1.57%	1.54%
Management expense ratio before waivers or absorptions	1.63%	1.51%	1.85%	1.91%	1.72%
Trading expense ratio ⁽³⁾	n/a	n/a	n/a	n/a	n/a
Portfolio turnover rate ⁽⁴⁾	39.56%	53.75%	33.84%	42.56%	63.60%
Net asset value per unit ⁽¹⁾	\$9.82	\$9.86	\$9.98	\$9.93	\$9.94

Series F	December 31 2018	December 31 2017	December 31 2016	December 31 2015	December 31 2014
Total net asset value (000's) ⁽¹⁾	\$15,039	\$14,406	\$9,593	\$5,208	\$3,847
Number of units outstanding (000's) ⁽¹⁾	1,565	1,483	970	528	388
Management expense ratio ⁽²⁾	0.85%	0.85%	0.85%	1.07%	1.04%
Management expense ratio before waivers or absorptions	0.59%	0.98%	1.32%	1.42%	1.20%
Trading expense ratio ⁽³⁾	n/a	n/a	n/a	n/a	n/a
Portfolio turnover rate ⁽⁴⁾	39.56%	53.75%	33.84%	42.56%	63.60%
Net asset value per unit ⁽¹⁾	\$9.61	\$9.71	\$9.88	\$9.87	\$9.91

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



Other Information

As at December 31, 2018, Value Partners Group Inc. (VPGI) owns 100 percent of the Manager. VPGI is 37.5 percent owned by Longton Ltd., whose shareholders include 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 Effective December 30, 2018, VPGI acquired 100 percent of the shares of Lawton Partners Financial Planning Services Limited.

As of December 31, 2018, sales representatives of Lawton Partners Financial Planning Services Limited hold, in aggregate, Class A1 shares of VPGI representing 16.9 percent of the common equity and Class C1 shares representing 6.2 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.