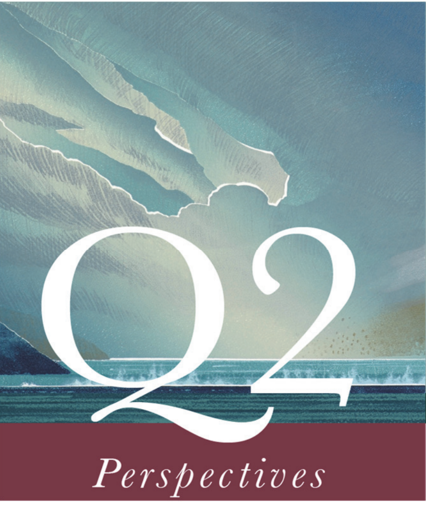


PEMBROKE

July 18th, 2018

PEMBROKE AT 50

2018 marks the celebration of an important anniversary for Pembroke. The company was founded in 1968, making this our 50th anniversary.

For 50 years, we have invested in entrepreneurial growth companies and served the investment needs of our clients. More than the simple passage of time, 2018 is an opportunity to reaffirm and celebrate our core values, our consistent investment philosophy and, most importantly, what we have achieved for our clients.

As a firm, we value integrity, excellence, humility, accountability and alignment and we believe that our focus on innovation, insight, and growth has been key to our success.

We have witnessed tremendous change over the past half century and we have invested in many wonderful companies that have created significant wealth for their shareholders. We have also learned some tough lessons along the way. The wisdom gained every year has helped us focus on what matters; creating wealth for our clients over the long-term.

We thank all our clients for having confidence in Pembroke, and we all look forward to celebrating our 50th anniversary with you as we continue the journey.

Please mark your calendars! We will be hosting special 50th Anniversary Celebrations on **September 27th** in Montreal, **October 18th** in Toronto and **November 8th** in Vancouver. Detailed invitations to follow.

On the Road Again

Test-driving Stoneridge Inc.

Have you ever been driving on a highway next to an 18-wheeler? You are passing the truck at a responsible speed, and suddenly you realize the truck is edging over into your lane. You need to decide quickly whether to slow down or speed up to get out of harm's way. Doesn't the truck driver see you? The short answer is: "no".

This is a real problem, as deaths from crashes involving large trucks have been rising over the past several years. In 2016, 4,317 people were killed in the US, up 5.4% from 2015, according to the latest statistics from the National Highway Traffic Safety Administration.

Andrew Garschagen &
Matthew Beckerleg, both Portfolio Managers

Recently, two of Pembroke's portfolio managers spent a day in Detroit meeting with Stoneridge ("SRI"), a truck and auto parts supplier to learn more about the benefits of the company's recently launched camera technology.

Founded in 1965, Stoneridge is a global designer and manufacturer of highly-engineered components and systems for the commercial vehicle, automotive, off-highway and agricultural vehicle markets. The company's products are critical elements in the management of mechanical and electrical systems to improve overall vehicle performance, convenience, and monitoring in areas such as emissions control, fuel efficiency, safety, and security. While the company has many compelling growth drivers, their commercial vehicle camera system is particularly interesting.

Their new camera technology provides three critical benefits. The first and most important is improved safety for truck drivers and other drivers on the road. The cameras provide a real-time, clear view of any obstacle or vehicle located in what would normally be a significant blind spot. Second, the cameras allow the driver to manoeuvre the vehicle more effectively and efficiently when reversing or making tight turns.

Finally, the cameras eliminate the need for large, exterior side-view mirrors that produce a significant drag.

Truck drivers and OEMs are learning more about the camera offering which has significant technological strengths – the cameras are durable, have low latency, and work effectively in the day, night, or during inclement weather. According to the US Department of Transportation, there were over 2.5 million truck tractors (18 wheelers) in the US in 2016[1]. That's to say nothing of the number of trucks on the road globally or other large commercial vehicles. We would also note that in the commercial vehicle market, customers tend to make long-term decisions on parts suppliers, as model upgrades and replacements are not as frequent as in consumer cars and trucks. The total addressable market for SRI's camera technology is therefore large and the customers that SRI wins could represent long-term revenue and profit opportunities.

From an investment standpoint, SRI meets Pembroke's criteria for quality, growth, and alignment. The company is well-capitalized and generates significant free cash flow which should support continued development of its commercial vehicle camera systems and other products.

Over the coming years, technology will continue to make driving safer. In addition to the camera technology from SRI, more vehicles will be supplied with blind spot warning, lane departure warning, forward collision warning and automatic emergency braking. Even with all of these positive changes, there will still be no substitute for staying alert, especially if you are next to a large truck.

[1]US Department of Transportation, Office of Highway Policy Information, Highway Statistics, 2016, Truck and Truck Tractor Registrations, December 2017.

Just the Facts

Before providing qualitative comments on the quarter, we present some quantitative information regarding our top five Canadian and US holdings.

Top Five Canadian Holdings

June 30th, 2018

Company	Q2 Price Change (CAD)	Revenue Growth, Current Fiscal Year	EBITDA Growth, Current Fiscal Year	Revenue Growth, Next Fiscal Year	EBITDA Growth, Next Fiscal Year
Solium Capital Inc.	5%	24%	5%	19%	103%
Badger Daylighting	17%	14%	39%	12%	19%
The Descartes Systems	20%	18%	30%	10%	15%
Tamarack Valley Energy	61%	43%	45%	9%	12%
Canadian Western Bank	-12%	19%	15%	10%	10%
Average	**18%**	**24%**	**27%**	**12%**	**32%**

Top Five US Holdings

June 30th, 2018

Company	Q2 Price Change (USD)	Revenue Growth, Current Fiscal Year	EBITDA Growth, Current Fiscal Year	Revenue Growth, Next Fiscal Year	EBITDA Growth, Next Fiscal Year
Carbonite	39%	28%	70%	12%	15%
HMS Holdings	28%	10%	7%	7%	8%
Pure Storage	51%	33%	N/M	26%	71%
Stoneridge	54%	6%	19%	4%	7%
National General Holdings	34%	0%	108%	12%	14%
Average	**41%**	**16%**	**51%**	**12%**	**23%**

Source: Consensus and Pembroke estimates

OVERVIEW OF THE QUARTER

INTRODUCTION

North American equity markets moved higher in the second quarter of 2018. Buoyed by tax reform and a deregulation push in the US, business conditions remain favourable and economic growth is robust. Unemployment levels are trending towards historic lows, leading to high consumer confidence levels. As portfolio managers, we see robust consumer confidence manifested in company results - especially in the form of big-ticket purchases such as recreational vehicles and autos. Business confidence is evidenced by aggressive technology spending and hiring. Many of Pembroke's holdings are delivering strong growth in this environment.

From a high-level perspective, smaller companies are benefiting more than large multinationals from the new US tax law as well as the strong US dollar. Many of the firm's Canadian holdings derive significant revenue from the US, which is driving their profitability, and share prices, higher. In this environment, Pembroke is finding new investment opportunities driven by powerful secular drivers in such industries as healthcare, autos, and software.

While fears about valuation are mounting, investors should remember that we are dealing with a "market of stocks" – meaning that the market indices can rise on the back of a few sectors or large constituents, but that does not result in every company or sector becoming overpriced. The investment team is identifying under-appreciated growth companies in areas ranging from aerospace to financial services. Pembroke's disciplined appraisal of earnings quality, valuation, and balance sheet strength, nevertheless remain paramount as we cross into a ninth year of economic expansion.

Despite our overall optimism, we are not blind to the risks. The increasing threat of a global trade war, for example, is a significant concern. Rising interest rates and their eventual effect on global growth and equity valuations are also important considerations. So how does Pembroke contend with these risks? The answer lies in disciplined portfolio management. With respect to the risks associated with a trade war, Pembroke's portfolios generally consist of companies focused on North American end markets rather than on global growth.

Nonetheless, risks do emerge. The automotive sector, for example, is facing potential action from the Trump administration around increased tariffs. Pembroke's Canadian mandates have no direct exposure to autos. In the US, the firm had three holdings with direct automotive exposure. While all three have been positive contributors to performance in 2018, when the investment team decided to increase its holdings in one of those stocks, it funded that purchase by selling one of the other automotive suppliers. The portfolio managers decided to safeguard against excess exposure to a sector facing significant uncertainties. The two remaining automotive suppliers in Pembroke's portfolios are well-capitalized, reasonably valued, and benefitting from powerful product cycles.

What about rising interest rates in the context of a strong economy? The first risk management tool is to ensure that our portfolio is well-financed. For companies with debt, rising interest rates can lead to a higher cost of capital, which may hinder their ability to execute their growth plans and lower their returns on invested capital. The team is constantly examining every position with significant debt and is closely monitoring each portfolio's exposure to rising interest rates. For example, Pembroke's US equity portfolios have a median net debt/EBITDA of 0.8x, and only 2.9% of the portfolio is held in companies with more than 3x debt/EBITDA.

The other risk posed by rising interest rates involves valuation compression. As rates increase, will investors be less willing to pay for the returns offered by equities? Historically, at the market level, the answer is yes, though some growth stocks have maintained above-market valuations in past cycles. Pembroke approaches this risk with the same discipline as it does balance sheet risk. The investment team ensures that most of its holdings are currently profitable and that the valuation framework used to justify the upside potential is reasonable. In the few cases where the firm holds unprofitable companies (typically companies investing heavily in growth initiatives), it looks for robust and sustainable growth, a clear path to profitability, a large market opportunity, and a strong balance sheet. In general, holdings in companies with these characteristics are maintained at a lower than average weight.

Pembroke remains optimistic that its portfolios of well-capitalized, shareholder-oriented growth companies are positioned to take advantage of the current economic climate. At the same time, the team is keenly aware that a business cycle is inevitable and the team is carefully monitoring valuations, risks of cyclical downturns, and balance sheets. As always, the firm takes a long-term view towards its investments and recommends that clients maintain a diversified portfolio of investments across geographies and asset classes.

US Commentary

Pembroke's US equity portfolios rose significantly in the second quarter of 2018, building off a strong first quarter. Relative to the Russell 2000, the firm's funds performed in-line but remain significantly ahead of the benchmark for all of 2018. During the past three months, the firm's holdings in the healthcare sector were the largest contributors to performance, followed by technology stocks, which continued their strong performance after a robust first quarter. The firm's small weights in the energy, materials, and telecommunications sectors each detracted slightly from performance. The investment team is pleased with most holdings' results in 2018 as well as with their accompanying growth prospects.

Two stocks made significant additive contributions to returns in the second quarter.

Biotelemetry ("BEAT"), which provides cardiac monitoring devices and services, delivered strong revenue and profitability in the first quarter of 2018. The management team continues to integrate its acquisition of LifeWatch, extracting cost synergies above our expectations. Further, BEAT's growth trajectory accelerated as the combination of the two companies' sales teams was completed. New product releases, within BEAT's core cardiac segment as well as its new foray into glucose monitoring, bode well for long-term growth. The company is reasonably valued given its leading position in a growth market, solid revenue growth, and expanding profit margins.

Shares in **HMS Holdings** ("HMSY"), the third largest position at the end of the second quarter, rose from a depressed valuation after the company reported stronger than expected results for the first three months of 2018. While management maintained conservative guidance for the year, HMSY is well-positioned to help commercial insurers and state governments reduce their healthcare costs. HMSY is launching an exciting new service to state governments by combining its core technology and services with those from two recent acquisitions. Management is committed to proving that its current portfolio of products can drive accelerating growth before making additional acquisitions. Further, after two years of investing in its technology platform and sales initiatives, HMSY is positioned to expand profit margins.

The shares of **GTT Communications** ("GTT"), a company offering telecommunications services to large multi-national corporations, declined after the company announced a large and compelling

acquisition in Europe. To finance the transaction, GTT pre-negotiated an equity investment by two private equity firms. The equity investment was struck at a price prior to GTT's stock running to all-time highs in the first quarter of 2018. While some investors were clearly disappointed that GTT raised money at lower than the current market price, Pembroke believes GTT management behaved responsibly and in the interests of shareholders given the size of the acquisition. GTT has a strong record of acquiring companies and realizing significant synergies. While it is disappointing to see the shares give up their gains from the first quarter of 2018, GTT is a well-managed company, has been a successful holding for Pembroke, and is now trading at a highly attractive valuation.

Ferroglobe PLC ("GSM"), the world's largest producer of silicon metal, ferro silicon, and ferro manganese, posted impressive results in the first quarter. Revenue increased over 40% year-over-year and EBITDA was up over 200%. The company's products are benefiting from numerous secular tailwinds: the growth in lighter-weight carbon and stainless steel and aluminum, the proliferation of semiconductors and solar panels, and burgeoning demand for consumer products such as toothpaste and lotions as more people globally move up the wealth curve. As with commodity-oriented stocks, however, the market often cares most about the short-term direction of change in the underlying commodities, and on that front, GSM has struggled. In late March, the US Department of Commerce decided against implementing additional silicon metal tariffs, which prompted a decline in the commodity price and in GSM's stock. Given that silicon metal demand is growing faster than supply, and that the company is executing well, we believe the current pessimism is unwarranted and have added to our position.

Canadian Commentary

Canadian equity markets increased in the second quarter of 2018, rebounding from a difficult start to the year. Gains were broadly based, with most major industry groups in positive territory for the period, and stocks in the energy, information technology, and industrial sectors showing strength. Pembroke's Canadian equity portfolios participated in this rally, posting positive absolute returns that modestly outpaced the S&P/TSX Composite Index.

Two stocks made significant additive contributions to returns in the second quarter.

Shares in **Tamarack Valley Energy** ("TVE"), an oil and gas exploration and production company with an asset base focused on the Cardium and Viking formations in Alberta and Saskatchewan, gained during the period. While rising oil prices boosted the Canadian energy sector, Tamarack shares outperformed its peers as encouraging production results highlighted the productivity and profitability of the company's assets. The management team at Tamarack has been effective at assembling attractive land packages during the downturn in the energy industry. These efforts are now being rewarded by strong operating results and investor recognition.

Shares in **Points International** ("PTS"), a provider of e-commerce and technology services to loyalty program operators internationally, performed well in the second quarter. The company posted quarterly results that exceeded expectations, and provided guidance for 2018 that was above analyst estimates. Points has an attractive runway for growth driven by new partner additions and programs, and is making meaningful progress towards attaining its long-term profitability targets. The company has a pristine balance sheet and has been directing some capital towards share repurchases. Two stocks posted significant declines that weighed on performance.

Two stocks were significant detractors to performance in the second quarter of 2018.

Shares in **DHX Media** ("DHX"), a leading owner and producer of children's media content, was a negative contributor to performance during the quarter. The company successfully monetized a significant stake in the Peanuts franchise, thereby reducing debt levels on its balance sheet. Moreover, the company is evaluating additional strategic avenues to surface value from its portfolio of brands. However, muted organic growth in the company's content-creation business and the withdrawal of financial guidance for fiscal year 2018 have put pressure on the shares.

Shares in **ZCL Composites**, ("ZCL"), North America's largest manufacturer and supplier of fiberglass-reinforced underground storage tanks, were weak in the second quarter. The company experienced a lull in demand from fuel service station customers that impacted quarterly results, though long-term prospects remain intact driven by mandated replacement cycle dynamics. The company remains well financed with a debt-free balance sheet, generates significant free cash flow, and continues to return capital to shareholders through both regular and special dividends.

Balanced Fund Commentary

Pembroke's balanced portfolio, the **GBC Growth and Income Fund**, posted flat returns in the second quarter of 2018. The fixed income portion of the Fund, represented by the **GBC Canadian Bond Fund**, delivered modest positive returns during the period in a challenging environment for fixed income investors. Meanwhile, the equity portion of the portfolio delivered absolute returns that were essentially flat.

Two stocks were significant detractors to performance in the second quarter of 2018.

Shares in **ZCL Composites**, ("ZCL"), North America's leading manufacturer and supplier of fiberglass reinforced underground storage tanks, declined in the second quarter. The company experienced a slowdown in business from fuel service station customers, although longer-term replacement cycle demand trends remain intact. The company remains well financed with a debt-free balance sheet; it generates significant free cash flow, and continues to return capital to shareholders through both regular and special dividends.

Shares in **Stingray Digital** ("RAY.A"), a provider of music products and services delivered over multiple media platforms, declined in the second quarter following the announcement of a sizable acquisition of terrestrial radio assets from Newfoundland Capital. The transaction significantly bolsters Stingray's free cash flow generation capacity and diversifies the business. However, the acquisition will result in additional leverage on the balance sheet and could slow the overall growth rate of the company. Pembroke believes the acquisition makes both strategic and financial sense, and that Stingray's strongly aligned management team is allocating capital in a shareholder-friendly manner.

Two stocks stood out as positive contributors to Pembroke's dividend mandates in the second quarter.

Shares of **Richards Packaging** ("RPI.UN"), a leading, full-service North American distributor of plastic and glass containers to small and medium sized businesses, performed well in the second quarter driven by steady operational performance and growing investor recognition of the company's operating record and prospects. Richards continues to reap the benefits of an acquisition made in 2015 that allowed it to expand into the healthcare packaging and dispensing systems market. The company generates a significant amount of free cash flow; the dividend is conservatively funded and management is building financial capacity to take advantage of additional acquisition opportunities in the future.

Shares in **Transcontinental** ("TCL.A"), a manufacturer of flexible packaging products and a provider of commercial printing services, showed strength in the second quarter driven by solid operating results and the announcement of the acquisition of Coveris, a sizable player in the North American flexible packaging industry. Management has been effective at reducing the company's exposure to the highly profitable but declining printing business by re-investing into the higher-growth packaging enterprise. The purchase of Coveris will accelerate this effort and has been embraced by investors.

Income in the balanced fund is generated from a combination of dividends and interest. The equity portion of the fund has a current annualized gross yield of 3.7%, while the fixed income segment of the Fund is primarily invested in securities rated "A+" that, on average, have a collective yield to maturity of 2.9% and an adjusted portfolio duration of 4.5 years. The asset mix of Pembroke's balanced mandates did not change materially through the year, with approximately 29% of the portfolio invested in fixed income securities at June 30th, 2018.

International Equity Commentary

The GBC International Growth Fund outperformed the MSCI ACWI ex-US Small Cap Index during the six-month period ended June 30. Stock selection in Europe and Japan were the primary contributors to relative performance, offsetting the adverse effects of emerging markets stock selection. Within Europe, information technology and consumer staples stock selection were the primary sources of outperformance. Danish beverage company Royal Unibrew ("RBREW DC") was a notable contributor, bolstered by solid operational performance resulting from company initiatives and a favorable sports events calendar. Royal Unibrew's improved price mix, scale benefits and smooth integration of its recent Italian acquisition were positive drivers.

Within emerging markets, consumer discretionary stock selection was weak during the six-month period. Indian automotive components company **Motherson Sumi Systems** ("MSS IN") detracted from performance amid broad Indian market weakness and concerns about margin pressures resulting from higher raw materials prices and plant start-up costs.

The fund's allocations to health care, information technology and consumer staples were increased during the six-month period, offset by reductions to financials, industrials, materials and utilities. From a geographic perspective, Europe and UK exposures were increased, while Japan and Latin America weightings were reduced.

US-driven trade disruption has become a meaningful risk in the near term. Amid growing hostilities in recent weeks, China and the US were unable to avoid the first round of tariffs that commenced on July 6th. Looking ahead, we believe that China will strive to maintain reciprocity in negotiations. The Trump administration is very unlikely to back down unless there is significant opposition from US companies or core supporters. The "Rust Belt" swing states that helped Trump win office in 2016 have major exposure to agricultural and energy exports. China appears to have crafted its initial response on tariffs to specifically punish right-leaning states in the US, targeting agricultural products in the tariffs that took effect on July 6th. China also has the potential to hit energy imports if the second wave of tariffs is implemented later this summer.

Trump appears to believe tariffs are a valuable and productive tool of economic policy, and he is likely to continue aggressive behavior to seemingly protect the interests of his support base. Trump's overall approval rating is at its highest point since he took office, and his approval ratings among the Republican voters are sky high. With such a high level of support, Republicans in Congress are likely to stay quiet until midterm elections in November.

Second, expanding tariffs to electronics directly hits US companies (mainly Apple's) supply chains. In the short term, this will be disruptive for Apple and other companies sourcing from Chinese assemblers, but can be possibly beneficial for Korean, Taiwanese and Japanese competitors as someone is going to have to fill the gap. This policy will have the effect of incentivizing China to develop its own semiconductor and related industries that much faster in the medium term.

Finally, the growth-inflation trade-off will likely become less favorable. It may not be meaningful for the whole US economy, but will be for individual companies. Either companies will pass on higher prices of end products to consumers (effectively a consumption tax) or they will look to absorb price increase themselves through lower profit margins; most likely some combination of the two.

Fixed Income Commentary

The upward trajectory in yields reversed course in June as Canada, the EU and Mexico retaliated against the US steel and aluminum tariffs imposed by the Trump administration. Markets feared a global trade war with US tariffs on Chinese goods (and vice versa) set to begin in July as the US ponders expanding its protectionist policies to include levies on imported vehicles and possibly other items. The Bank of Canada remained on hold while the Federal Reserve continued to push US administered rates higher. The Canadian central bank is expected to raise Canadian administered rates but at a slower pace than the US given Canadian economic uncertainty. In this environment, long Government bonds outperformed and Provincials led the broad Canadian bond indexes in returns. Credit spreads widened slightly but the higher yield of corporates allowed them to match the return of the Canada index. Yields rose more on shorter terms so the shorter duration Financials and AA/AAA indexes underperformed. The higher yielding BBB index matched the overall market return.

For the first half of the year, the **GBC Canadian Bond Fund** earned a positive return of 0.71%, slightly outperforming its benchmark, the FTSE TMX Canada Universe Bond Index. A shorter than benchmark duration was unhelpful as long bonds outperformed, however floating rate notes continue to outperform short fixed rate notes on a year to date basis. As usual, security selection was the bigger driver of the result. Strong contributors included mid to long maturities Neder Waterschapsbank, Nova Gas, KFW and Enbridge Gas.

At the end of June, the portfolio yield to maturity stood at 2.9%. With close to 27% of the Fund invested in floating rate notes at the end of the June, the **GBC Canadian Bond Fund** continues to be well positioned should rates continue to rise in 2018. Canso Investment Counsel continues to believe this stance is prudent, as investors are not adequately compensated for duration risk with long Canada bond yields at 2.2%.

The portfolio's floating rate holdings continue to be beneficial and generally outperformed their short-term fixed rate counterparts. Canso Investment Counsel believes this stance is prudent, as investors are not adequately compensated for duration risk with long Canada bond yields at 2.2%. In addition, Canso believes the high-yield market is expensive and the Fund is well positioned to take advantage of opportunities that may arise.

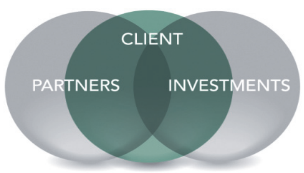
IN THE COMMUNITY

Photo credit: Sgt Johanie Maheu, Rideau Hall © OSGG, 2018

Earlier this month, Ian Aitken, the President and CEO of Pembroke Management, received the **Meritorious Service Cross** from The Governor General of Canada Her Excellency the Right Honorable Julie Payette at the Citadel in Quebec City. For over 30 years, Ian Aitken, who also founded a Canadian charity called Enactus Canada, has inspired young Canadians to become innovative, socially minded entrepreneurs and to tackle real-world issues like food security and sustainable development. His leadership has provided opportunities for thousands of university students to translate their ideas into action and to network with educators, business people and peers in Canada and around the world. As investors in growth companies, Pembroke recognizes the vital role played by entrepreneurs and the importance of fostering the next generation.

Pembroke is the lead sponsor of the **Montreal Highland Games** which take place at the Douglas Hospital grounds in Verdun on Sunday, August 5th. The games will feature pipe bands, highland dancers, and "heavy" athletics - including "putting the stone" and the "caber toss". The Montreal Highland Games have become one of the premier events on the North American highland games circuit. The games are a great celebration of Scottish heritage, suitable for the whole family and are open to everyone. If you would be interested in attending the games as a guest of Pembroke, please contact your representative.

The Firm



ALIGNMENT *of* INTERESTS

Pembroke Management Ltd. was founded in 1968 and is based in Montreal. Pembroke's business and investment philosophy is rooted in the concept of ownership. Owners do what is in the long-term interests of their customers and stakeholders to maximize their own wealth. For this reason, Pembroke will, more often than not, back management teams that either own significant stakes in the companies they manage or whatever they own represents a significant part of their personal wealth. Furthermore, Pembroke tries to not take unnecessary risks in its investment portfolios because the Pembroke partners are large shareholders in the firm's funds. The result is a powerful alignment of interests.

Pembroke is registered as an Investment Advisor in Quebec, Ontario, British Columbia, Alberta, Manitoba, the United States, Denmark and Ireland. The firm manages segregated portfolios for institutional and high net worth clients. Pembroke Private Wealth Management is a subsidiary of Pembroke Management and is a mutual fund Manager and Dealer for the GBC family of mutual funds and the Pembroke family of pooled funds.

Pembroke Private Wealth Contact

For additional information regarding Pembroke Private Wealth Management please call us in Montreal at 514-848-0716 or 800-667-0716 or in Toronto at 416-366-2550 or 800-668-7383, or refer to our website www.pml.ca.

Disclaimer

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July 18th, 2018