Q2

JULY 2019

PERSPECTIVES

On the Road: The Winnipeg Edition

The Canadian prairie provinces are renowned for their fertile soil and position as the breadbasket of the country. For public equity investors, however, the prairies can sometimes be overlooked, with Toronto, Montréal, and Vancouver garnering most of the market's attention. Pembroke has a long history of deploying capital in the prairie provinces. In last quarter's edition of Perspectives, we profiled Solium Capital, a Calgary based software company with global scale that was acquired by Morgan Stanley for C$1.1 billion. In June, Pembroke portfolio managers visited with three portfolio holdings based in Winnipeg: Pollard Banknote, Boyd Group Income Fund, and NFI Group.

On the Road

Pollard Banknote

Pollard Banknote is a leading supplier of instant scratch and pull-tab tickets to lotteries and charitable organizations worldwide. Our first visit to Pollard's headquarters and Winnipeg printing facilities took place in April 2008. At the time, Pollard was a microcap stock facing numerous business challenges: as an income trust it needed to determine its optimal corporate structure, its dividend was high relative to its cash generation capabilities, and its balance sheet carried more leverage than was ideal. Still, we were sufficiently intrigued by Pollard's position as a trusted supplier in a tightly regulated industry and with its strong insider alignment that we kept the company on our radar screen as a potential future investment.

As it turned out, we monitored Pollard for over six years before buying the company's shares in November 2014 in our dividend mandates. We felt the company was poised for growth with the two largest players in the instant ticket industry both distracted by sizable forays into the casino market, which was not of interest to Pollard. Furthermore, the company had righted its financial position by streamlining its cost structure, reducing leverage, and transitioning its dividend to a level appropriate for a corporation rather than an income trust. We believed that the improvement in Pollard's fundamentals was not being reflected in the company's shares, and we initiated a position accordingly.

While it has been over eleven years since our initial visit to Pollard and almost five years since our first investment, we are still excited about the company's prospects. Pollard continues to increase its market share with its customers through innovative game design and development and it has shown an aptitude for making opportunistic acquisitions within the industry.

Boyd Group Income Fund

Boyd Group is one of the largest operators of non-franchised collision repair centres in North America in terms of locations and revenues. Pembroke's first contact with Boyd occurred in the late 90s when one of our portfolio managers, who we will leave unnamed, became a Boyd customer following a minor at-fault accident. We became shareholders of Boyd in March 2013, having previously met management in our Montréal offices and at a conference.

Our first visit to Boyd's headquarters in Winnipeg took place in 2014. CEO Brock Bulbuck's offices were discreetly attached to an auto body repair shop, so there was some initial doubt about whether we had arrived at the right location. The modest office was representative of their philosophy about running the business: operationally focused with an overriding desire to satisfy customers in the most efficient manner possible. This approach has served Boyd well in the auto body repair industry, as auto insurance companies are increasingly concentrating their repair volumes into the hands of players who offer geographic scope and economies of scale without compromising quality. Boyd has posted impressive growth as it gains market share organically and consolidates smaller chains into its fold through acquisitions.

Boyd's operating successes have translated into impressive stock price performance; the company is the best performing stock on the TSX over the past ten years. Despite the heady share gains already garnered to date, we are confident that Boyd continues to have an extended runway for growth, as the industry consolidation trend continues and the company's focus on operation excellence remains unwavering.

NFI Group

NFI Group is a manufacturer of heavy-duty transit buses and motor coaches for the pubic transit and commercial markets. We visited NFI's headquarters and manufacturing facilities in Winnipeg in October 2014 and came away impressed with the organization's lean manufacturing expertise, its strong relationships with its customers, and its leading market position. However, we did not make an investment in the company at the time. In hindsight, we underestimated the company's ability to win market share in the transit space, as well as the acquisition opportunities that the company ultimately pursued.

NFI shares performed very strongly from our visit in late 2014 until early 2018. Since then, the shares have been pressured by fears of a cyclical slowdown within its customer base, as well as a change in ordering patterns from transit authorities as they evaluate zero emission vehicles and plan for their proliferation into the fleets. We took advantage of the pullback in NFI shares to initiate a position in our dividend funds in late 2018, reasoning that cyclical fears are exaggerated given the recession-resilient nature of transit bus demand, and given that the adoption of zero emission vehicles will ultimately lead to an uptick in orders as they become more ubiquitous in the market. Moreover, our most recent visit to NFI's facilities reaffirmed our earlier recognition of the company's excellence in lean manufacturing, from which we believe operational efficiencies will continue to be realized.

Our travels to Winnipeg over a long period of time have yielded investment ideas that dovetail very well with the Pembroke philosophy. Smaller cities can be fertile ground for deploying capital on behalf of our clients, and repeat visits to companies are invaluable, allowing us to mark the progress and evolution of businesses over time. Our June trip to Winnipeg provided us with fresh perspectives on our portfolio holdings, and we look forward to heading on the road as we repeat this style of on-the-ground due diligence in other cities across North America.

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, 2019

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
BRP	26%	11%	24%	4%	6%
Canadian Western Bank	8%	15%	5%	8%	7%
Colliers International Inc.	5%	6%	18%	6%	8%
Kinaxis	5%	19%	75%	13%	17%
Evertz Technologies	8%	5%	6%	6%	11%
Average	**10%**	**11%**	**26%**	**7%**	**10%**

Top Five US Holdings

June 30th, 2019

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
Euronet Worldwide	18%	12%	31%	12%	16%
Stoneridge	9%	-2%	-5%	4%	20%
Albany International	16%	8%	6%	8%	17%
HMS Holdings	9%	8%	33%	8%	12%
Installed Building Products	22%	10%	17%	7%	10%
Average	**15%**	**7%**	**17%**	**8%**	**15%**

Source: Consensus and Pembroke estimates

Overview of the Quarter

Introduction to Canadian and US Commentaries

US and Canadian equity markets rose for a second straight quarter after a difficult end to 2018. The major market indices have posted significant gains for the year. Interest rates continue to fall, with most prognosticators now expecting the US Central Bank to cut rates this year, and important economic indicators such as employment to remain robust. The political backdrop, especially as it relates to the US-China trade war, is unpredictable, contributing to periods of market volatility such as that experienced during the month of May. Pembroke's portfolios have limited direct exposure to China, but certainly a protracted trade war that lowers global economic growth would affect many businesses. For now, the portfolio management team is generally avoiding companies that depend on China to drive their success. More importantly, Pembroke is ensuring that its holdings are well-financed and exposed to secular growth opportunities, positioning them to make reasonable progress even if the effects of the current trade war become more pronounced.

Canadian Portfolio Commentary

Pembroke's Canadian equity portfolios recorded gains in the second quarter of 2019, adding to positive returns generated in the first quarter of the year. While trade frictions, economic growth, and interest rate policies remained topics of concern for investors, growing sentiment that central banks are shifting to a more accommodative world view with their monetary policies led to equity market strength.

From an industry group standpoint, performance was mixed during the quarter. Holdings in the industrial, financial, and real estate sectors were the largest contributors to performance in Q2, while investments in the energy, communications, and technology sectors were the most significant detractors to performance. Pembroke's Canadian equity mandates modestly underperformed the S&P/TSX Composite Index in the second quarter, though they did outpace the S&P/TSX Completion Index and the S&P/TSX Small Cap Index in the same period.

On an individual holding basis, two stocks made significant additive contributions to returns in the second quarter.

Shares in **Lightspeed** ("LSPD"), a software provider equipping small and medium-sized retailers and restaurants with point of sale, customer relationship, transaction processing, and eCommerce platform solutions, performed well in the second quarter following a successful initial public offering debut in March. The company is generating strong revenue growth as uptake with businesses has been impressive. Moreover, Lightspeed seems poised to realize a meaningful step-up in revenue per existing customer as point of sale customers adopt additional features from the Lightspeed software suite, most notably its transaction processing functionality. We remain optimistic regarding the company's long-term prospects and are balancing valuation considerations against growth opportunities when determining the stock's appropriate weight in our portfolios.

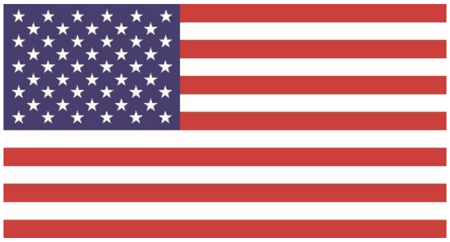
Shares in **BRP** ("DOO"), a manufacturer, distributor, and marketer of recreational powersport and marine products worldwide, delivered strong second quarter gains as investors embraced robust quarterly results that alleviated concerns that cyclical headwinds could negatively impact the business. BRP announced impressive revenue growth, driven by market-share gains and new product innovation. Moreover, the company is well financed, allowing management to opportunistically make strategic acquisitions in the marine space and to engage in share buybacks.

Two stocks posted declines that weighed on performance.

Shares in **Tucows** ("TC") a provider of mobile telecommunication services, domain name services, and fiber optic high-speed internet access, declined in the second quarter as financial results missed expectations due to softness in its Ting mobile business unit. While the results were a setback on a short-term basis, management's track record of deploying capital in a shareholder-friendly manner remains exceptional. Tucows continues to deploy fiber in underserved markets, and we believe shareholders will be rewarded with long-term, persistent, high margin revenue streams that justify current levels of investment.

Shares in **Kelt Exploration** ("KEL"), an oil and gas company focused on the exploration, development, and production of crude oil, natural gas, and natural gas liquids primarily from the Montney geological formation, were weak in the second quarter due to underlying commodity price volatility and weakness in the energy sector. Sentiment towards the Canadian energy complex has been decidedly negative, as infrastructure constraints, uncertainty regarding government policy, and difficult local pricing dynamics have hamstrung domestic producers. Despite these headwinds, Kelt continues to de-risk its Montney acreage, its capital budget is within its means, and it delivers production that generates attractive returns even in the current price environment.

US Portfolio Commentary



The market is characterized by pockets of enthusiasm, particularly in the technology sector, and these pockets have experienced significant valuation expansion. The high valuations accorded to some companies are supported by impressive growth profiles and large market opportunities. In the software space, for example, a new breed of software-as-a-service companies is winning share from large incumbents. Pembroke owns some of these companies and carefully analyzes whether their competitive advantages are sustainable, their revenue is persistent, and their end markets are large enough to support their current market capitalizations. If a holding is less proven or its valuation is high, Pembroke mitigates risk by managing its position size. In many cases, Pembroke has already harvested significant profits from its successful technology investments over the past few years.

At the same time, market volatility creates opportunities to buy good companies at a reasonable valuation. In 2018, for example, many cyclical stocks suffered as investors fretted about a recession.

As valuations compressed, we believed that many companies' stock prices already reflected a recession. Further, our discipline about balance sheets gave us comfort that even if a recession hit, the portfolio holdings would prosper and potentially emerge with more commanding leadership in their markets. During the first half of 2019 the share prices of many of these companies, operating in sectors from home construction to recreational vehicles, have rebounded significantly.

While the investment team continues to monitor high valuations in certain sectors, feedback on demand dynamics from most of our management teams remain favourable. Further, we see strength across a range of industries in 2019, reflecting underlying economic strength. The key to our success will be to marry our excitement about our holdings' prospects to our discipline on valuations and balance sheets.

During the second quarter of 2019, Pembroke's US equity portfolios outperformed their benchmark, adding to the positive absolute and relative performance achieved in the first quarter of the year. Several of the firm's holdings in the industrial and technology sectors posted significant gains during the past three months, whereas one technology holding and another position in the communication services sector were the largest drags on performance. Overall, the portfolio has low debt and attractive growth rates. The portfolio management team continues to monitor valuation levels carefully but sees attractive upside potential if the portfolio holdings continue to achieve their financial and strategic objectives.

The shares of long-time holding **Franklin Covey** ("FC") rose after the company reported strong results in its most recent quarter. A pioneer in the provision of leadership training and content to large corporations, the company has been transitioning a significant portion of its revenue to a highly visible and recurring subscription model. This process has masked the company's impressive fundamental progress over the past two years. Investors are reacting positively now as the company's accelerating growth, profit, and cash flow profile is becoming more evident. Franklin Covey has a strong balance sheet, historically put to work on acquisitions and share buybacks, and a compelling valuation given its prospective growth rate. The share price increase has vaulted the position into a top five holding in Pembroke's US equity portfolios.

The shares of **Installed Building Products** ("IBP"), a leading installer of insulation in the residential housing market, rose in response to better-than-expected housing demand in 2019. The company's first quarter earnings reflected the improving demand backdrop and were consistent with management's promise to raise profit margins after the company wrestled with cost challenges in 2018. IBP continues to implement its acquisition strategy; the market remains fragmented, providing the company with an ongoing opportunity to consolidate the insulation installation market and achieve increased economies of scale. Notably, single family home construction remains well below normalized levels, leaving open the possibility of a meaningful cyclical recovery. Management is encouraged by the lower interest rate environment, which is helping set the stage for a strong housing market to take hold.

Pure Storage ("PSTG"), which provides high performance storage solutions, sold off after the company's second quarter results, which missed consensus expectations for both revenue and earnings. Furthermore, the company modestly lowered its annual guidance which, together with the quarterly results, moved the company into the penalty box with some investors. The company blamed an aggressive ramp in enterprise sales rep hiring and argued that consistent win rates and slightly longer sales cycles made the difference in the quarterly results. The company does not see any change to its technological leadership and noted that it continues to grow at a much faster clip than any of its major competitors. We remain enthusiastic about our investment in Pure Storage for several reasons: 1) PSTG is growing 20-30% faster than their underlying market, 2) its technology advantage remains intact and is potentially widening, 3) key metrics such as subscription revenue growth, deferred revenue growth, and gross margins remain healthy, 4) the company is well-positioned to capitalize on key mega trends such as the increasing adoption of artificial intelligence and machine learning technologies, 5) the risk/reward is very compelling given the company's attractive valuation and strong balance sheet. In brief, we do not believe the company's recent short-term results are indicative of the long-term opportunity.

Boingo Wireless' ("WIFI") stock declined during the past three months after a second consecutive quarter of reported results not meeting investor expectations. Boingo partners with large telecom companies and builds Wi-Fi networks in congested areas such as sports stadiums, helping carriers solve the problem of slow service in these high-traffic areas. The recent financial shortfall was largely a function of accounting optics (i.e., non-cash revenue and earnings being amortized over a longer period than expected) and, to a lesser extent, a mild slowing of growth in the company's core business. Compounding these issues was a stretched valuation after a strong stock price run in 2018 and a new CEO coming in to run the business starting in March of this year. While the Pembroke investment team trimmed the position at higher price levels, it is still very optimistic about the long-term opportunities for growth. The company is now reasonably valued, has strong customer relationships, and is benefitting from a persistent tailwind – specifically, growing mobile data usage.

Pembroke's investment team focuses on identifying well-financed growth companies run by management teams whose interest are aligned with those of outside shareholders. The firm does not spend significant time developing macroeconomic prognostications. Currently, the stock market is benefitting from low and falling interest rates as well as a strong US economy, evidenced by low unemployment. This positive backdrop is in sharp contrast to the negative sentiment, driven by fear of a recession, of late 2018. Generally, the portfolio managers accept that trade tensions, unforeseen geopolitical events, or fears about changes to central bank policies will cause bouts of market volatility, but we pay careful attention to each holding's balance sheet, growth profile, and competitive position. In certain cases, volatility in equity markets is being used as an opportunity to build existing or new positions with unchanged or improving fundamentals while trimming, or selling outright, holdings with greater risk to their prospects. Pembroke is monitoring holdings and sectors whose valuations have expanded and we remain disciplined about balance sheets. We believe the medium to long-term outlook is compelling for patient equity market investors.

Dividend/Balanced Fund Commentary

The **Pembroke Dividend Growth Fund** delivered positive results in the second quarter of 2019, building on the progress made in the first quarter of the year. Markets continue to grapple with trade frictions, the potential for decelerating economic growth, and uncertainty regarding the direction of short-term and long-term interest rates. Still, equity market participants seemed relieved that central banks worldwide are no longer on a path to raise interest rates and are instead evaluating the possibility of easing monetary conditions should growth rates and inflation dynamics prove anemic. In this second quarter rally, the Fund outperformed both the S&P/TSX Composite Index and the S&P/TSX Dividend Aristocrats Index.

From an industry group standpoint, the Fund's performance was largely driven by investments in the consumer discretionary, financial, and industrial sectors. The Fund's energy and communication services holdings delivered negative results for the quarter.

Two stocks were significant detractors to performance in the second quarter of 2019.

Shares in **Tricon Capital Group** ("TCN"), an asset management company investing in residential real estate properties in North America, were weak in the second quarter following the announcement that it will acquire a portfolio of US multi-family rental properties in a transaction valued at US$1.4 billion. We view the deal as attractive as it is accretive to earnings, establishes a complementary asset class to Tricon's existing single-family investments, and broadens Tricon's offerings to providers of third-party capital. Tricon shares had performed well in 2019 prior to the acquisition, but the issuance of $500m in equity to finance the transaction held back their momentum in the second quarter.

Shares in **Enerflex** ("EFX"), a worldwide provider of natural gas compression, oil and gas processing, refrigeration, and power generation equipment, were weak in the second quarter as bookings fell modestly from record high levels reached in previous reporting periods. We do not view the decline in bookings as material to the business, given that the absolute level of project work remains at healthy levels while still allowing the company to deliver work to clients with reasonable lead times. The infrastructure deficit impacting the energy industry has been well publicized, and Enerflex is well positioned to help address the issue.

Two stocks were significant contributors to performance in the second quarter of 2019.

Shares in **Richards Packaging** ("RPI.UN"), a distributor of plastic and glass containers to small and medium sized businesses and a distributor of healthcare packaging and dispensing systems to pharmacies, performed well in the second quarter. Recent results have sported organic growth rates that have been buoyed by market share gains realized by its healthcare packaging practice, and the company is benefiting from positive operating leverage as margins have been expanding with volumes. Richards' dividend is well funded, and the company is maintaining a flexible capital structure to opportunistically take advantage of acquisition opportunities as they arise.

Shares in **Altus Group** ("AFI"), a provider of software, data, and technology-enabled expert services to the global commercial real estate industry, posted gains in the second quarter following quarterly results that exceeded expectations. Moreover, the company is rapidly driving growth in Altus Analytics, its technology segment that is taking hold with clients. Altus' technology practice is moving towards cloud-based provisioning and is increasingly leveraging data analytics for its clients; these are businesses that we believe have the potential to drive accelerated growth rates, healthier margins, and higher valuation multiples as they gain traction.

Pembroke's domestic balanced portfolio, the **GBC Growth and Income Fund**, gained in the second quarter of 2019 driven by the equity portion of the portfolio which is represented by the holdings of the **Pembroke Dividend Growth Fund**. Equity returns in the second quarter were strong as risk premiums narrowed with improving investor confidence.

The fixed income portion of the Fund, represented by the **GBC Canadian Bond Fund**, advanced during the quarter, driven by a generally declining interest rate environment. These gains were additive to the overall return of the mandate while providing diversification from equity market volatility.

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 3.52%, 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 2.5% and an adjusted portfolio duration of 5.4 years. The asset mix of Pembroke's balanced mandate did not change materially through the year, with approximately 29% of the portfolio invested in fixed income securities at June 30, 2019.

Pembroke Concentrated Fund ("PCF") Commentary

Pembroke launched PCF earlier in 2019 as a high conviction, concentrated fund whose aim is to provide enhanced returns to our investors, albeit with the potential for increased volatility. PCF is a 12-18 stock fund whose stocks are selected from existing holdings in Pembroke's US and Canadian funds. The PCF holds primarily US-listed securities with some Canadian exposure. As we are selecting existing holdings, we follow the same investment philosophy and approach that has guided Pembroke for over 50-years. We recognize, however, that different risk management requirements exist for a 12-18 stock portfolio than for our traditional 40-50 stock portfolios. In PCF we, thus, pay special attention to reducing binary risk, minimizing large draw-downs, and focusing on key business-critical quality metrics.

Our approach with PCF is yielding promising early results, the strategy has generated both positive absolute and relative returns and is ahead of the Russell 2000 year to date, 2nd quarter to date, and since inception (January 31st, 2018).

While we are encouraged by the performance thus far, we recognize that 17-months is a short period for a 50-year old firm. We intend to remain disciplined in managing PCF and look forward to updating you more in the future. For more information, please contact your Pembroke Private Wealth Management representative.

GBC Global Balanced Fund

On April 8th, 2019, Pembroke launched the **GBC Global Balanced Fund**. The Fund is designed to offer broad diversification by region, by asset class, and by factor risk (small cap and large cap factors). The managers use a rebalancing program to keep the Fund's intended exposures in place, drawing capital from asset classes when they exceed the targeted weight, and directing capital to asset classes when they fall below the intended weight.

The target weights are 70% equity (stocks) and 30% fixed income (bonds). The equity allocation is split between Canada, the United States and non-US international markets. The Fund employs both active investment strategies, like Pembroke's internally managed investment funds (that seek to add excess return above an index or benchmark) and passive investment strategies, such as exchange traded funds (ETFs), that seek to replicate the returns of an index or benchmark. The target ratio of active to passive strategies is 80% active to 20% passive. The bond allocation is 100% actively managed. The equity allocation uses active investment strategies in less efficient segments of the market including small cap companies, emerging market companies, and certain sections of large cap markets where information discrepancies or differing time-horizons may result in information asymmetries. In more efficient market segments, like large, actively-traded stocks in developed markets, ETFs are used to gain exposure at the lowest cost.

The **GBC Global Balanced Fund** uses an approach which has been adopted by many endowments, foundations, and sovereign wealth funds for long-term wealth creation. The Fund is designed to be a core holding for our private clients. For more information, please contact your Pembroke Private Wealth Management representative.

International Commentary

The **GBC International Growth Fund** outperformed the MSCI ACWI ex-US Small Cap Index for the quarter ended June 30, bolstered by favorable stock selection across most sectors.

From a sector perspective, the Fund's overweighting and stock selection within the information technology sector contributed significantly, led by software holdings. Globant, a top contributor to quarterly performance, is a pure-play IT service provider in Latin America that focuses on emerging technologies in fast-growing segments such as social media, analytics and cloud. It combines the engineering talent and technical rigor of an IT service provider with the creativity and innovative culture of digital agencies. Globant is different from the traditional IT service providers because it purely focuses on revenue-generating activities and enriched end-user experiences, as opposed to cost cutting.

Financials stock selection was also positive, bolstered by Euronext — a leading pan-European exchange. It is primarily an equity-focused exchange with 60-65% market share in key markets (France, Netherlands, Portugal, and Belgium). Around 45% of its revenue is generated from recurring, non-transaction businesses. Management's operational execution has been solid with significant cost savings and margin expansion since the IPO in 2014. Through its "Agility for Growth" strategic plan, the company seeks to increase growth in non-transaction areas such as data and to further build its derivatives offering. A strong balance sheet (net cash) provides significant optionality through bolt-on or larger merger and acquisition transactions to deliver revenue diversification and accelerate growth.

Strength within the Industrials sector was supported by Localiza Rent a Car, a leading car rental company in Latin America. The company reported 25% revenue growth and 16% EBITDA growth for calendar year 2018, bolstering the share price. The quarter was led by strong performance in both the car and fleet rental divisions.

These contributors were partially offset by negative stock selection within the real estate and consumer staples sectors. Within real estate, French property development company Nexity's share price weakened on management's guidance for softer revenue growth in its commercial real estate business. Housing market conditions remain supportive, with solid new home sales trends and stable mortgage rates. Within consumer staples, UK beverages company Fevertree Drinks detracted from performance. The share price softened on expectations for decelerating growth in the UK market following robust performance in 2018. The US and European businesses continue to accelerate nicely and should be able to grow several-fold in the coming years as Fevertree expands distribution while maintaining its premium price position.

Fixed Income Commentary

The bond market continued to focus on warning signs of a slowing economy in the quarter. The US Federal Reserve appeared to be doing so as well, and futures markets priced in a very high probability of a rate cut from the Fed. Yields declined and credit spreads tightened so that corporate bonds outperformed. Equity markets focused on lower interest rates rather than an economic slowdown and continued to rise to new heights.

Lower yields led the FTSE Canada Index to a 1.6% return for the quarter. Yields fell even more on Provincial and Corporate bonds as the ongoing stretch for yield ran into lower new issuance so that spreads narrowed, and the FTSE Provincial and Corporate Indexes returned 3.4% and 2.7% respectively in the period. Spreads tightened the most with longer duration bonds so that the FTSE Corporate A Index returned 3.4% versus 2.9% for the BBB index. For the most recent year, Corporate bonds have outperformed Canada bonds by 7.2% versus 6.1%.

GBC Canadian Bond Fund

The **GBC Canadian Bond Fund** posted positive returns in the second quarter of 2019, slightly behind the FTSE Canada Universe Bond Index. Some relative underperformance came from the Highway 407 bonds; however, this was offset by healthy spread narrowing and price appreciation in Apple and NAV Canada. The shorter duration of the Fund detracted from performance as yields continued to fall. Additionally, the Fund has a higher quality bias which suppressed returns in the period as spreads narrowed. The floating rate note exposure contributes to the Fund's duration being 2.6 years shorter than the benchmark duration of eight years, yet it provides a very attractive yield for the Fund.

Canso continues to believe that the shorter duration positioning of the Fund is prudent as it will be very protective in a rising rate environment. Although the Fund is shorter in duration, it maintains a yield of 2.5% which is approximately 0.4% above the yield of the benchmark index.

GBC Corporate Bond Fund

The **GBC Corporate Bond Fund**, previously known as the Pembroke Corporate Bond Fund, posted positive returns in the second quarter of 2019, slightly behind the benchmark. The Fund benefited from strong performance in issues such as General Electric, SNC Lavalin and Ford, however issues such as Bombardier and Teva Pharmaceuticals detracted from performance. Additionally, the Fund suffered from its shorter duration in a period of falling yields. As at quarter end, the Fund had approximately 60% invested in floating rate issues. The floating rate securities have very attractive yields and contribute to the low duration of 1.2 years, which is significantly shorter than the index duration of 6.6 years. The Fund is positioned in investment grade floating rate securities with higher yields than comparable fixed rate issues, which support the Fund's yield of 3.2%. This yield is approximately 0.50% higher than the index, while the Fund has significantly shorter duration. Canso believes this positioning is prudent given the significant downside of a longer duration fund.

Fixed Income Outlook

Both Funds are positioned with measurably lower duration than their respective benchmarks with significantly less interest rate risk. This is accomplished while maintaining yields above that of their respective benchmarks and with high quality liquid positions. The high-quality positions will provide liquidity for the managers to take advantage of opportunities that present themselves. We believe this defensive positioning is prudent given the minimal compensation currently being paid to investors for lending to less creditworthy business.

Business Update

Client Portal Update

Based on feedback from our clients, we have made a number of changes to the Pembroke client portal:

1. We are in process of loading monthly account statements under the "Reports" section of the portal. The monthly statements are only available on the portal and we will continue to send the quarterly statements by mail. Clients will now be able to see the **Book Value** and **Market Value** of their investments, as of the last business day of each month.

2. We have also improved the way in which funds denominated in US currency are displayed so that the total Canadian dollar value of your account will now appear.

We appreciate the feedback that we receive regarding all aspects of our business and encourage you to let us know if you have any comments or suggestions.

Pembroke In the Community

Pembroke is the lead sponsor of the Montreal Highland Games which take place at the Douglas Hospital grounds in Verdun on Sunday, August 4th. 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.

Nicolas Chevalier, Partner & Portfolio Manager, was President of the organizing committee of the Fondation Jeunes en Tête's golf tournament held at the Elm Ridge Country Club on June 10th. A total of $403,000 was raised for the Foundation whose mission is to help prevent psychological distress among youth aged 11 to 18 in Quebec.

Committee members at the 2019 Fondation Jeunes en Tête's Golf Tournament

Hanan Diab, Associate, Business Development, raised money for "Course pour les Femmes PHARMAPRIX AIMEZ. VOUS." which took place on June 15th and benefitted the Montreal General Hospital Foundation. The funds raised went towards programs for women with anxiety, depression and borderline personality disorder.

Kate Charf, Associate, Operations & Fund Accounting, raised money for Scotiabank's run benefitting the CHU Sainte-Justine Foundation on April 27th. The mission of the Foundation is to provide children with the greatest care possible.

Maggie Pagonis, Director of Finance, co-chaired the Hellenic Ladies Benevolent Society's annual Ilios Gala, held at the Windsor Ballrooms in Montreal on May 31st. The event, which supports their Summer Camp Program and Educational Assistance Program, raised $75,000, ensuring a positive and successful year for many children in need within the Hellenic community of Montreal.

Committee members at the 2019 HLBS Ilios Gala

Members of the Toronto team visited The Covenant House on June 10th to provide a donation of $2,500 as part of our commitment to giving back to the community. The Covenant House provides daily services to homeless youth in need.

Members of the Toronto team presenting a cheque at The Covenant House

PEMBROKE

INNOVATION > INSIGHT > GROWTH

SINCE 1968

The Firm

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.

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.

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