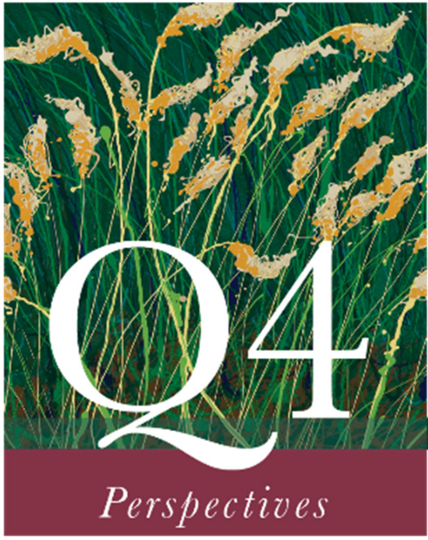

PEMBROKE
Serving Private Clients and Institutions

January 2019

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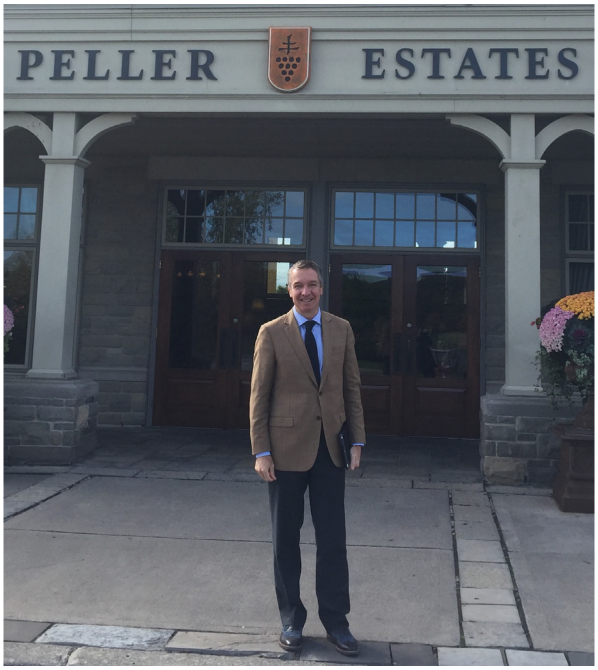
ON THE ROAD AGAIN: PELLER ESTATES

"This is a third-generation family business", said an enthusiastic Chairman John Peller as he proudly told the story about how his grandfather had left his native Hungary to immigrate to British Columbia and start the family winery.

Since opening the first winery in BC's Okanagan Valley in 1961, Andrew Peller Limited has grown to become the largest British Columbia quality VQA wine producer. They now account for 23% of the provincial market and are the second largest producer and marketer of wines in Canada. Its Niagara-on-the-Lake estate winery is the most visited in North America and the world-renowned Peller Icewines are distributed in over 50 countries.

Wine consumption has consistently grown faster than gross domestic product in Canada, to the detriment of beer which has been in a decade-long decline. Sales of Canadian-produced wines have been growing even faster with their ever-improving quality and the help of provincial legislation aimed at supporting the industry. A newly introduced Ontario-government law permitting an increasingly large number of grocery stores to sell wines will put a premium on branded wines.



Nicolas Chevalier, Partner & Portfolio Manager on-site

John Peller and his physician brother Dr. Joseph Peller are both directors of the corporation. Each has a son involved in the operations. John says the family is committed to the wine business and hopes it will remain involved for several generations. The Peller family owns 14% of all shares outstanding. John is quick to point out, however, that he will recruit the required talent from outside the family as required to move the company forward. To that end, Peller named consumer brands veteran Randy Powell as President of the corporation in 2016.

Under Randy's leadership, Andrew Peller Limited has pruned the number of brands it carries from 75 to 45. The goal is to focus the corporation's marketing budget behind such premium and ultra-premium brands as Peller, Trius, Thirty Bench, Sandhill and Wayne Gretzky Estates. In the fragmented wine industry, where consumers have a hard time differentiating one product from the next (what's the difference between these four Chardonnays?), brand equity is influencing consumer decision-making towards Peller's product portfolio. The strategy is delivering results in the form of greater market share and higher margins. With a growing marketing budget, Peller is distancing itself from it's smaller rivals. Recognizable brands bring high volume sales. This is precisely what grocery stores want to carry on their valuable shelf space.

The company raised its dividend by 14% in June, reflecting the growth in the business and management's confidence about the future. The increase was the fifth in five consecutive years. With a low dividend payout ratio and growing profits, the streak will likely endure for a few more years. It is worth noting that the company has been paying a dividend consistently since 1979.

Andrew Peller has the wind at its back with sales and earnings growing in the mid-teens on a year-to-date basis. Yet its stock price is off 25% in the last four months alone. The contraction in the stock's valuation is consistent with the decline seen in other stocks, particularly small cap stocks. It reflects investor fears of a potential economic recession. The past has shown that predicting economic cycles is not a winning strategy in the investment world (more on this below). Few investors have consistently identified the turning points in the economy. At Pembroke, we prefer to focus on the individual companies and invest in those that can grow through a full cycle. In the past, wine industry sales have proven to be resilient to declines in gross domestic product. As such, Andrew Peller Limited's business should prove to be more defensive than most.

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

Dec. 31st, 2018

Company	Q4 Price Change (CAD)	Revenue Growth, Current Fiscal Year	EBITDA Growth, Current Fiscal Year	Revenue Growth, Next Fiscal Year	EBITDA Growth, Next Fiscal Year
Badger Daylighting	9%	19%	26%	13%	15%
Solium Capital	4%	33%	53%	19%	68%
Kinaxis	-32%	25%	53%	21%	25%
Westaim Corporation	-20%	65%	NM*	1%	72%
Stella-Jones	-8%	12%	5%	4%	20%
Average	**-9%**	**31%**	**34%**	**12%**	**40%**

Top Five US Holdings

Dec. 31st, 2018

Company	Q4 Price Change (USD)	Revenue Growth, Current Fiscal Year	EBITDA Growth, Current Fiscal Year	Revenue Growth, Next Fiscal Year	EBITDA Growth, Next Fiscal Year
Carbonite	-29%	26%	NM*	11%	10%
Euronet Worldwide	2%	13%	25%	14%	23%
National General Holdings	-10%	0%	102%	13%	20%
HMS Holdings	-14%	15%	58%	8%	9%
Albany International	-21%	14%	47%	10%	9%
Average	**-14%**	**14%**	**58%**	**11%**	**14%**

Source: Consensus and Pembroke estimates

**Not meaningful*

Overview of the quarter

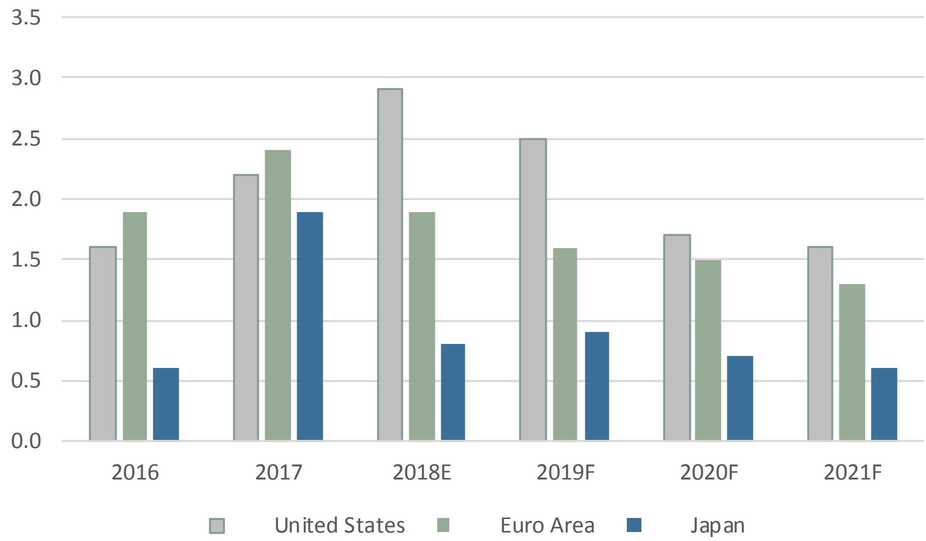
Introduction: A Recession? Does the Market Know Something We Don't? Does It Matter Anyway?

In the fourth quarter of 2018, equity markets around the world suffered sharp declines. Even the S&P 500, which had shown resilience despite political and economic concerns abroad, fell into bear market territory (down more than 20% from its highs) on the 26th of December. American small and mid-cap companies, seen by some investors as a refuge, due to their lower exposure to foreign markets, also succumbed to selling pressure and the Russell 2000 Total Return Index fell 20.2% in the final three months of 2018. Canadian equity markets were similarly hit, as both supply and demand concerns rocked oil prices. The investment word felt a lot better in August of 2018. How quickly things can change! We'll come back to that idea momentarily.

From a macroeconomic standpoint, the big question hanging over the markets seems to be whether central bank monetary tightening, the US-China trade war and political uncertainty in the UK will finally drive the US and Canadian economies into a recession. The stock market seems to be predicting a recession, but then the stock market has predicted many recessions that have not transpired. Citing research by Bespoke, CNBC writer Patti Domm explains that of the 13 times the S&P 500 has declined 20% or more since World War II, eight of those instances have overlapped with a recession. In a bit of fun with numbers, however, Bespoke points out that of the five other times the S&P 500 has fallen 19% or more (but not quite 20%), a recession has occurred only once. Therefore, since World War II, of the 18 times the market has declined 19% or more, half of those have overlapped with recession and half have not.

Many economists are not predicting a recession for the US or Canada. A consensus of economists polled by Bloomberg currently expect Canada's real gross domestic product growth to slow from 3.0% in 2018 to 1.9% in 2019 and 1.7% in 2020 and put the probability of recession at 20%. The Bloomberg consensus real gross domestic product forecast for the US is for it to decelerate from nearly 3.0% growth in 2018 to 2.6% in 2019 and 1.9% in 2020 with the probability of recession also at 20%. The World Bank, who recently published a dire sounding report ("Darkening Skies") forecast growth rates of over 1.5% in the US for 2019 and 2020 (Exhibit 1).

Exhibit 1: World Bank GDP Growth Projections



Source: The World Bank, Global Economic Prospects, Darkening Skies, January 2019

With conflicting signals from the markets and the economists, and no crystal ball, we do what we have always done: focus on company-level fundamentals, balance sheet strength, and long-term growth opportunities rather than engaging in a debate about whether the current market decline will precede a recession or not.

Invest for the long-term. Don't try to time markets. Diversify.

Market declines like the one in the fourth quarter of 2018 are often fast and furious, quickly "pricing in" a recession and making it an inopportune time to sell. Our co-founder Ian Soutar used to say: "It's time in the market, not timing the market." Historical data supports his assertion. National Bank ranked quarterly performance numbers for the S&P/TSX Composite going back to 1969 (Exhibit 2). The exhibit shows that if you held the index following any of its ten worst quarters, the next three and five-year annualized returns were positive in every instance. In only once case (Q3 1981) would a holder of the index have lost money in the following year (Exhibit 2).

Exhibit 2: Equity Returns following the 10 worst quarters of Performance (Canada)

Canada
S&P/TSX Total Return Index (Period: Jan. 1969 to Sep. 2018)

10 Worst Quarters	Performance	Following Quarter	Following Year	Following 3 Years (Annualized)	Following 5 Years (Annualized)
Q3 1998	-23.5%	16.0%	25.9%	8.3%	7.4%
Q4 2008	-22.7%	-2.0%	35.1%	13.2%	11.9%
Q3 1981	-19.4%	5.1%	-10.4%	13.1%	14.0%
Q2 1970	-18.6%	13.2%	27.5%	15.9%	9.3%
Q4 1987	-18.3%	5.7%	11.1%	4.7%	4.9%
Q3 2008	-18.2%	-22.7%	0.1%	2.7%	4.8%
Q1 1982	-17.7%	-12.7%	42.6%	23.0%	23.2%
Q3 1974	-16.5%	2.9%	23.2%	11.7%	21.8%
Q2 1974	-16.1%	-16.5%	10.0%	5.9%	15.4%
Q1 2001	-14.5%	2.1%	4.9%	6.0%	11.7%
Average	**-18.6%**	**-0.9%**	**17.0%**	**10.5%**	**12.4%**

Source: National Bank, Datastream

Furey Research Partners conducted a very similar research project for the US small cap market (Exhibit 3). Again, investors have generally been better served by remaining patient, calm, and focused on the long-term during times of equity market stress.

Exhibit 3: Equity Returns following the 10 worst quarters of performance (US Small Cap)

United States
Worst Small-Cap Quarterly Returns (Period: 1940 to 2018)

10 Worst Quarters	Performance	Following Quarter	Following Year	Following 3 Years (Annualized)	Following 5 Years (Annualized)
Q2 1970	-29.9%	28.4%	60.0%	5.5%	7.8%
Q4 1987	-29.1%	19.1%	25.0%	5.4%	15.1%
Q4 2008	-26.1%	-15.0%	27.2%	15.6%	20.1%
Q3 1990	-24.5%	5.1%	45.1%	28.2%	21.7%
Q3 1946	-24.3%	2.5%	-1.3%	0.8%	13.1%
Q2 1962	-24.0%	2.9%	25.5%	16.5%	21.2%
Q3 2011	-21.9%	15.5%	31.9%	21.3%	15.8%
Q2 1940	-21.7%	12.0%	15.2%	29.3%	30.6%
Q3 2002	-21.4%	6.2%	36.5%	24.1%	18.8%
Q3 2001	-20.8%	21.1%	-9.3%	13.7%	13.8%
Average	**-24.4%**	**9.8%**	**25.6%**	**16.0%**	**17.8%**

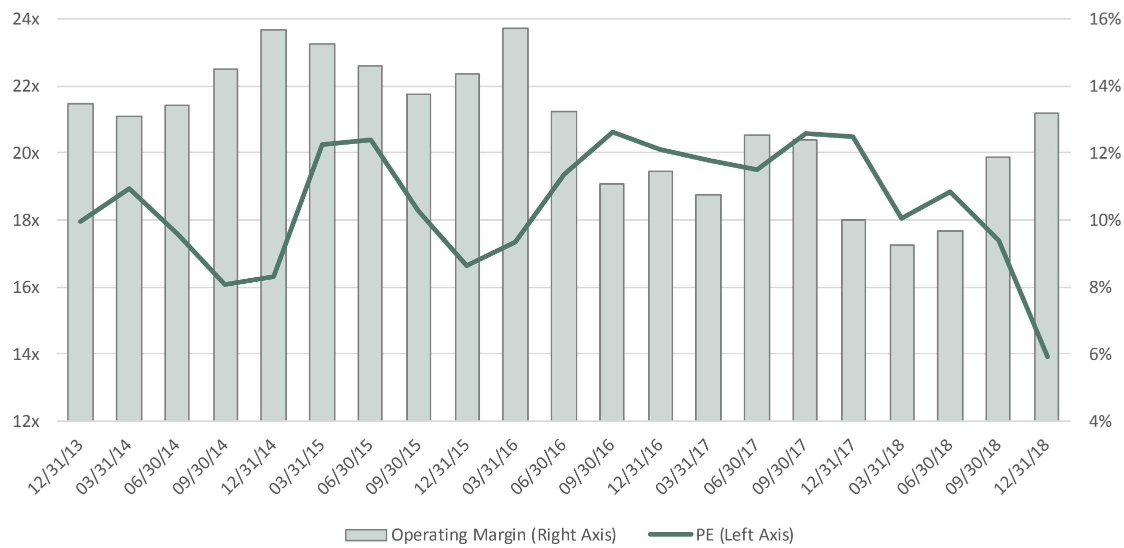
Source: Furey Research Partners

Past performance is not a guarantee of future performance and there are never "sure-things" in investing. But the historical performance data provides context and a frame of reference. Markets have fallen sharply before; looking at past periods reminds us that legitimate investor anxiety and sharply falling stock prices can represent opportunity for the long-term investor. Remember our comment that things can change quickly in the opening paragraph? As dark as equity markets feel now, they have the potential to move quickly in the other direction. Even more importantly, over three to five years, they have moved significantly higher in the past after meaningful declines (Exhibits 2 and 3).

The opportunity presented by bear markets comes from an attractive combination of growth and valuation. During sharp market downturns, the valuations of many securities contract and provide an attractive base from which to rise in the future. If combined with earnings growth, the recovery in valuation multiples can lead to meaningful stock price appreciation. Pembroke thinks about profit growth, when combined with valuation expansion, as a double play. With that in mind, let's examine our portfolios.

The quarterly operating profit margin of the Canadian portfolio's companies in the most recent quarter is very healthy and the fund's average price to earnings ratio (PE) is the lowest it has been in five years (Exhibit 4). That conspicuous gap translates to a double play if the earnings continue to grow and the PE ratio recovers. Our job is to create a portfolio of companies that will continue to grow. In recent months, we have reduced the number of names in the portfolio and increased the quality of the holdings. We are very happy with the results. The fund now owns 47 companies with a weighted average market capitalisation of C$1.5 billion (for comparison, the market capitalisation of the Royal Bank of Canada is C$135 billion). The weighted average return on equity of the companies is 13.5% and the weighted average net debt divided by the next twelve months of earnings before interest tax and depreciation (EBITDA) is just 0.3x. Weighted average insider ownership is 12.5%. The median sales growth forecasts for our companies (collected by a consensus of analysts reporting to Bloomberg) is 13%. What these numbers all add up to is a portfolio of what we believe are some of Canada's best small-sized, fast-growing, profitable public companies with very little debt and meaningful insider ownership trading at low valuations.

Exhibit 4: Canadian Portfolio Valuation and Profitability



Source: Bloomberg. PE based on Bloomberg estimated forward 12 months EPS

We have been equally busy with our US portfolio in which the number of holdings is now 43. The weighted average market capitalisation is US$2.4 billion. The median sales growth forecasts for our companies (collected by a consensus of analysts reporting to Bloomberg) is 13.7%. The weighted average net debt divided by the next twelve months of EBITDA is just 0.1x. Weighted average insider ownership is 9.7%.

Some of these characteristics are shown in Exhibit 5 for the top 20 holdings in our US portfolio. The holdings account for over 63% of the weight of the fund. What the table shows, using historical data and consensus analyst forecast data from Bloomberg, is that our top 20 US holdings are expected to grow sales and cash earnings at double digit rates while carrying little or no net debt. They are heavily owned by their insiders (typically founders and senior executives) and they are owned in meaningful positions by us (typically about a 3% weight). With such characteristics, and valuations that have come well off recent highs, the US portfolio also has numerous opportunities for double plays.

Exhibit 5: Selected Characteristics of Top 20 Holdings of US Small Cap Growth Strategy

Holding	Weight	Est. Revenue Growth	Est. EBITDA Growth	EV / Est. EBITDA	Net debt / NTM EBITDA	Inside Ownership
Carbonite Inc	4.65%	15.5%	36.0%	8.4x	-0.9x	6.4%
HMS Holdings Corp	3.71%	8.8%	8.8%	14.8x	0.7x	2.3%
Albany International Corp	3.63%	14.5%	9.6%	9.2x	1.4x	12.9%
Euronet Worldwide Inc	3.88%	17.0%	23.4%	8.3x	-0.4x	4.2%
National General Holdings Corp	3.76%	9.9%	NA	NM	NM	40.1%
Axos Financial Inc	3.37%	-4.0%	NA	NM	NM	6.8%
Boingo Wireless Inc	3.55%	22.3%	16.5%	8.3x	0.1x	2.1%
HealthStream Inc	3.42%	3.0%	5.0%	14.2x	-4.1x	20.1%
Pure Storage Inc	3.26%	35.6%	39.0%	16.7x	-3.7x	20.5%
Gentherm Inc	3.09%	7.0%	14.5%	8.6x	0.3x	1.1%
Stoneridge Inc	3.16%	3.6%	6.4%	6.5x	0.4x	2.6%
WNS Holdings Ltd	2.87%	7.8%	6.3%	10.6x	0.0x	2.0%
MGP Ingredients Inc	3.07%	11.6%	18.9%	14.4x	0.6x	22.1%
PetIQ Inc	2.28%	27.6%	26.5%	15.5x	2.1x	4.1%
Premier Inc	2.81%	4.5%	5.7%	8.5x	-0.1x	1.9%
Healthcare Services Group Inc	2.66%	7.4%	17.3%	17.2x	-0.5x	0.5%
Green Dot Corp	2.79%	13.2%	15.5%	10.7x	-4.3x	8.4%
Franklin Covey Co	2.69%	11.2%	42.6%	14.9x	1.5x	10.8%
Installed Building Products In	2.62%	14.2%	12.3%	7.6x	1.7x	35.4%
Upland Software Inc	2.42%	43.4%	32.3%	10.5x	2.0x	11.6%
Total	**63.7%**					
Median	3.12%	11.4%	16.0%	10.5x	0.2x	6.6%
Average	3.18%	13.7%	18.7%	11.4x	-0.2x	10.8%
Russell 2000	**N/A**	**2.49%**	**N/A**	**10.32x**	**2.77x**	**N/A**

† Based on Gross Performance Data

Source: Bloomberg

Canadian Commentary

Pembroke's Canadian equity portfolio posted significant declines in the fourth quarter of 2018. Risk aversion and volatility intensified during the period as investors became concerned about slowing global economic growth, rising interest rates, and the fallout from worsening trade frictions. Smaller capitalization stocks trailed larger cap stocks in this environment, and Pembroke's Canadian equity mandates lagged the S&P/TSX Composite Index by a wide margin.

The selloff was broadly based, with almost all industry groups experiencing losses in the quarter. Pembroke's investments in the energy sector were hardest hit, though investments in the consumer, financial, and industrial sectors also showed material weakness in the quarter.

Shares in **Tucows** ("TC"), a provider of mobile telecommunication services, domain name services, and fiber optic high-speed internet access, gained during the fourth quarter of 2018. The company has been harvesting cash flow from its mature domain registry business and reinvesting the capital into its Ting Mobile and fibre internet service offerings. These growth businesses have high returns on capital and provide shareholders with visibility into future revenue and cash flow growth.

Shares in **Badger Daylighting** (“BAD”) were resilient in the falling market. This resiliency can be attributed to strong third-quarter results and news that the company was approached during the summer about potentially being acquired by another public company. The latter information gave investors reason to believe that a strategic buyer saw value in BAD that was not being properly reflected in the company’s share price. BAD provides precise soil-digging services to a wide range of customers including industrial, utility and energy companies. Potentially dangerous gas pipelines or utility wires can be buried underground next to other infrastructure. To avoid explosions or electrocution, careful soil extraction methods are a necessity when excavating in these areas. The US market is years behind Canada in terms of adopting BAD’s techniques, providing the company with a multi-year runway for growth. Pembroke is excited about the company’s strong record and growth potential. BAD is currently Pembroke’s largest holding in its Canadian portfolios, reflecting the company’s reasonable valuation and strong fundamentals.

Shares in **Tamarack Valley Energy** (“TVE”), an oil and gas company focused on production in the Cardium and Viking light oil reservoirs in Alberta and Saskatchewan, were weak in the fourth quarter of 2018 as the confluence of falling global oil prices and constraints on local pipeline and processing capacity weighed on investor sentiment. While the subdued pricing environment will impact near-term production and cash flow generation, Tamarack is well positioned to persevere through the downturn with its strong balance sheet, low cost assets, hedging discipline, and experienced management team. Moreover, infrastructure constraints will ease in 2019 as new pipeline systems come online, refining capacity returns from maintenance, and crude by rail volumes ramp up.

Shares in **Kinaxis** (“KXS”), a leading provider of supply chain management software, declined after the company lowered revenue growth guidance for 2018. KXS has been a successful holding for Pembroke since its purchase in 2015. The company is growing quickly while delivering high profit margins. When Pembroke bought the stock, the investment team was attracted to the company’s compelling financial record, leading technology, and history of Fortune 500 customer wins. At the same time, KXS sells disruptive technology, which leads to elongated and thorough customer purchasing decisions. The result of this long sales process is that the signing of new customers can be lumpy. The benefit of that process is that once implemented, KXS’ solutions become entrenched in the day-to-day operations of large companies. There is no indication that the competitive landscape has changed for KXS or that its leadership position is under near-term threat. Pembroke used the dislocation in KXS' share price to build its position in the company, which the investment team considers one of Canada's highest-quality growth companies.

US Commentary

Pembroke's US portfolio declined in the fourth quarter after posting strong results through the first nine months of 2018. While the portfolios largely held their relative gains against the Russell 2000, the absolute declines were significant. Even companies immune to overseas macroeconomic risks (such as US-China trade tensions) and armed with strong fundamental records experienced stock price declines as valuations compressed across every major sector. Fear of a recession turned quickly into "fear of the stock market" as investors headed for the exits, resulting in the S&P 500's worst Christmas Eve ever. Pembroke's investment team views the long-term opportunity of its US positions as intact despite near-term headwinds. In many cases, the management teams of Pembroke's holdings have not seen trade tensions, political uncertainty in Europe, or central bank activity manifest in falling demand for their products or services. In fact, some businesses help their customers save money and increase efficiency and might benefit from a more difficult economic environment. Even if short-term growth expectations are reigned-in, valuations are compelling even assuming reduced growth.

Shares in **Vocera Communications** ("VCRA"), which provides technology solutions to hospitals, gained more than 30% over the course of 2018. Even in the fourth quarter, the stock managed to rise slightly. VCRA sells modern communications systems that increase patient safety, drive employee satisfaction, help hospitals comply with patient privacy regulations, and leverage the major technology investments hospitals have made in electronic medical records. In many hospitals, doctors and their staff still interact via overhead paging systems and/or traditional pagers, providing fertile hunting ground for Vocera. The company is only in about 20% of US hospitals and can cross-sell more services into its existing customer base. VCRA is delivering an attractive combination of growth and profit margin expansion. The company has a strong leadership position in an exciting growth market.

Boingo Wireless ("WIFI") is a company that has previously appeared in our commentaries and has been one of the largest positions in our US portfolios due to strong execution, higher-than-expected growth, and valuation expansion. WIFI is positioned to benefit from dramatic increases in wireless data consumption by acting as a partner to major US carriers looking for economic solutions to provide consistent service in sports stadiums, airports, and train stations. While Pembroke maintains its conviction in the company's market position and the long-term earnings stream associated with current and upcoming system installations, the stock fell sharply after reporting a sequential slowdown in its revenue growth rate in the third quarter. Following the quarterly report, we revisited our thesis and financial projections and decided that WIFI remains a long-term growth company that merits a significant portfolio weight. While third quarter results were slightly disappointing, WIFI continues to grow at a healthy rate and management increased profit guidance for the fourth quarter, demonstrating the leverage in the business model. WIFI has a strong balance sheet, attractive growth profile, and reasonable valuation, providing a strong base for the stock to rise over the coming years.

Balanced Fund Commentary

Pembroke's balanced portfolio, the **GBC Growth and Income Fund**, suffered a sharp correction in the fourth quarter of 2018. Declines were driven by the equity portion of the portfolio. The dividend fund's results were impacted by broad-based equity market weakness and underperformance of smaller capitalization stocks.

The correction was wide in breadth, with all industry groups represented in the fund declining during the quarter. Holdings in the communication services, materials, consumer, and industrial sectors were the hardest hit, whereas technology investments experienced shallower declines.

Two stocks were significant detractors from performance in the fourth quarter of 2018.

Shares in **Hardwoods Distribution** ("HDI"), a distributor of decorative architectural building products in North America, were weak in the fourth quarter as investors digested softening housing data and negative margin pressures resulting from US trade policies targeting certain Chinese hardwood imports. Despite these headwinds, Hardwoods continues to deliver modest organic revenue growth and is pursuing acquisition opportunities. Moreover, margin normalization is expected to materialize in 2019 as the industry adjusts to the trade frictions of 2018. HDI shares trade at an attractive valuation both on an absolute basis and relative to peers.

Shares in **Sleep Country Canada** ("ZZZ"), a specialty retailer selling mattresses and sleep accessories across Canada, declined in the fourth quarter as same-store-sales growth failed to meet market expectations and raised concerns about the impact of rising interest rates on housing activity and related consumption. Despite slower same-store-sales, other vectors of profit growth such as new store openings, market share gains, and margin expansion, remain intact. The company is conservatively financed, its dividend is well funded, and valuation metrics are attractive following the correction.

Two stocks were significant contributors to performance in the fourth quarter of 2018.

Shares in **Badger Daylighting** (“BAD”), an environmental services company specializing in non-destructive hydro excavation services, rallied in the fourth quarter buoyed by quarterly results that exceeded analyst expectations and financial guidance for 2019 that was viewed positively by investors. Badger has invested in the expansion of its fleet and diversified its geographic and end-market exposure, which has in turn led to an attractive earnings growth profile. Moreover, the company disclosed that it received an unsolicited offer to be acquired earlier in 2018. The proposal highlights that there may be value to the company’s operations that has not been fully recognized by public markets.

Shares in **Gildan Activewear** (“GIL”), a manufacturer of clothing such as t-shirts, sport shirts, fleeces, socks, and undergarments, posted gains in the fourth quarter of 2018 as investors reacted to the announcement of a new contract win in its private-label operations as well as financial results that were in-line with expectations. Gildan’s low-cost manufacturing footprint allows it to win market share from competitors. Moreover, the company generates strong free cash flows which fund both its growth initiatives and a conservative dividend.

The fixed income portion of the Fund, represented by the **GBC Canadian Bond Fund**, recorded modest gains in the quarter that helped mitigate some of the declines from equities.

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 4.13% 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 3.0% and an adjusted portfolio duration of 4.7 years. The asset mix of Pembroke’s balanced mandate did not change materially through the year, with approximately 31% of the portfolio invested in fixed income securities at December 31, 2018.

INTERNATIONAL EQUITY COMMENTARY

The Fund's emphasis on high-growth companies with favorable earnings trends detracted from relative performance during the quarter, as low valuation stocks with poor earnings trends and lower growth profiles held up better amid the global market downturn. These style headwinds were most pronounced during October and November. From a sector perspective, negative stock selection effects within the industrial and financial sectors detracted value during the quarter, more than offsetting positive stock selection in the energy and utilities sectors. From a geographic perspective, stock selection effects were weakest within Japan, more than offsetting outperformance within Eastern Europe and South Africa.

Industrial sector stock selection was hampered by Japanese manufacturing outsourcing company UT Group, which reported weaker-than-expected quarterly earnings results due to slowing growth in dispatched engineers for the auto industry. Another Japanese professional service holding – Nihon M&A Center – detracted from performance during the quarter. Nihon is a high-quality growth company that provides advisory services to small and medium enterprises facing succession-oriented challenges. Despite posting strong quarterly revenue and operating profit driven by a sequential increase in deals closed, the share price was hit by a broad rotation out of higher valuation Japanese companies during the period. Helping to mitigate these negative effects were positive stock selection in the energy and utilities sectors, as MOL Hungarian Oil & Gas and France-based energy logistics company Rubis outperformed.

The Fund maintained overweight positions in the consumer discretionary, consumer staples, financials and information technology sectors during the quarter, offset primarily by continued underweight positions in the materials, real estate and utilities sectors. Industrial sector exposure was reduced to an underweight position due to reductions in UK, European and Japanese holdings. Geographically, the fund's UK overweighting was reduced to limit risks associated with a hard Brexit scenario and emerging markets and the developed Asia ex-Japan region (Singapore, Australia and New Zealand) were increased.

Calendar-year performance was adversely impacted by the fourth quarter performance. Stock-selection effects for the 12-month period were weakest within the consumer discretionary sector. MGM China Holdings is a leading developer, owner and operator of gaming and lodging resorts in the Greater China region, including properties in Macau and Cotai. The share price came under pressure during the year amid slowing China gaming revenues which prompted negative revisions to consensus earnings estimates across the industry. Although MGM's new Cotai property experienced weaker-than-expected growth, its important VIP and premium mass-market businesses were beginning to show improving volumes in the fourth quarter. Partially offsetting these effects was strong stock selection within the materials sector, as Japanese company Nissan Chemical was a top contributor, benefiting from revenue growth in specialty chemical products including alignment films for smartphones and flea and tick medicine for pets called Fluralaner.

Fixed Income Commentary

A nasty confluence of events pushed equity markets sharply lower in the fourth quarter. The US Federal Reserve continued to raise administered interest rates, which is broadly negative for asset prices. There are also signs of an economic slowdown, based, again, on forecasts and surveys of manufacturing company executives. Trade tensions between the US and China contributed to this expected slowdown. Finally, equity markets seemed to come to the realization that many stocks, especially in the technology sector, were expensive.

Falling equity markets caused investors to shift into government bonds in the quarter. This asset allocation shift drove bond yields down and led to Government of Canada bonds being the strongest performers in the Canadian bond market. For the most part, yields on provincial and corporate bonds also declined, but not by as much as on Government of Canada bonds. This caused credit spreads to widen and corporate bonds to underperform the broader bond market. Lower quality bonds were the worst performers, with many high-yield issues falling in price and even investment grade BBB rated bonds showing somewhat higher yields.

The very strong performance of Canada bonds in the fourth quarter reversed their year-to-date trend and caused them to be the best performers for the year. Yields rose for the year overall so that longer duration Provincials were the worst performers while corporates, especially higher rated issues, performed better.

The **GBC Canadian Bond Fund**'s returns were slightly behind the benchmark return over the same period. For the year, the fund slightly outpaced the index. The fund also demonstrated far more stability than the index in a year that was very volatile for many bond investors.

The fund benefited from its higher-quality positioning in the quarter as yield spreads widened. The fund's shorter duration and floating rate exposure, however, was detrimental to performance as yields fell. The fund is well positioned at the start of 2019 with its floating rate note exposure. CDOR

(Canadian Deposit Offered Rate) which is the base rate for most of the floating rate notes (FRN) started the year yielding above even a 30-year government of Canada Bond - a very rare occurrence. The FRN's represent a great opportunity to secure an attractive yield without assuming interest rate risk. The fund continues to be positioned conservatively from both a credit quality and interest rate standpoint and is an effective diversifier to an equity portfolio.

Business Update

Pembroke is pleased to announce the launch of its new **Website & Client Portal**. Clients now have access their statements and tax documents on the website's client portal. Please visit www.pml.ca to learn more.

Have you heard about the **Pembroke Family Advantage Program**? It is designed to benefit the families of our clients. One feature of the program is that the management fees applied to all funds held by recognized family members will be based on the aggregate assets held by the family at the end of the prior calendar quarter. Contact your Pembroke Representative to find out more.

In the community

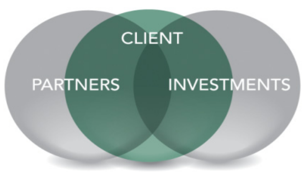
Members of the **Toronto team** volunteered at The Covenant House for their annual team activity on December 3rd, 2018 to help homeless youth in need. The team learned about the services at The Covenant House, helped sort their recent donations and served lunch at their crisis centre kitchen. Pembroke donated $2,500, along with an in-office box of donations in hopes of bringing a few more smiles to youth in need this past holiday season.

Nicolas Chevalier, Partner & Portfolio Manager, was named Director of the Sainte-Justine University Hospital Centre by Quebec's Health Minister. In addition to his duties on the hospital's board of directors, Nicolas also serves on the Executive and Audit committees.

As part of our 50th anniversary celebration, Pembroke is the presenting sponsor of the **Alexander Calder Radical Inventor** exhibition at the Montreal Museum of Fine Arts. The exhibit runs until February 24th, 2019. If you are interested in seeing the exhibition, please contact us as we have discount coupons available for our clients.

In celebration of 50 years in business, members of the **Montreal team** picked up a shovel on October 17th and planted 50 trees (7 varieties) for environmental sustainability of one of our favorite Montreal landmarks.

Pembroke Private Wealth Management is pleased to be the title sponsor of the **Canadian Ski Marathon** again this year. This two-day cross-country ski tour sees almost 2,000 participants cover all or part of the 160-kilometer course. First established in 1967, the event will start near Mont Tremblant on February 9th and end the following day in Lachute, Quebec. "As in investing, preparation, focus and persistence are key character traits of marathon skiing," says Ian Aitken, Pembroke Managing Partner. "This isn't a race; it's a great outdoor adventure and a wonderful way to celebrate winter. Pembroke is pleased to support an event that has become an annual tradition for many skiers and widely recognized as one of the longest events of its kind in the world."



ALIGNMENT *of* INTERESTS

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.

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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