



# Matco Balanced Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE  
For the Year Ended December 31, 2016

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Annual Management Report of Fund Performance  
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This Annual Management Report of Fund Performance ("MRFP") contains financial highlights but does not contain the annual financial statements of the Matco Balanced Fund (the "Fund"). You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-877-539-5743, by writing to us at 400, 407<sup>th</sup> Avenue SW, Calgary AB T2P 1E5 or by visiting our website at [www.matcofinancialinc.com](http://www.matcofinancialinc.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

#### A NOTE ON FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

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### Management Discussion of Fund Performance

This management discussion of Fund performance presents management's view of the significant factors and developments during the period that have affected the Fund's performance and outlook. For information on the Fund's longer-term performance, please refer to the *Past Performance* section of this report. In this report, "Matco" refers to Matco Financial Inc., the manager of the Fund.

### Investment Objective and Strategies

Seeking to balance current income and long-term capital appreciation, the Fund invests in Canadian dividend-paying equities and investment grade fixed income assets. The portfolio is diversified across market capitalization, asset classes, sectors and geographic regions. This "one-stop" Fund offers diversified sources of ongoing income, preserves capital based on an institutional investment risk management process and provides lower volatility performance.

### Risk

The overall risks of investing in the Fund are as described in the Fund's Prospectus. There were no material changes to the Fund during the year that affected the overall level of risk associated with an investment in the Fund.

### Results of Operations

The Fund commenced operations on June 29, 2007 and was first offered to the public via prospectus on November 29, 2007. The Fund's net assets increased over the past year to \$170.6 million as at December 31, 2016 up from \$131.4 million. Total investment income for the 2016 year was \$12.5 million, prior to operating expenses. The Fund's performance is discussed below.

The Fund experienced no unusual trends in redemptions or sales. From an asset mix perspective, the Fund increased its Canadian equity exposure to 36.4% from 26.4% while decreasing US equity exposure to 19.7% from 25.4% and global equity exposure to 4.7% from 6.5%.

In 2016, the Fund's Series F units returned +6.99% while the benchmark, the Globe Canadian Neutral Balanced Index, returned +4.32%. Unlike the index returns, the Fund's return is net of fees and expenses paid by the Series. Please refer to the *Past Performance* section of this report for the returns of other series offered by the Fund and to the *Related Party Transactions – Management Fees* section for the varying management fees payable by each series.

Our outlook for 2017 is positive. A combination of the US election, the subsequent prospects for fiscal stimulus, the OPEC agreement which should support global energy markets and the Federal Reserve re-initiating monetary policy tightening are all positive developments paving the way for a strong year. We view the investment world through a pragmatic lens and believe global growth will remain modest. Our increase in emerging markets and small cap equity exposures are adjustments to source robust portfolio growth in spite of the low economic growth environment. We remain positive in North America and anticipate strong years for both the US and Canada but for different reasons. The US will continue to benefit from strong economic fundamentals, whereas Canada will be underpinned by the rebalancing energy sector and a low currency.

### Related Party Transactions

#### *Management Fees*

Matco provides the Fund with investment management services, including managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements for the purchase and sale of the investment portfolio and providing other services. In return, Matco receives a management fee based on the net assets of the Fund, calculated on a daily basis. For the year ended December 31, 2016, the Fund incurred management fees payable to Matco of \$321,046 (2015 - \$252,663) (including GST). The management and administration fee for Series O units is negotiated with and paid by the unitholder to Matco as manager. The sales commission under the Front Load option is negotiated with and paid by the holder directly to the dealer.

Annual Rate	Series A (FL)	Series F
Management fees	1.75%	1.00%
Trailer (included in management fee)	1.00%	Nil
Front Load (FL) sales commission – up to 6%		

Note: The trailer fee changed from 1.25% to 1.00% effective August 12, 2011

#### *Administration Services*

The Fund paid \$120,995 (2015 - \$114,943) to RBC Investor Services Trust for valuation, custodian, recordkeeping, unitholder, and trustee services. This amount excludes costs paid through the Fund's investment in other mutual funds and portfolios managed by third parties.

## Matco Balanced Fund

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### Portfolio Transaction Services

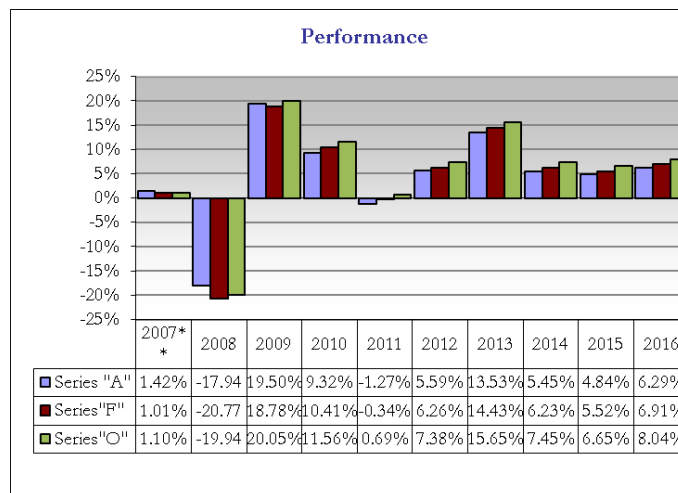
The Fund incurred trading costs of \$137,508 (2015 - \$32,091) through securities transactions conducted through RBC Investor Services and TD Waterhouse Investor Services. RBC Investor Services also provides portfolio transaction services to the Fund when the Fund invests directly in securities of third party mutual funds. The Fund paid no brokerage commissions on these investment transactions.

### Past Performance

The indicated rates of return are the historical annual compound total returns, including changes in unit value and assuming reinvestment of all distributions. They do not take into account sales, redemption, and distribution or optional charges, or income taxes payable by any investor that would have reduced returns. The past performance of the Fund is not necessarily an indication of how it will perform in the future. As the Fund may not currently be held inside of a registered plan, income and capital gains distributions paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the Fund, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation. The past performance of the Fund is set out in the following charts and the compound returns table.

### Year-By-Year Returns

The bar charts that follow show the performance of each series of the Fund for the period ended December 31, 2007, and the years ended December 31, 2008 to December 31, 2016. The charts show, in percentage terms, how an investment made on January 1 would have increased or decreased by the end of the period in each fiscal year and December 31, 2016 (except for 2007 as noted below) after all fees and expenses.



\*\* The rate of return for the period from inception (June 29, 2007 – December 31, 2007). The Fund was prospectus qualified as at November 29, 2007. Rates of Return are after all fees and expenses and assumes reinvestment of all distributions at net asset value.

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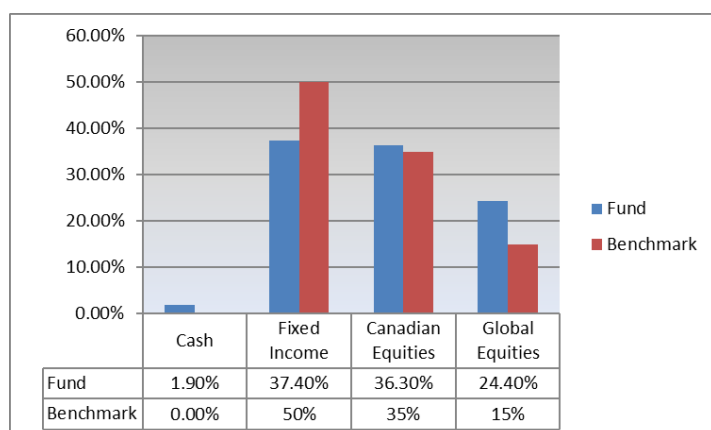
### Annual Compound Returns

The following table shows the historical annual compound total return of the Fund since inception after all fees and expenses. The Globe Canadian Neutral Balanced Peer Index is calculated in Canadian dollars on a total return basis, meaning that all distributions are reinvested.

	Class A Shares (%)	Class F Shares (%)	Class O Shares (%)	Globe Canadian Neutral Balanced Peer Index (%)
One Year	6.29	6.91	8.04	4.32
Three Years	5.52	6.22	7.38	4.21
Five Years	7.09	7.82	8.98	5.88
Ten Years	-	-	-	-
Since inception**	4.65	4.75	5.86	3.52

\*\*The Fund was created on June 29, 2007 and operated as a private fund until November 29, 2007 when it became prospectus qualified. The return since inception is from November 29, 2007.

### Portfolio Asset Mix



### Summary of Investment Portfolio (at December 31, 2016)

#### Effective Portfolio Allocation

<b>Equities</b>	<b>60.7%</b>
Canada	36.3%
United States	19.7%
International	4.7%
<b>Fixed Income</b>	<b>37.4%</b>
Canada	37.4%
<b>Cash and equivalents</b>	<b>1.9%</b>
<b>TOTAL</b>	<b>100.0%</b>

#### Effective Equity Sector Allocation

Financials	20.8%
Energy	19.0%
Materials	11.0%
Industrials	10.2%
Consumer Discretionary	9.9%
Information Technology	8.7%
Health Care	6.2%
Consumer staples	5.2%
REITS	4.3%
Telecommunication Services	2.5%
Utilities	2.2%
<b>TOTAL</b>	<b>100.0%</b>

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### Top 25 Holdings

	<b>% of NAV</b>
1 Matco Canadian Equity Fund – Series O	21.0
2 Matco Small Cap Fund – Series O	13.4
3 iShares Core S&P 500 EFT	9.9
4 iShares Core S&P 500 Index ETF (CAD Hedged)	9.8
5 iShares Core MSCI Emerging Markets IMI Index ETF	4.7
6 Province of Ontario 3.15% 2JN22	3.1
7 Canada Housing Trust No.1 2.40% 15DE22	3.0
8 Government of Canada 1.50% 1JN26	2.5
9 Canada Housing Trust No.1 2.90% 15JN24	2.4
10 Province of Manitoba 3.25% 5SE29	2.0
11 iShares Core S&P/TSX Capped Energy Index ETF	1.9
12 Choice Properties Real Estate Investment Trust 3.498% 8FE21	1.9
13 Bank of Nova Scotia 2.873% 4JN21	1.9
14 Toronto Dominion Bank 2.563% 24JN20	1.9
15 Bank of Montreal 3.40% 23AP21	1.9
16 Royal Bank of Canada 1.968% 2MR22	1.9
17 Province of Alberta 3.10% 1JN24	1.8
18 Government of Canada 2.50% 1JN24	1.8
19 Loblaw Cos Ltd. 5.22% 18JN20	1.7
20 Toronto Dominion Bank 3.226% 24JN24	1.3
21 Province of British Columbia 2.85% 18JN25	1.3
22 Cadillac Fairview Finance Trust 4.31% 25JA21	1.1
23 Brookfield Asset Management Inc. 5.30% 1MR21	1.1
24 Province of Alberta 3.40% 1DE23	1.0
25 Capital Power Corp. 4.85% 21FE19	<u>1.0</u>
<b>TOTAL</b>	<b>95.3</b>

The simplified prospectuses and other information about the underlying funds are available on such funds' website or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The investments and percentages outlined herein may have changed by the time you purchase units of this Fund. The top 25 holdings are made available quarterly, 60 days after quarter-end and may be obtained by contacting your registered representative or by contacting Matco toll free at 1.877.539.5743 or by email at [matco@matcofinancial.ca](mailto:matco@matcofinancial.ca).

The Fund held no short positions at the end of the year.

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### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance over the past 5 years. This information is derived from the Fund's audited annual financial statements.

#### MATCO BALANCED FUND – Series A

Net Assets per Unit					
	2016	2015	2014	2013	2012
Net Assets, beginning of year <sup>(1) (3)</sup>	\$ 12.28	\$ 11.76	\$ 11.21	\$ 9.95	\$ 9.51
Increase (decrease) from operations:					
total revenue	0.30	0.28	0.30	0.30	0.33
total expenses	(0.23)	(0.25)	(0.25)	(0.22)	(0.20)
realized gains (losses) for the year	1.47	0.35	1.19	0.49	0.19
unrealized gains (losses) for the year	0.23	0.15	0.16	0.74	(0.48)
Total increase (decrease) from operations <sup>(1)</sup>	1.77	0.53	1.40	1.31	(0.16)
Distributions :					
from income (excluding dividends)	(0.03)	(0.02)	(0.04)	(0.05)	(0.04)
from dividends	(0.04)	(0.01)	(0.02)	(0.04)	(0.06)
from capital gains	(0.68)	-	-	-	-
return of capital	-	-	-	-	-
Total annual distributions <sup>(2)</sup>	(0.75)	(0.03)	(0.06)	(0.09)	(0.10)
Net Assets, end of year	\$ 12.24	\$ 12.28	\$ 11.76	\$ 11.21	\$ 9.95

#### Ratios and Supplemental Data

	2016	2015	2014	2013	2012
Net asset value end of year <sup>(1)</sup>	850,450	333,709	374,340	287,966	266,748
Number of units outstanding <sup>(1)</sup>	69,474	27,186	31,837	25,693	26,802
Management expense ratio (%) <sup>(2)</sup>	1.77	2.04	2.00	2.06	1.99
Management expense ratio before waivers or absorptions (%)	1.77	2.04	2.00	2.06	1.99
Portfolio turnover rate (%) <sup>(3)</sup>	90.22	115.30	237.24	138.62	113.32
Trading expense ratio (%) <sup>(4)</sup>	0.09	0.02	0.07	0.05	0.04
Net asset value per unit end of year <sup>(5)</sup>	12.24	12.28	11.76	11.21	9.95

#### MATCO BALANCED FUND – Series F

Net Assets per Unit					
	2016	2015	2014	2013	2012
Net Assets, beginning of year <sup>(1) (3)</sup>	\$ 12.05	\$ 11.58	\$ 11.04	\$ 9.79	\$ 9.36
Increase (decrease) from operations:					
total revenue	0.28	0.31	0.29	0.29	0.31
total expenses	(0.15)	(0.14)	(0.15)	(0.14)	(0.13)
realized gains (losses) for the year	0.92	0.28	0.79	0.45	0.18
unrealized gains (losses) for the year	(0.19)	0.18	(0.26)	0.83	0.18
Total increase (decrease) from operations <sup>(1)</sup>	0.86	0.63	0.67	1.43	0.54
Distributions :					
from income (excluding dividends)	(0.09)	(0.12)	(0.09)	(0.09)	(0.07)
from dividends	(0.07)	(0.06)	(0.06)	(0.07)	(0.10)
from capital gains	(0.71)	-	-	-	-
return of capital	-	-	-	-	-
Total annual distributions <sup>(2)</sup>	(0.87)	(0.18)	(0.15)	(0.16)	(0.17)
Net assets, end of year	\$ 12.01	\$ 12.05	\$ 11.58	\$ 11.04	\$ 9.79

#### Ratios and Supplemental Data

	2016	2015	2014	2013	2012
Net asset value end of year <sup>(1)</sup>	31,964,542	25,650,175	20,346,555	30,931,655	37,195,296
Number of units outstanding <sup>(1)</sup>	2,662,585	2,128,089	1,757,267	2,802,352	3,799,861
Management expense ratio (%) <sup>(2)</sup>	1.16	1.18	1.21	1.27	1.27
Management expense ratio before waivers or absorptions (%)	1.16	1.18	1.21	1.27	1.27
Portfolio turnover rate (%) <sup>(3)</sup>	90.22	115.30	237.24	138.62	113.32
Trading expense ratio (%) <sup>(4)</sup>	0.09	0.02	0.07	0.05	0.04
Net asset value per unit end of year <sup>(5)</sup>	12.01	12.05	11.58	11.04	9.79

### MATCO BALANCED FUND – Series O

Net Assets per Unit					
	2016	2015	2014	2013	2012
Net Assets, beginning of year <sup>(1) (3)</sup>	\$ 12.00	\$ 11.53	\$ 10.99	\$ 9.75	\$ 9.34
Increase (decrease) from operations:					
total revenue	0.29	0.30	0.30	0.30	0.31
total expenses	(0.03)	(0.02)	(0.03)	(0.03)	(0.02)
realized gains (losses) for the year	0.92	0.28	0.70	0.42	0.18
unrealized gains (losses) for the year	(0.22)	0.16	(0.15)	0.89	0.23
Total increase (decrease) from operations <sup>(1)</sup>	0.96	0.72	0.82	1.58	0.70
Distributions :					
from income (excluding dividends)	(0.17)	(0.20)	(0.17)	(0.16)	(0.11)
from dividends	(0.11)	(0.10)	(0.11)	(0.11)	(0.17)
from capital gains	(0.70)	-	-	-	-
return of capital	-	-	-	-	-
Total annual distributions <sup>(2)</sup>	(0.98)	(0.30)	(0.28)	(0.27)	(0.28)
Net assets, end of year	\$ 11.96	\$ 12.00	\$ 11.53	\$ 10.99	\$ 9.75

#### Ratios and Supplemental Data

	2016	2015	2014	2013	2012
Net asset value end of year <sup>(1)</sup>	137,811,616	105,419,856	94,858,536	70,146,599	28,790,508
Number of units outstanding <sup>(1)</sup>	11,521,788	8,781,664	8,229,959	6,382,053	2,952,172
Management expense ratio (%) <sup>(2)</sup>	0.12	0.13	0.17	0.20	0.24
Management expense ratio before waivers or absorptions (%)	0.12	0.13	0.17	0.20	0.24
Portfolio turnover rate (%) <sup>(3)</sup>	90.22	115.30	237.24	138.62	113.32
Trading expense ratio (%) <sup>(4)</sup>	0.09	0.02	0.07	0.05	0.04
Net asset value per unit end of year <sup>(5)</sup>	11.96	12.00	11.53	10.99	9.75

### Net Assets per Share Notes

- Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- Distributions were paid in cash/reinvested in additional units of the Fund, or both.
- For 2016, 2015, 2014 and 2013 the information is prepared in accordance with IFRS which uses the last trade price for investments that are traded in an active market where quoted prices are readily and regularly available. For 2012 the information is prepared in accordance with Canadian GAAP, where investments that are traded in an active market, are fair valued based on bid prices (for investments held) or ask prices (for investments sold short). For investments that are not traded in an active market, the Fund uses valuation techniques that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs

### Ratio and Supplemental Data Notes

- This information is provided as at December 31<sup>st</sup> of the year shown, as applicable.
- Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.