



# Matco Small Cap Fund\*

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE  
For the Period Ended June 30, 2016

\* Class of Shares of Matco Funds Corp.

## Matco Small Cap Fund

Interim Management Report of Fund Performance  
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This interim management report of Fund performance contains financial highlights but does not contain either the interim or annual financial statements of the Matco Small Cap Fund (the "**Fund**"). You can get a copy of the interim or 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).

Securityholders 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

The Fund's objective is to seek long-term capital appreciation and superior risk-adjusted returns by investing primarily in a portfolio of small and mid cap Canadian equities that exhibit strong growth attributes. Companies are expected to be profitable and have a strong propensity to reinvest their excess earnings back into grow the company larger. Other characteristics include strong, reasonable multiples, predictability, analyst recognition and market participation. The Fund will generally be 100% exposed to stocks.

### 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

Matco Funds Corp. amended its articles on September 29, 2008, to create the Fund. The Fund was originally qualified for distribution to the public by prospectus on December 17, 2008. The Corporation amended its articles on August 12, 2011, to change the name of the Fund from "MFi Small Cap Fund" to "Matco Small Cap Fund". Shares of the Fund were issued March 2010. The Fund's net assets increased over the past six months to \$52.8 Million at June 30, 2016. Within the period there was total investment income of \$3.3 Million attributable to investment performance. The Fund's performance is discussed below.

During the six months the Fund made no material changes in overall asset mix and experienced no unusual trends in redemptions or sales.

In the first six months of 2016, the Fund's Series F units generated +6.9% relative to the benchmark, TSX Small Cap Total Return Index, with a return of +27.5%. 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 the report for the returns of other series offered by the Fund and to the *Related Party Transactions – Management Fees* section of the report for the varying management fees payable by each series.

Although 2016 was off to a volatile start in large part due to economic data suggesting a slowing of economic growth out of China, a subsequent rebound in energy prices and other commodities has led a resource fueled rally. This bodes well for the Canadian market, which was one of the top performing stock markets globally in the first half of 2016. The Canadian dollar was also a beneficiary of the energy and commodity rally, rebounding from a low of 0.69 USD/CAD in January to a close of 0.77 USD/CAD on June 30, 2016. Through the first half of 2016, the S&P/TSX Total Return Index has returned 9.84%.

The best performing sectors in the first half of 2016 were materials, energy, and utilities. The rally in the price of crude oil and gold has led to the strong performance of the energy sector and the materials sector, leaving other sectors hard pressed to keep up. Although the rebound in oil is contributing positively to the economic growth in Canada as measured by GDP, the overall modest growth and the still troubled labor markets of resource rich provinces is lending itself to a fairly conservative Bank of Canada. As such, the outlook for interest rates in Canada is fairly neutral, with no rate hikes expected for the remainder of 2016. This is also lending some positive support to the income trade in Canadian equities, with telecommunications, utilities and financials being the main beneficiaries. The healthcare sector remains troubled from the hangover of the Valeant effect, which continues to permeate negative sentiment through the sector. As a whole, the Canadian health care sector has returned -72% year-to-date, driven predominantly by Valeant Pharmaceuticals. Although Canada feels to be at a pivotal point with respect to growth and US economic fundamentals remain fairly strong, capital markets continue to be troubled by globally borne volatility.

### Recent Developments

On June 23<sup>rd</sup> 2016, history was made as the British voted for the United Kingdom to leave the European Union. It was far from a landslide victory, as 51.9% of the voters checked the "leave" box, while the other 48.1% checked the "remain" box. Although there is still work to be done before an official exit occurs, the people have spoken and it appears likely that the U.K. will no longer conduct itself in economic accordance with the European Union. Although the polls looked fairly even heading into the vote,

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the markets were certainly caught by surprise and were roiled the Friday morning following the vote. The British Pound, as a poster child for the volatility, plunged 10% to a three decade low of \$1.3229 (per USD). Generally speaking, the surprising vote and exit of the U.K. from the E.U. caused a pronounced “risk-off” sentiment in the capital markets, with gold, interest rates and the US dollar being the only few benefactors.

In the couple months leading up to the aforementioned referendum, the US economy seemed to be poised for strength and the capital markets began to price in a potential rate hike from the Federal Reserve. However, it was the dismal US jobs report (Non-Farm Payrolls) released for the month of May that caught markets off-guard and removed the expectations for a rate hike. This was only further re-enforced by the economic uncertainty caused by the U.K. referendum.

Another development the markets are in the process of digesting is the ongoing US presidential race. With Donald Trump being the likely Republican candidate and Hillary Clinton the likely Democratic candidate, markets are beginning to assess what the economic impacts of each candidate’s potential victory may be. As we approach the US election on November 8<sup>th</sup>, we expect this election to also cause some uncertainty in markets.

Here in Canada, although the election noise appears to be in the rear view mirror, the devastating wild fires experienced in Fort McMurray impacted the lives of many, causing evacuations, relocations and a cessation of economic activity. This will likely cause a modest reduction in economic growth here in Canada, although the impacts should prove to be somewhat transient as the re-development of the region will eventually off-set the negative impacts to an extent.

The combination of these economic events left the markets in a dizzied state to end the quarter, with negative sentiment lingering in the minds of market participants.

We are constructive on the prospects for the Canadian economy going forward. It continues to work through some structural rebalancing, namely in the energy sector. It’s safe haven status, political stability and positive interest rate landscape will also provide some support from a capital markets perspective. The US economy is also in relatively healthy shape, although it certainly feels as though we are approaching the later stages of the long term economic growth and job cycle.

## 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 six months ended June 30 2016, the Fund paid Matco management fees of \$42,452 (including GST) (2015-\$30,216). The management and administration fee for Series O securities is negotiated with and paid by the shareholder to the manager. The sales commission under the Front Load option is negotiated with and paid by the shareholder directly to the dealer.

<b>Annual Rate</b>	<b>Series A (FL)</b>	<b>Series F</b>
Management fees	2.00%	1.25%
Serving Commission (included in management fee rate)	1.00%	Nil
Front Load (FL) sales commission – up to 6%		

Note: The serving commission changed from 1.25% to 1.00% effective August 12, 2011

## Other Transactions

### *Administration Services*

The Fund paid \$41,299 (2015-\$35,943) to RBC Investor Services for valuation, custodian, recordkeeping, unit holder, and trustee services. This amount excludes costs paid through the Fund's investment in other mutual funds and portfolios managed by third parties.

### *Portfolio Transaction Services*

The Fund incurred trading costs of \$68,756 (2015-\$68,523) 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

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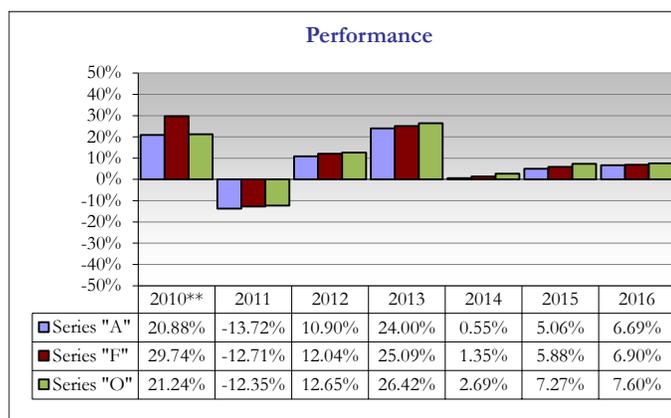
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take into account sales, redemption, and distribution or optional charges, or income taxes payable by any investor that would have reduced returns. The past performance of the Fund is not necessarily an indication of how it will perform in the future. 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 chart that follows show the performance of each series of the Fund for the period ended December 31, 2010 and the years ended December 31, 2011 to 2015 plus the interim period to June 30, 2016. The charts show, in percentage terms, the performance you would have received if you invested in the fund on the first day of the period through the last day of the period.



\*\* Rate of return represents the total rate of return for the period indicated, assuming reinvestment of all distributions at net asset value. The Fund was prospectus qualified as at December 17, 2008, but was not funded until March 1, 2010.

The Fund has been recently established and as such, does not currently have a long track record of distributions, however, it is expected that over time the re-investment of distributions will have a significant and material impact on rates of return.

### Summary of Investment Portfolio (at June 30, 2016)

#### Effective Equity Sector Allocation

Financials	20.1%
Energy	18.2%
Industrials	17.3%
Materials	16.1%
Consumer discretionary	13.2%
Health care	5.4%
Utilities	4.2%
Consumer staples	3.0%
Information technology	2.5%
<b>TOTAL</b>	<b>100.0%</b>

#### Top 25 Holdings

	% of NAV
1 Intertape Polymer Group Inc.	5.4
2 Laurentian Bank of Canada	4.9
3 Whitecap Resources Inc.	4.1
4 Uni- Select Inc.	3.3
5 Hardwood Distribution Inc.	3.3
6 Storm Resources Ltd.	3.1
7 Kelt Exploration Ltd.	3.0
8 Home Capital Group Inc.	3.0
9 Airboss of America Corp	3.0
10 Alaris Royalty Corp.	3.0
11 Clearwater Seafoods Inc.	3.0
12 TORC Oil & Gas Ltd.	3.0
13 Boyd Group Income Fund	2.9
14 Mainstreet Health Investments Inc.	2.8
15 Chesswood Group Ltd.	2.8
16 Stantec Inc.	2.7
17 Imvescor Restaurant Group Inc.	2.6
18 Currency Exchange International Corp.	2.4
19 Carriage Services Inc.	2.4
20 Spartan Energy Corp.	2.2
21 Boralex Inc.	2.2
22 Martinrea International Inc.	2.1
23 Richelieu Hardware Ltd.	2.0
24 Tricon Capital Group Inc.	2.0
25 Northland Power Inc.	<u>2.0</u>
<b>TOTAL</b>	<b>73.2</b>

The simplified prospectuses and other information about the underlying funds are available on such funds' websites 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 period.



## 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 last 4 periods. This information is derived from the Fund's audited annual and unaudited interim financial statements.

### MATCO SMALL CAP FUND – Series A

Net Assets per Share				
	2016	2015	2014	2013
Net Assets, beginning of year <sup>(1) (3)</sup>	\$ 14.04	\$ 13.59	\$ 13.71	\$ 11.31
Increase (decrease) from operations:				
total revenue	0.22	0.30	0.36	0.47
total expenses	(0.15)	(0.38)	(0.40)	(0.31)
realized gains (losses) for the year	0.37	1.11	2.28	(0.23)
unrealized gains (losses) for the year	0.35	(0.27)	(0.20)	2.82
Total increase (decrease) from operations <sup>(1)</sup>	0.79	0.76	2.04	2.75
Distributions :				
from income (excluding dividends)	-	-	-	-
from dividends	-	(0.23)	(0.19)	(0.32)
from capital gains	-	-	-	-
return of capital	-	-	-	-
Total annual distributions <sup>(2)</sup>	-	(0.23)	(0.19)	(0.32)
Net Assets, end of year	\$ 14.98	\$ 14.04	\$ 13.59	\$ 13.71

Ratios and Supplemental Data				
	2016	2015	2014	2013
Net asset value end of year <sup>(1)</sup>	453,875	219,430	252,825	233,699
Number of shares outstanding <sup>(1)</sup>	30,295	15,627	18,609	17,050
Management expense ratio (%) <sup>(2)</sup>	2.08	2.39	2.43	2.38
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	2.08	2.39	2.43	2.59
Portfolio turnover rate (%) <sup>(3)</sup>	29.56	64.59	79.02	19.11
Trading expense ratio (%) <sup>(4)</sup>	0.32	0.22	0.32	0.13
Net asset value per share end of year <sup>(5)</sup>	14.98	14.04	13.59	13.71

### MATCO SMALL CAP FUND – Series F

Net Assets per Share				
	2016	2015	2014	2013
Net Assets, beginning of year <sup>(1) (3)</sup>	\$ 15.79	\$ 15.16	\$ 15.17	\$ 12.41
Increase (decrease) from operations:				
total revenue	0.24	0.35	0.36	0.53
total expenses	(0.15)	(0.29)	(0.32)	(0.25)
realized gains (losses) for the year	0.41	0.97	1.76	(0.27)
unrealized gains (losses) for the year	0.54	(0.26)	(1.43)	3.12
Total increase (decrease) from operations <sup>(1)</sup>	1.04	0.77	0.37	3.13
Distributions :				
from income (excluding dividends)	-	-	-	-
from dividends	-	(0.26)	(0.22)	(0.37)
from capital gains	-	-	-	-
return of capital	-	-	-	-
Total annual distributions <sup>(2)</sup>	-	(0.26)	(0.22)	(0.37)
Net Assets, end of year	\$ 16.87	\$ 15.79	\$ 15.16	\$ 15.17

Ratios and Supplemental Data				
	2016	2015	2014	2013
Net asset value end of year <sup>(1)</sup>	10,015,521	5,065,563	3,975,763	4,911,941
Number of shares outstanding <sup>(1)</sup>	593,521	320,906	262,338	323,823
Management expense ratio (%) <sup>(2)</sup>	1.61	1.59	1.65	1.52
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	1.61	1.59	1.65	1.80
Portfolio turnover rate (%) <sup>(3)</sup>	29.56	64.59	79.02	19.11
Trading expense ratio (%) <sup>(4)</sup>	0.32	0.22	0.32	0.13
Net asset value per share end of year <sup>(5)</sup>	16.87	15.79	15.16	15.17

## MATCO SMALL CAP FUND – Series O

Net Assets per Share				
	2016	2015	2014	2013
Net Assets, beginning of year <sup>(1) (3)</sup>	\$ 15.45	\$ 14.64	\$ 14.46	\$ 11.70
Increase (decrease) from operations:				
total revenue	0.22	0.33	0.34	0.51
total expenses	(0.05)	(0.08)	(0.10)	(0.08)
realized gains (losses) for the year	0.38	0.99	1.51	(0.29)
unrealized gains (losses) for the year	0.65	(0.23)	(1.53)	3.14
Total increase (decrease) from operations <sup>(1)</sup>	1.20	1.01	0.22	3.28
Distributions :				
from income (excluding dividends)	-	-	-	-
from dividends	-	(0.25)	(0.21)	(0.33)
from capital gains	-	-	-	-
return of capital	-	-	-	-
Total annual distributions <sup>(2)</sup>	-	(0.25)	(0.21)	(0.33)
Net Assets, end of year	\$ 16.62	\$ 15.45	\$ 14.64	\$ 14.46

Ratios and Supplemental Data				
	2016	2015	2014	2013
Net asset value end of year <sup>(1)</sup>	42,279,571	33,263,049	33,911,826	28,802,664
Number of shares outstanding <sup>(1)</sup>	2,543,310	2,152,915	2,316,320	1,991,567
Management expense ratio (%) <sup>(2)</sup>	0.29	0.28	0.34	0.45
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	0.29	0.28	0.34	0.50
Portfolio turnover rate (%) <sup>(3)</sup>	29.56	64.59	79.02	19.11
Trading expense ratio (%) <sup>(4)</sup>	0.32	0.22	0.32	0.13
Net asset value per share end of year <sup>(5)</sup>	16.62	15.45	14.64	14.46

### Net Assets per Share Notes

- (1) 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 shares outstanding over the financial period.
- (2) Distributions were paid in cash/reinvested in additional shares of the Fund, or both.
- (3) 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 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

- (1) This information is provided as at June 30, 2016 and as at December 31 for the other years.
- (2) Management expense ratio is based on total expenses as an annualized percentage of daily average net assets during the period.
- (3) 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 year, the greater the trading costs payable by the fund in the year, 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.
- (4) 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.
- (5) Net Asset Value per share 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.
- (6) On May 1, 2013 Matco starting charging a management fee of 1.0% for the A and 1.25% for the F series. Starting on May 1, 2013 Matco stopped absorbing the professional fee costs.