

## EXEMPLAR LEADERS FUND

### ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements for Exemplar Leaders Fund (the "Fund"). If you have not received a copy of the annual financial statements with the Management Report of Fund Performance, you may obtain a copy of the annual financial statements, at no cost, by calling 877.327.6048, by writing to us at Arrow Capital Management Inc. (the "Manager" or "Arrow"), 36 Toronto Street, Suite 750, Toronto, Ontario M5C 2C5 or by visiting our website at [www.arrow-capital.com](http://www.arrow-capital.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 annual financial reports, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Fund.

#### Forward-Looking Information

This Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Fund. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Management Report of Fund Performance, and the Fund undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion on Fund Performance**

### **Investment Objective and Strategies**

The investment objective of the Fund is to maximize absolute returns on investments through securities selection and asset allocation. The Fund focuses on achieving growth of capital through superior securities selection and pursues a long-term investment program with the aim of generating capital gains. The Fund attempts to reduce volatility through diversifying the portfolio across both economic sectors as well as across market capitalizations (company size and liquidity). The Fund invests primarily in equity and equity-related securities of North American companies. The Fund may also invest in international companies.

To achieve the investment objectives of the Fund, the Manager: (i) makes long term investments of securities of issuers which the Manager believes present the greatest opportunity for capital appreciation; and (ii) manages the portfolio's sector allocation, increasing and decreasing exposure to different sectors of the market as appropriate.

In selecting investments for the Fund, the Manager primarily focuses on the securities (equity and equity derivatives) of companies which the Manager believes trade at a discount to their intrinsic value. The Fund is invested according to the following guidelines: the assets of the Fund are allocated at the discretion of the Manager to those investment strategies that balance risk, return and liquidity. The portfolio will be positioned in accordance with the Manager's market view. Geographic and sector allocations will vary significantly over time.

The Fund may follow a more concentrated investment approach and, from time to time, over weight certain geographic regions, including North America, and industry sectors such as energy or financial sectors when deemed appropriate by the Manager. This may result in the Fund's portfolio weightings being substantially different from the weightings of the S&P/TSX Composite Total Return Index (or its successor index). The Fund may use specified derivatives, such as calls and puts, warrants, index futures and exchange traded funds.

The Fund may also engage in short selling as a result of relief it obtained from the Canadian securities regulatory authorities. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only liquid securities that are traded on a stock exchange or certain government bonds, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund's net assets and its aggregate short exposure to 20% of its net assets, (iii) the Fund will hold cash cover in an amount (including the Fund's assets deposited with lenders) up to 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

The Fund may hold all or a portion of its assets in cash or money market securities while seeking investment opportunities or for defensive purposes. The Fund may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income or as a short-term cash management tool.

### **Investment Risk**

The risks of investing in the Fund remain as stated in the Fund's simplified prospectus. There were no material changes to the Fund over the year that affected the overall level of risk.

The Fund is suitable for clients seeking long-term capital appreciation who have a medium risk tolerance level.

### **Results of Operations**

For the year ended December 31, 2017, Series F units of the Fund gained 10.9% (gain of 12.2% in 2016) while the S&P/TSX Composite Total Return Index posted a gain of 9.1% (21.1% gain in 2016). Please refer to the "Past Performance" section for performance information of the other series. The performance of the other series of the Fund differs from Series F units due largely to a varying level of expenses charged to each series, as explained in the management fees section.

2017 turned out to be a positive year for both the Fund and the markets in general. We were able to attain a solid return for the year driven by a combination of generally very positive growth from the majority of our holdings and some larger gains

from six takeovers of fund holdings; DirectCash Payments, Sandvine Corporation, Manitoba Telecom, Headwaters Inc., Halogen Software, and Alterra Power.

The Canadian stock market had a divergent year, falling very slightly during the first half, and then rising solidly in the second half. Strongest performance came from the healthcare and consumer discretionary sectors, while the only negative sector performance came from energy.

For the full year the largest gains came from our holdings in Theratechnologies, Anthem, Inc., Microsoft, Martinrea International, Legg Mason, and Magna International Inc. The largest single contribution came from our holding in Anthem Inc., the second largest Health Insurer in the United States.

Anthem rose 57% during 2017, as this extremely well run company started to get better recognized by the stock market. Throughout the year, Anthem's share price was driven upwards as the market got past the previous year's failed merger attempt with rival, Cigna. Anthem continued to execute solidly, increasing its revenues, earnings, and dividends, all the while it continued to buy back stock with its prodigious free cash flow. We look for continued execution from Anthem to drive the stock higher in future years.

The Fund saw a strong second half of the year gaining 5.8%. As for the full year, the solid returns reflected a mix of solid gains across the portfolio, with particularly satisfying gains from a takeover of our holding in Sandvine Corporation. The largest positive contributors to fund performance in the second half were Anthem, Microsoft, Magna, Martinrea, and Freehold Royalties.

Performance was only partially held back in the second half of the year by pullbacks from a few holdings, which fell primarily on poor sentiment as opposed to poor fundamentals. The largest detractors of value in the second half were drops in value from our long positions in Alaris, Sleep Country, Sierra Wireless, Theratechnologies, and Razor Energy.

During 2017, we took advantage of volatility in the markets to increase our holdings in several core positions as well as to add several new positions to the portfolio. The most important new positions are Generac Holdings, Keyera Corporation, GranTierra Energy, U.S. Silica Holdings, Cardinal Energy, and Source Energy Services. We are very confident about the prospects for these holdings in the Fund, all of which are trading at discounted valuations.

Several holdings were sold during 2017 as the stocks either reached our target prices or fundamentals changed. The most notable sales from the portfolio were Hexcel, Cigna, Humana, TransCanada, DirectCash Payments, and RMP Energy.

The portfolio structure changed substantially during the year, as we increased our energy weighting to approximately 20%, making it the largest sector weighting in the Fund, as we believe the all of our energy holdings are now trading at substantial discounts to fundamental value. The next largest sector exposures are technology and healthcare.

#### *Outlook*

Following a successful end to 2017, we now look forward another profitable year in 2018. We see continuing solid economic fundamentals underlying the global economy going into the new year. The world's largest economy, the U.S., is growing at its strongest rate since the great recession and is approaching full employment. Strong performance by the U.S. is helping lead the entire global economy to solid growth. China continues its solid economic performance and now Europe is showing signs of stronger growth.

Offsetting the strong economic growth is slowly rising interest rates as we have now left the very long bull market for bonds and are into a period of tightening monetary conditions. 2017 saw a few interest rate increases and we expect another three or four tightening moves by the U.S. Federal Reserve during 2018. Additionally, the Fed will continue to unwind its substantial quantitative easing program which had been implemented during the 2008-09 fiscal crisis.

Financial markets, followed the lead of a steadily growing economy, and had a similarly strong year. Given the outlook for a continuing strong economy, we see the backdrop for another positive year for equity markets in 2018, although it is unlikely as to be as strong as in 2017. The tightening monetary conditions will serve to dampen the extent of the rise in the equity markets, as higher interest rates will start to draw some money back to the bond markets.

The record low volatility of the equity markets during 2017 is also unlikely to be replicated and we are likely to see a correction at some point during the year. We believe that throughout 2018, we will see the importance of security selection increase, and we will see some remarkable divergences in performance from different areas of the market. The Leaders Fund is very well positioned to prosper from the opportunities facing us in 2018. The Fund is invested in leading businesses with superior balance sheets, trading at substantial discounts to their intrinsic values.

### Recent Developments

There are no recent developments for the Fund.

### Related Party Transactions

As of December 31, 2017, Arrow held 900 Series A units and 704 Series F units of the Fund with a market value of \$69,264. This represents 0.2% of the net assets of the Fund.

### Management Fees

Arrow receives a monthly management fee (the "Management Fee") subject to HST (and any other applicable sales taxes), calculated as a percentage of the Fund's net asset value as of the close of business on each business day. The Management Fee rate applicable to the Fund is 1.80% per annum for Series A units and 0.80% per annum for Series F units. For the year ended December 31, 2017, Management Fees charged to the Fund equaled \$579,422 (\$553,211 in 2016). The Management Fee is paid in consideration of investment management and administration services. No breakdown of such services was specified in the management agreement. A portion of the Management Fee paid by the Fund is for trailer fees paid to dealers whose clients hold units of the Fund. The trailer fees are a percentage of the net asset value of the Fund, calculated and payable monthly. The table below outlines the Fund's annual Management Fees and trailer fees.

ANNUAL RATE (%)	Series A	Series F
Management Fees (Annual Rate)	1.80%	0.80%
Trailer Fees (as a % of Management Fees)	44.3%	-

In addition, the Fund will pay the Manager annually a performance fee (the "Performance Fee"), subject to HST (and any other applicable sales taxes), equal to a percentage of the average net asset value of Series A units and Series F units of the Fund. Such percentage will be equal to 20% of the difference by which the return in the net asset value per unit of the applicable Series of the Fund from January 1 to December 31 exceeds the greater of: i) 0% and ii) the percentage return of the S&P/TSX Composite Total Return Index for the same year. If the performance of a Series of the Fund in any year is less than the performance of the applicable index described above (the "Deficiency"), then no Performance Fee will be payable in any subsequent year until the performance of the applicable Series of the Fund, on a cumulative basis calculated from the first of such subsequent years has exceeded the amount of the Deficiency. For the year ended December 31, 2017, the total Performance Fee equaled \$4,444 (\$2,195 in 2016).

The Manager incurs operating expenses on behalf of the Fund and charges these expenses to the Fund.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past five years. This information is derived from the Fund's financial statements and is represented net of expenses which have been charged to the Fund.

<b>SERIES A - NET ASSETS PER UNIT</b>					
<b>For the years ended December 31,</b>					
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net Assets, beginning of year<sup>1</sup></b>	<b>\$ 40.49</b>	<b>\$ 38.62</b>	<b>\$ 40.31</b>	<b>\$ 39.34</b>	<b>\$ 30.57</b>
Increase (decrease) from operations:					
Total revenue	1.11	1.09	0.83	0.87	0.90
Total expenses	(1.21)	(1.16)	(1.32)	(1.04)	(1.86)
Realized gains (losses)	3.90	2.75	3.16	2.77	1.90
Unrealized gains (losses)	0.16	1.26	(1.63)	(1.64)	7.84
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 3.96</b>	<b>\$ 3.94</b>	<b>\$ 1.04</b>	<b>\$ 0.96</b>	<b>\$ 8.78</b>
<b>Distributions<sup>2</sup>:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(1.54)	(2.39)	(2.72)	-	-
<b>Total distributions</b>	<b>\$ (1.54)</b>	<b>\$ (2.39)</b>	<b>\$ (2.72)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Assets, end of year<sup>1</sup></b>	<b>\$ 42.91</b>	<b>\$ 40.49</b>	<b>\$ 38.62</b>	<b>\$ 40.31</b>	<b>\$ 39.34</b>

<b>SERIES A - RATIOS AND SUPPLEMENTAL DATA<sup>7</sup></b>					
<b>For the years ended December 31,</b>					
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$28,003	\$27,576	\$28,508	\$28,010	\$25,525
Number of units outstanding	652,627	680,983	738,188	694,810	648,874
Management expense ratio <sup>3B</sup>	2.58%	2.56%	3.18%	2.80%	5.21%
Management expense ratio before waivers or absorptions <sup>4B</sup>	2.58%	2.56%	3.18%	2.80%	5.29%
Portfolio turnover rate <sup>5</sup>	62.40%	52.20%	57.64%	47.97%	46.04%
Trading expense ratio <sup>6B</sup>	0.18%	0.29%	0.15%	0.12%	0.08%
Net asset value per unit	\$42.91	\$40.49	\$38.62	\$40.31	\$39.34

<b>SERIES F - NET ASSETS PER UNIT</b>					
<b>For the years ended December 31,</b>					
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net Assets, beginning of year<sup>1</sup></b>	<b>\$ 41.30</b>	<b>\$ 39.63</b>	<b>\$ 41.64</b>	<b>\$ 40.22</b>	<b>\$ 31.18</b>
Increase (decrease) from operations:					
Total revenue	1.15	1.13	1.01	1.21	0.92
Total expenses	(0.81)	(0.79)	(1.61)	(1.45)	(1.90)
Realized gains (losses)	4.24	2.88	3.84	3.87	1.95
Unrealized gains (losses)	0.00	1.61	(1.97)	(2.29)	8.03
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 4.58</b>	<b>\$ 4.83</b>	<b>\$ 1.27</b>	<b>\$ 1.34</b>	<b>\$ 9.00</b>
<b>Distributions<sup>2</sup>:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(2.26)	(3.16)	(3.43)	-	-
<b>Total distributions</b>	<b>\$ (2.26)</b>	<b>\$ (3.16)</b>	<b>\$ (3.43)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Assets, end of year<sup>1</sup></b>	<b>\$ 43.53</b>	<b>\$ 41.30</b>	<b>\$ 39.63</b>	<b>\$ 41.64</b>	<b>\$ 40.22</b>

**SERIES F - RATIOS AND SUPPLEMENTAL DATA<sup>7</sup>**

For the years ended December 31,

	2017	2016	2015	2014	2013
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$11,462	\$9,666	\$8,851	\$8,144	\$7,300
Number of units outstanding	263,335	234,046	223,338	195,600	181,509
Management expense ratio <sup>3,8</sup>	1.57%	1.56%	2.37%	1.78%	4.87%
Management expense ratio before waivers or absorptions <sup>4,8</sup>	1.57%	1.56%	2.37%	1.78%	4.95%
Portfolio turnover rate <sup>5</sup>	62.40%	52.20%	57.64%	47.97%	46.04%
Trading expense ratio <sup>6,8</sup>	0.18%	0.29%	0.15%	0.12%	0.08%
Net asset value per unit	\$43.53	\$41.30	\$39.63	\$41.64	\$40.22

1. The net assets per unit are referenced to net assets attributable to holders of redeemable units determined in accordance with International Financial Reporting Standards ("IFRS") and are derived from the Fund's financial statements. The Net Assets presented in the financial statements may differ from the NAV calculated for fund pricing purposes. NAV is calculated using fair value measures as defined by National Instrument 81-106 ("NI 81-106"), whereas Net Assets are calculated in accordance with IFRS. An explanation of these differences can be found in the notes to the financial statements. Net Assets 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. This table is not intended to be a reconciliation of beginning to ending net assets per unit.
2. Distributions, if applicable, were reinvested in additional units of the Fund at the discretion of the underlying unitholders.
3. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year. The management expense ratio is calculated in accordance with Part 15 of NI 81-106 and therefore includes performance fees, which were previously reported separately as dollar amounts.
4. The Manager may absorb certain expenses or waive certain fees otherwise payable by the Fund. The amount of expenses absorbed or waived (if applicable) is determined annually at the discretion of the Manager and the Manager can terminate the absorption or waiver at any time.
5. The Fund's portfolio turnover rate can indicate how actively the investment advisor manages the portfolio of investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of its securities in its portfolio once in the course of the year. 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 year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
7. Ratios and supplemental data, where applicable, are computed using the net asset value of the Fund.
8. The management expense ratio, management expense ratio before waivers or absorptions and trading expense ratio for the years ended 2016, 2015, 2014 and 2013 have been restated to reflect the reclassification of certain custodial transaction costs related to the purchase and sale of securities.

**Past Performance**

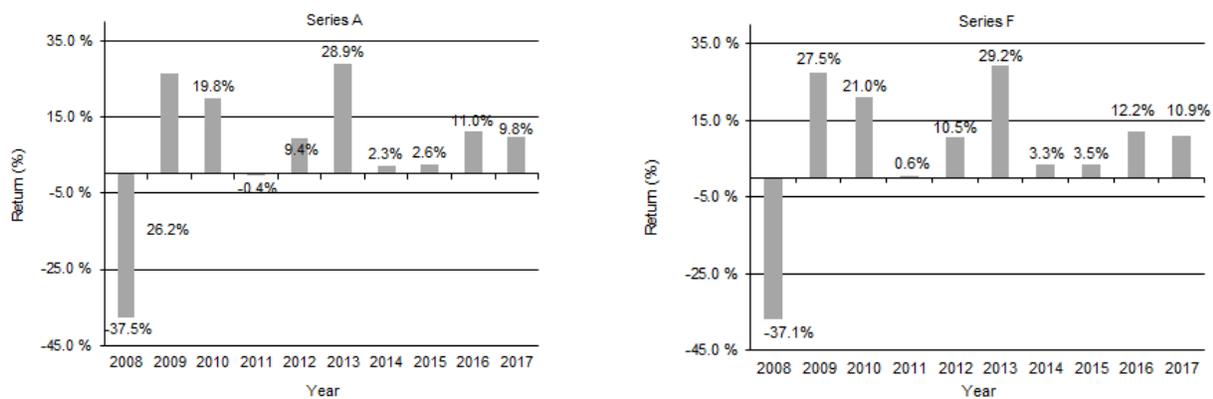
The performance information shown below assumes that all distributions, if any, made by the Fund in the years shown were reinvested in additional units of the Fund. If you hold the Fund outside a registered plan, you will be taxed on distributions. Distributions of income the Fund earns and capital gains it realizes are taxable in the year received whether received in cash

or reinvested in additional units. No adjustment for potential tax consequences to an investor has been made to the performance information.

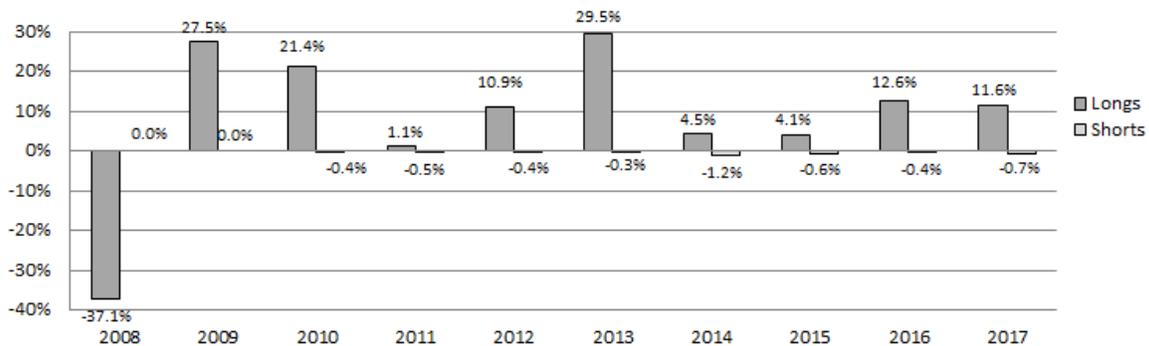
The indicated rates of return are historical annual compounded total returns including changes in unit value and do not take into account sale, redemption, distribution or other optional charges, that, if applicable, would have reduced returns or performance. An investment in the Fund is not guaranteed. Its value changes frequently and how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The bar chart below illustrates the Fund's annual performance for each of the years shown and indicates how the Fund's performance has changed from year to year. It shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of the financial year.



The chart below illustrates the Fund's annual returns for Series F units by long and short holdings:



### Annual Compound Returns (Compound Performance)

The following table shows the annual compound total returns of the Fund, and for the S&P/TSX Composite Total Return Index (a price weighted index of 300 of the largest, most widely-held stocks traded on the Toronto Stock Exchange) for the years shown ended December 31, 2017. The Relative Performance returns show the performance of the Fund as compared to the benchmark S&P/TSX Composite Total Return Index.

	1 Year	3 Years	5 Years	10 Years	Annualized Since Inception
Series A	9.8%	7.7%	10.5%	5.4%	7.7%
Series F	10.9%	8.8%	11.4%	6.4%	8.6%
S&P/TSX Composite TR Index	9.1%	6.6%	8.6%	4.6%	4.7%

## Summary of Investment Portfolio as at December 31, 2017

The summary of investment portfolio below includes information regarding the Fund as a whole. This summary may change due to ongoing portfolio transactions of the Fund and a quarterly update is available by contacting Arrow at 877.327.6048 or by visiting Arrow's website at [www.arrow-capital.com](http://www.arrow-capital.com).

Industry Sector	Exposure (%)		Top 25 Holdings	%
	Long	Short		
Consumer Discretionary	10.0	(0.9)	Freehold Royalties Ltd.	6.4
Energy	20.6	-	Anthem, Inc.	6.2
Financials	9.8	-	Microsoft Corporation	5.9
Funds	4.2	-	Magna International Inc.	4.2
Health Care	10.6	-	Element Fleet Management Corp.	4.0
Industrials	10.1	-	United Parcel Service, Inc., Class B	3.6
Information Technology	16.7	-	Polaris Infrastructure Inc.	3.3
Materials	4.6	-	Cash and Cash Equivalents	2.9
Real Estate	5.1	-	Boyd Group Income Fund	2.7
Telecommunication Services	1.6	-	Legg Mason, Inc.	2.7
Utilities	4.4	-	Cisco Systems, Inc.	2.3
Derivatives	0.6	-	Sleep Country Canada Holdings Inc.	2.1
Cash and Cash Equivalents	3.0	-	U.S. Concrete, Inc.	1.7
Other Net Assets	-	(0.4)	Verizon Communications Inc.	1.6
	101.3	1.3	Martinrea International Inc.	1.6
			Crius Energy Trust	1.5
			Inovalis Real Estate Investment Trust	1.5
			Enercare Inc.	1.5
			Pure Multi-Family REIT LP, Class A	1.3
			DIRTT Environmental Solutions Ltd.	1.3
			Theratechnologies Inc.	1.2
			Sierra Wireless, Inc.	1.2
			CanWel Building Materials Group Ltd., Sub.Receipts	1.2
			Espial Group Inc.	1.1
			Alphabet Inc., Class A	1.1
			<b>Total</b>	<b>64.1</b>
			<b>Total Net Asset Value (in \$ millions)</b>	<b>39.5</b>