FAIRCOURT

# SPLIT TRUST

**Fourth Quarter 2017**

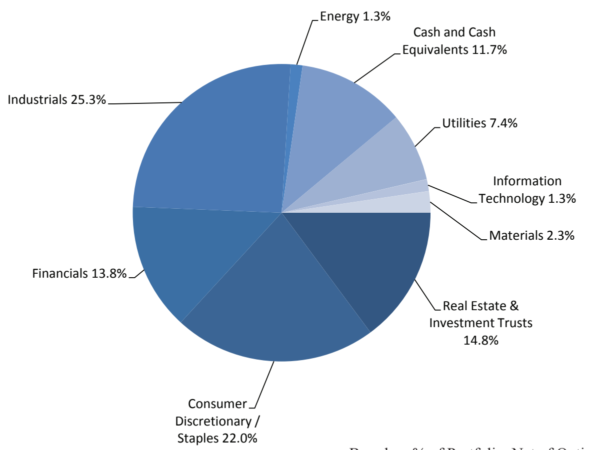
**Inception Date:** March 17, 2006
**Fund Manager:** Faircourt Asset Management Inc.
**Portfolio Advisor:** Faircourt Asset Management Inc.
**TSX Symbols:** FCS.UN & FCS.PR.C

**Faircourt Split Trust** was created using a dual security structure, consisting of Trust Units and Preferred Securities, to provide investors with leveraged capital growth potential based on a portfolio of North American equity securities.

## TOP TEN HOLDINGS as at December 31, 2017

- Alimentation Couche-Tard Inc.
- Boyd Group Income Fund
- Brookfield Infrastructure Partners L.P.
- Canadian Apartment Properties REIT
- Canadian Pacific Railway Ltd.
- Home Depot Inc.
- New Flyer Industries Inc.
- Toronto-Dominion Bank
- Walt Disney Co
- Waste Connections Inc.

## PORTFOLIO ALLOCATION




Based on % of Portfolio, Net of Options

## Investment Objectives

The investment objectives of the Trust are to achieve a balance between the objectives of the Preferred Securityholders and Unitholders, subject to the prior rights of Preferred Securityholders.

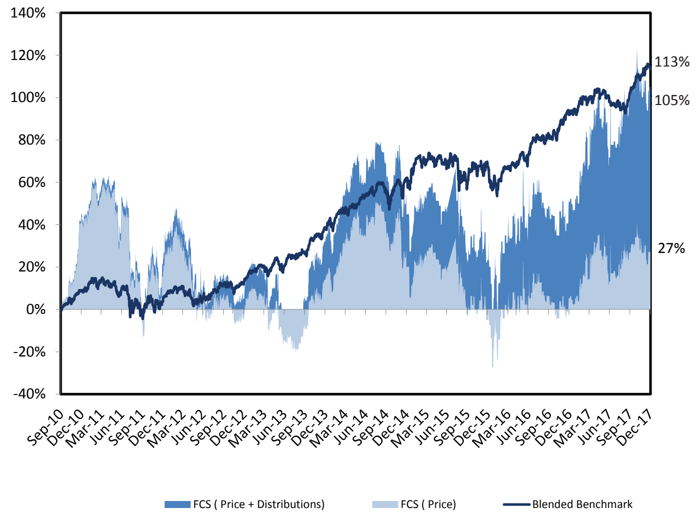
The investment objectives with respect to the Preferred Securities are (i) to provide Securityholders priority distributions of interest in the amount of $0.15 per quarter ($0.60 per annum to yield 6.0% per annum on the subscription price of $10.00); and (ii) to repay to Preferred Securityholders, on June 30, 2019 in priority to any return of the original subscription price to Unitholders, the original subscription price of the Preferred Securities.

The investment objectives with respect to the Trust Units are: (a) to provide Unitholders with a stable stream of tax efficient monthly cash distributions currently $0.04 per Trust Unit per month to yield 12.04% (market price as at December 31, 2017), a portion of which is tax-deferred; and (b) to return to Unitholders, on December 31, 2019 at least the original subscription price of the Units.

The following shows the returns since the merger for the trust units ending December 31, 2017. The returns are calculated in Canadian dollars.

## PERFORMANCE SINCE SEPTEMBER 30, 2010
## PAST PERFORMANCE

The Benchmark for the Fund is composed of the S&P TSX Composite Index (weight of 70%) and the S&P 500 in Cdn dollars (weight of 30%)




Source: Bloomberg. Data is based on price and includes distributions.

### Returns for Year Ended December 31, 2017

| | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception* |
|---|---|---|---|---|---|
| FCS Price (1) | 36.02% | 12.35% | 14.34% | N/A | 10.43% |
| FCS NAV (1,3) | 18.45% | 10.88% | 10.03% | N/A | 7.12% |
| FCS Index (CAD) (2) | 10.52% | 8.92% | 12.41% | N/A | 10.22% |

Notes:
(1) Assumes reinvestment of distributions;
(2) Source: Reuters
(3) Based on Basic NAV; Source: Faircourt Asset Management

*FCS since inception is from period September 30, 2010 (Date of merger with FIG)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# SPLIT

## Faircourt Split Trust: December 2017 Update

The fourth quarter saw many global equity markets attain new records, from the DOW to the S&P 500 all reaching highs during the fourth-quarter. At the same time, we witnessed lower volatility in the stock market with the VIX (a measure of volatility in the market) dipping below 10 while we witnessed a flattening of the US treasury yield curve while interest rates continue moving up. Synchronized global growth from economic growth in China and Japan as well as favorable indications from Europe in addition to strong numbers reported in United States show that the global economy continued to gather momentum in the quarter.

The global economy was robust in 2017 posting the strongest annual global growth since 2014. Canada's economy was hailed for its turnaround among the leaders in the G7. Buoyed by consumer spending, continued housing activity, and higher crude oil prices, the Canadian economy lead G7 countries with GDP growth of close to 3%.

In the fourth quarter the Canadian dollar surged in the middle of the quarter as jobs growth continued to surprise to the upside. At the end of November, StatsCan announced the economy added 79,000 jobs in the month, outperforming the original estimate by economists of approximately 10,000 jobs. Assisting the Canadian economy was that crude oil contracts for future delivery in January had climbed to over $58 a barrel signaling potential upside in Western Canada that has not been seen for two years.

The November jobs reading was Canada's 12th straight month of positive job creation, its best 12-month performance in 10 years. The bulk of national employment growth in November was in Ontario which added 44,000 new jobs. The StatsCan report stated that employment rose 2.1% in the 12 months prior to November, with the Canadian economy adding a total of 390,000 new jobs, driven largely by full-time work.

There were some signs of slight weakness as StatsCan stated the Canadian economy expanded at an annual rate of 1.7% in the third quarter slightly lower than the first half of 2017 that had a growth rate over 3%. The slowdown in GDP growth led many economists to suggest the Canadian economy was cooling off at a time when the US economy was accelerating from a combination of wage growth, consumer confidence and the prospect of new tax reform legislation coming into effect. The combination of a potential slowdown in Canada at the same time the US experiences further growth may lead to further Canadian dollar depreciation.

Significant challenges for Canada in the coming year include the outcome of the NAFTA negotiations, and continued protectionist measures enacted by the Trump administration. In addition, rising interest rates south of the border will lead to other economic challenges both for the Canadian currency and for Canada's competitiveness to meet the US challenge. Tax reforms in the US are estimated to provide US consumers with increased spending power and will also contribute to increased capital investment on the part of US businesses. Business investment has been one area of weaknesses since the recovery of 2009 and with the tax reform now passed in Congress, we estimate that a pickup in infrastructure spending and capital spending will lead to further strength in the US economy. In addition, for Canadian competitiveness, US tax reforms may have a negative impact for Canada as corporate tax rates in Canada that have previously favoured Canada now stand in favour of establishing businesses south of the border.

The US economy continued to grow in the fourth quarter as the US Labor Department reported 228,000 jobs that were subsequently revised up to 250,000 in November keeping the unemployment rate steady at 4.1%, its lowest rate since 2000. The December jobs report was a little weaker announcing just 148,000 jobs, with losses in the retail sector. However, the trend was still encouraging with the previous three-month average monthly jobs gain well over 200,000.

While analysts and economists weigh the costs and benefits of the Trump Administration's tax, trade and jobs policy announcements, investors have been focusing on the positive effects of the $1.5 trillion tax cut that the President pushed through Congress in December. The Trump administration's focus is an economic program that includes tax cuts, deregulation and tougher enforcement of trade laws that should lift economic growth to 3% or better in the coming years.

We believe that tax legislation from the Trump administration will have profound effects on the US economy. The US economy is already growing at 2.4%, despite the week first-quarter of 2017. Business spending in 2017 was up roughly 6% compared with last year, with good reasons to expect this to continue in light of US dollar repatriation incentives included in the new tax laws, in addition to historically easy lending conditions. The Trump tax plan gives equities a huge shot in the arm in 2018. The reduction of US corporate tax rates may be the biggest positive catalysts for US equities in many years. US tax cuts will produce a 21% corporate tax rate. This would add approximately 10% to 2008 earnings-per-share estimates on the S&P 500. The biggest beneficiaries would be in those industries that have domestic focus such as financials and energy, as well as industrials.

The Fund uses a diversified approach to North American equities maintaining exposure in many, but not all, of the sub-sectors within the S&P/TSX and S&P 500. The Fund will continue to focus on holding a diversified portfolio of leading companies, many of which generate stable and growing distributions. Criteria we look for are sound business models, long term steady demand for products or services, growing positive cash flow, minimal need for debt or need to raise significant amounts of capital as well as having a lower dividend payout ratio. The Manager maintains a meaningful US weighting in the Fund. We also see differentiated opportunities in Canada that focus on delivering a unique offering, providing value and convenience.

During the second half of the year our portfolio team reduced our weighting in real estate as US interest rate policy has changed and the yield curve has already trended higher. We have reduced our position in Slate Retail and its US grocery anchored strip plazas, it has been a solid performer we have held for many years. In addition, with the recent capital raise that the Fund completed in November, we didn't not allocate new capital to the REIT or real estate sector. From Q3 to Q4, we have adjusted our portfolio allocation from a 20% weighting in Real Estate and REITS to 14%.

In Canada, we have lightened our position in Dollarama that we have owned for many years. Over the last 5 years, DOL has generated total returns for the fund of over %, With this exceptional performance, however, we believe the stock is becoming expensive relative to growth it can post going forward. We believe that increased competition in the retail sector from online channels means tighter margins and so although we still believe in management, we have reduced our weighting due to valuation and retail industry fundamentals.

Capital from the offering completed in November has been allocated to most sectors (excluding real estate and energy). Our energy exposure would be considered contained to fuel distribution rather than in the exploration business. We continue to hold a position in Parkland Fuel that is in the energy distribution business, focussed on growing the number of retail outlets as well as product offerings that it distributes, continuing to meet changing consumer demands.

The Fund continues to hold a position in Disney. Between 2012 and 2015, the media giant notched many box office blockbusters. It's share price surged 180% higher in those four years. The last two years have seen Disney's equity value trade sideways however the Fund has generated solid returns using our option strategy as Disney has generated good premiums since the start of 2016. The reasons for share price underperformance have been debated in the press. "Cord cutting" is now a part of the lexicon in America, and Disney's cable networks, ESPN and ABC, are feeling its effects. Streaming services are offering great content whenever you want it and viewing habits have changed. We continue to own our position in Disney in recognition of its announcements in the streaming business, as it expands its media empire first with the announcement of its new content competitor to Netflix, and then announcing the expansion of its content with the acquisition of 21st Century Fox TV and Movie assets. The combination of controlling unique valuable content delivered in a branded streaming service in our opinion will once again set Disney apart from its competition.

Home Depot has been a great holding for the fund. The world's largest home improvement specialty retailer, the business continues to do well with 2,284 retail stores in all US states, 10 Canadian provinces and Mexico. Quarterly revenue was up 8% to $25 billion while net income was also up 9.95% to $2.1 billion. The company outperformed the home improvement retail industry on the basis of its ROE – producing a higher 210.53% relative to the peer average of 11.39% over the past 12 months. Shares of Home Depot have benefited tremendously from the robust sales gains coupled with expanding profit margins. Given changes in tax rates in the US, there is a belief that increased cash flow towards families will continue to generate growth for the do it yourself home improvement market.

A new name in the Fund is K-Bro Linen, the largest owner and operator of laundry and linen processing facilities in Canada. K-Bro provides a comprehensive range of general linen and operating room linen processing, management and distribution services to large healthcare institutions and hotels. Of its total revenue, approximately 75% is from long-term healthcare contracts. For the nine months to Sept 30, the company generated revenue of $123 million and net earnings of $7 million. During the Fall K Bro announced a significant global acquisition with the takeover of Fishers Topco, that generates EBITDA in excess of $8.7 million for the fiscal year. Fishers Topco Ltd. ("Fishers"), operating since 1900 is a leading commercial laundry business in Scotland and the North East of England, with seven facilities throughout the UK. K-Bro intends to use the Fisher platform as the base to build its presence in the UK taking advantage of organic growth and consolidation opportunities. The Fishers management team will remain with the business.

In order to generate additional returns and reduce risk, the Fund writes covered calls on securities held in the portfolio and cash secured put options on securities desired to be held in the portfolio. We believe that option writing can continue to add incremental value going forward.

The Fund generated significant income from option writing of approximately $1 million or $1.00 per weighted average number of Trust Units outstanding during the year ended December 31, 2017. The Fund declared regular monthly distributions totaling $0.66 per Trust Unit for the year. Since inception of the option-writing program in 2009, the Fund has generated significant income from option premium of approximately $10.5 million or $4.70 per weighted average number of Trust Units outstanding.

For the year ending December 30, 2017, the Fund's market price return combined with paid distributions during the year generated a return of 36.02% significantly outperforming the benchmark return of 10.52%.