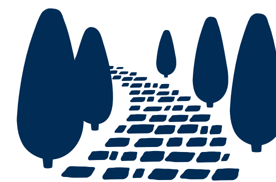
FAIRCOURT

SPLIT TRUST



Second Quarter 2018

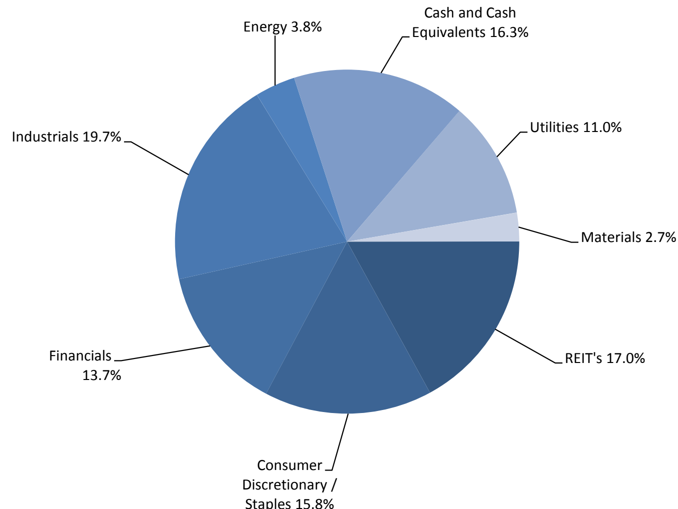
Inception Date: March 17, 2006
Fund Manager: Faircourt Asset Management Inc.
Portfolio Advisor: Faircourt Asset Management Inc.
TSX Symbols: FCS.UN & FCS.PR.C

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 June 30, 2018

- Boyd Group Income Fund
- Brookfield Infrastructure
- CAP REIT
- Canadian Pacific Railway Ltd
- InterRent REIT
- Manulife Financial Corp.
- NFI Group Inc
- Stella-Jones Inc.
- Toronto-Dominion Bank
- Walt Disney Co

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.

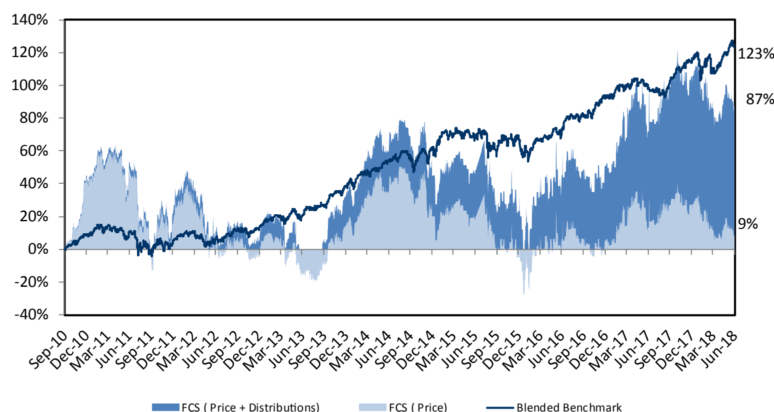
The investment objectives with respect to the Preferred Securities are (i) to provide Securityholders priority distributions of interest in the amount of $0.15 per quarter ($0.60 per annum to yield 6.0% per annum on the subscription price of $10.00); and (ii) to repay to Preferred Securityholders, on 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 $0.06 per Trust Unit per month to yield 14.09% (market price as at June 30, 2018), 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 September 30, 2010. 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 June 30, 2018

	1 Year	3 Year	5 Year	10 Year	Since Inception*
FCS Price (1)	8.97%	8.66%	14.13%	N/A	8.44%
FCS NAV (1,3)	7.03%	8.31%	12.97%	N/A	6.08%
FCS Index (CAD) (2)	12.04%	9.03%	12.03%	N/A	10.06%

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)

FAIRCOURT *Asset Management Inc.*
110 Yonge St., Suite 501, Toronto, Ontario, M5C 1T4 416.364.8989 Toll Free: 1.800.831.0304 Fax: 416.360.3466 www.faircourtassetmgt.com

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Management fees and expenses are associated with an investment in the fund. The performance data provided assumes reinvestment of distribution only and does not take into account redemption charges or income taxes payable by any security holder that would have reduced returns. An investment in the fund is not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer. There can be no assurance that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated.

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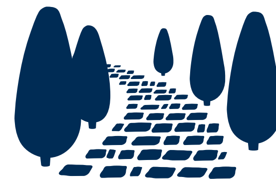
SPLIT



Faircourt Split Trust: June 2018 Update

During the second quarter of 2018, equity markets were increasingly focussed on trade negotiations between the United States and its various allies and trading partners. Here in Canada, our economy initially showed some weakness, recording sluggish readings for both inflation and retail sales. StatsCan reported that the consumer price index (CPI) recorded an annual pace of 2.2% in May, unchanged from April yet well below economist expectations for a 2.6% gain. StatsCan also reported that retail sales recorded a 1.2% drop in April which was unexpected. Consumer prices rose just 0.1% in May, down from a 0.3% in April. Those results raised questions about the underlying strength of the economy initially casting doubt about how quickly the Bank of Canada might proceed with decisions on interest rates early in the second half of the year.

In June however, Canada's economic outlook changed dramatically as the job market rebounded posting a larger-than-expected gain of 31,800 jobs. StatCan's latest labour force survey shows the jobless rate for June increased from 5.8% in May to break the 6% barrier for the first time since last October, when it was 6.2%. The report also found that average hourly wage growth, which is closely watched by the Bank of Canada, came in at 3.6%. Not surprisingly, the Bank of Canada, on July 11th raised rates by 25 basis points. It's the fourth time Canada's central bank has raised its rate since last summer. The Governor of the Bank of Canada Stephen Poloz is on the record expecting to continue raising interest rates in spite of mounting trade tensions because inflation has already hit the central bank's 2 per cent target. He has stated the "big picture" supports a withdrawal of stimulus given interest rates still remain at historically low levels.

South of the border the US Federal Reserve, despite increasing trade tensions between the US and its various trading partners experienced an improving domestic economy while wage inflation was a key contributor to raising the federal funds rate a quarter percentage point to a range of 1.75%-2% in June. That's the highest level since 2008 and indicates that the Fed believes the US economy is strong enough to warrant such a hike to manage inflation. The word "accommodative" continues to be used in the central banks' communication, however a more hawkish tone with respect to interest rate increases was added along with the phrase "based on a sustained expansion of economic activity". The Fed now faces a tricky balancing act trying to calibrate how to keep the economy moving forward without raising rates too quickly and snuffing out the economic recovery. On the other hand not raising rates fast enough could allow inflation to get out of control.

Moderating the Federal Reserve's positioning were concerns raised at the FOMC June meeting whereby some businesses have indicated they had already "scaled back or postponed" plans for capital spending due to "uncertainty over trade policy", while several others voiced concern about the impact of trade restrictions on future investment. Although it is not a primary focus, the Fed will likely consider the possibility that deteriorating trade relations between the US, and its trading partners whether it's China, Europe, Mexico, or Canada may cause economic weakness or volatility as it manages its interest rate policy outlook.

On the issue of tariffs and trade relations, the US has enacted fresh tariff barriers against most of its major trading partners including Canada, Mexico and the EU. Focus recently on steel and aluminum have significant implications for North American trade. For instance, President Trump claims Canada is abusing its close bi-lateral trade relationship however various US groups including President Trump's own Council of Economic Advisers, the US Trade Representative, or the Commerce Department all state that the US has a trade surplus with Canada at anywhere from $2 to $7 billion USD, depending on how you calculate it.

The view north of the border is one of concern as the Prime Minister has not been as effective on economic and tax policy as many observers would have preferred. Most recently the government's handling of the pipeline dispute between Alberta and British Columbia was not handled efficiently, nor have the government's newest budget and related tax changes been warmly received. Those tax changes have made many business owners concerned with the focus of the government's economic plan. Although the Prime Minister has stood up to President Trump, it is widely believed that Canada's economy will be permanently scarred if the US imposes auto tariffs. NAFTA talks that recently seemed on the verge of success have stalled. One in five Ontario manufacturing jobs could be at risk with the potential for a lasting reduction in overall economic output. Tariffs related to the auto sector would lead to a brief recession for Canada as a whole and 2019 would see reduced growth. If such a blow to the automotive sector occurs, the effect would ripple through the Canadian economy, with significant negative effects on the Industrial and Consumer Discretionary sectors of the S&P/TSX. Both sectors have ridden Canadian-dollar weakness to record highs.

We see the outlook for global equity markets becoming more cautious because of the increasing trade war between the U.S. and its trading partners. This is also occurring at a time when the US Federal Reserve is faced with an improving domestic economy, with wage inflation supportive of interest rate hikes potentially two more times in 2018. Higher rates could become a headwind for earnings growth and by extension equity markets, with P/E expansion typically challenging to achieve ten years into an economic recovery.

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. Core positions such as Brookfield Infrastructure, CP Rail, Boyd Group, TD Bank, InterRent REIT, and Canadian Apartment Properties REIT., meet these criteria and are expected to continue to make up a healthy weighting in the portfolio going forward.

Brookfield Infrastructure owns and operates utilities, transport, energy and communications infrastructure businesses in North and South America, Europe and Asia Pacific. Acquisitions continue to assist Brookfield in expansion going forward, most recently agreeing to acquire assets from Enbridge. Brookfield's underlying business and disciplined outlook warrants a lower risk rating and offers a dividend yield north of 4.5% as we await for its expansions plans to take shape.

A company that has done well and is levered to the growth of the North American economy is CP Rail. CP Rail is a transcontinental railroad company which owns and operates approximately 12,500 miles of tracks operating in Canada and in the Northeast and Midwest of the United States. CP identifies its business groups as bulk, merchandise, and intermodal. Shipments of grain, coal, potash, and other fertilizer shipments (bulk) represent 35% of overall revenue. Merchandise shipments that include forest products, energy, chemical, plastics, metals, minerals, automotive, and consumer products also account for 35% of the overall revenue mix. The company reported steady results for Q2 2018 and it's operations should continue to benefit from strong economic activities in both Canada and the United States. We like CP Rail for its diversified geographic distribution, access to most major centres in Canada and US, improving operating ratio, and its levered exposure to crude shipments. CP Rail has generated excellent growth over the past several years, was up +5.5% in the first six months of the 2018 and we continue to add to our position through our option writing program.

Boyd Group Income Fund, a North American auto-body repair company which has generated excellent growth over the past several years, was up +16.5% in the first six months of the 2018 and we continue to hold our position. Boyd Group is a consolidator in the auto collision repair centre business across North America operating in 5 provinces under the Boyd Autobody & Glass and Assured Automotive brands, and in 22 U.S. states under the Gerber Collision & Glass brand names. Boyd Group also operates a chain of auto glass repair locations across 31 U.S. states under brands such as the Gerber Collision & Glass, Glass America, The Company also operates Gerber National Claim Services ("GNCS") an independent administrator that offers emergency roadside and first notice of loss services. GNCS has 5,500 affiliated glass provider locations and 4,600 affiliated emergency roadside services providers throughout the U.S.

The Manager sees positive contributions from residential REIT's in Canada due to strong demographics, a growing propensity to rent and manageable new supply. The Fund maintains key holdings in Canadian Apartment Properties REIT ("CAP REIT"), and InterRent REIT (InterRent). CAP REIT is the largest apartment landlord in Canada with a 78% weighting in Ontario and Quebec, while maintaining an 11% weight in the British Columbia. It currently manages over 44,000 suites with an overall 98.7% occupancy rate. InterRent operates in select eastern Canadian markets featuring the Greater Toronto Area, Montreal and Ottawa and is focussed on buying properties that are re-positioned creating growth and sustainable distributions for investors. It currently manages approximately 9,000 suites with an overall 96.7% occupancy rate. Our bullish thesis is based on the landlord favourable fundamentals, both REIT's operating high-quality portfolios in major apartment markets in Canada having low vacancy rates which could last for a significant period of time given the outlook for rising immigration. InterRent was up +22.1% and CAP REIT was up +16.2% respectively in the first six months of the 2018. We continue to hold our positions enthusiastically.

To generate additional returns, rebalance the portfolio 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. Since inception of the option-writing program in 2009, the Fund has generated significant income from option premium of approximately $11.0 million or $5.08 per weighted average number of Trust Units outstanding. For the six months ended June 30, 2018, the Fund generated income from option writing of approximately $0.54 million or $0.48 per weighted average number of Trust Units outstanding declaring regular monthly distributions totaling $0.36 per Trust Unit.

For the six months ended June 30, 2018 the Trust returned -3.37% versus the benchmark performance of 3.70%. As we enter the second half of 2018, we will continue to position the portfolio with companies running sound business models, steady demand for products or services, growing positive cash flow, and sustainable dividend policies while using our option writing program to re-balance our portfolio weightings and generate a monthly income stream that we pay out to shareholders. The Fund will not chase returns or buy into unsustainable business models. It will continue to manage its risk by not overpaying for growth and hold a concentrated portfolio of its best ideas that will navigate the Fund through these cautious markets.